Handelsbanken

Handelsbanken plc Annual report and financial statements 2022

Who we are

Handelsbanken is a local relationship bank, built on satisfied customers, financial strength and sustainable values. We were established in 1871 in Sweden and in the UK we now have an extensive network of branches. We support local communities across the country, helping individuals and businesses with their financial needs.

OUR VALUES

We have a fundamental belief in human nature, and that people are motivated by nature to do good things well and make the right decisions.

Trust in people and respect for the individual

Empowerment and responsibility

A long-term, sustainable view

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FINANCIAL STATEMENTS

Find out more about us online
handelsbanken.co.uk

2022 Highlights

Operational highlights

HANDELSBANKEN PLC ONLY

Deposits

5%

Average Deposits from the public increased 5% in 2022 to £20.1 billion

HANDELSBANKEN WEALTH & ASSET MANAGEMENT LIMITED (HWAM)

Assets Under Management and Administration (AUMA)

£4,073m

2021: £4,447 million

Financial highlights

Total income

£733.9m

38%

2021: £532.9m

Total expenses

£386.4m

5%

2021: £406.2m

Profit before net credit (losses)/gains

£347.5m

174%

2021: £126.6m

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Record financial performance and profitability

In a year which saw the Bank achieve record financial performance and profitability, it is with pleasure that I introduce Handelsbanken plc's financial statements. Consolidated financial statements were prepared for the first time for the year ended 31 December 2022 for Handelsbanken plc and its subsidiaries (UK Group).

Income

↑ 38%

Expenses

↓ 5%

Profit before tax

↑ 154%

In 2022, another unprecedented set of events saw the emergence in the UK from lockdown restrictions, UK inflation rate reached a 40-year high, the Russian invasion of Ukraine contributed to macroeconomic volatility and uncertainty, and the Bank of England's (BoE) Monetary Policy Committee voted to incrementally raise UK interest rates to 4% by February 2023.

Against this uncertain economic backdrop, the Bank significantly improved its financial performance and has made strong progress along its post-subsidiarisation strategic journey as we continue to build a bank for the future. Change programmes have advanced, local functions strengthened and overall governance enhanced. Progress continues to be made with our ambitious climate change programme as we aim to establish the Bank as a leader in green and sustainable finance, with the ambition of attaining net zero emissions by 2040 at the latest across our business operations, as well as our investment and financing activities.

The strength of the brand and customer offering has been evidenced by increased deposits as our customers continue to place their trust in us and believe in our financial strength. The Bank has set out a clear strategy to deliver profitable growth in a cost-effective, customer-centric and sustainable way, and in the year ahead there is particular focus on increasing our lending activity within the Bank's targeted customer segments. We will also seek to grow our Wealth Management offering by even further enhancing alignment with the Bank.

The Board was kept regularly informed by management on strategic, regulatory and change matters and it remains fully supportive of the strategy to continuing the progress made towards long-term sustainable growth. By utilising the Bank's financial strength and commitment from the Handelsbanken Group we also are able to support an ambitious investment plan that will improve efficiencies, processes and create a better banking experience for our customers.

"Against this uncertain economic backdrop, the Bank significantly improved the financial performance and has made strong progress along its post-subsidiarisation strategic journey as we continue to build a bank for the future."

As always, our colleagues have been central to the Bank's successes and I want to thank each of them for their efforts throughout this challenging and uncertain period. Whilst we continue to demonstrate restraint given the market conditions, we acknowledged the increasing cost of living in annual pay considerations and focused support on our colleagues working in lower-paid roles; we also decided to make a one-off cost of living payment to support all our staff. In response to a recent internal pulse survey carried out by employees, it showed that colleagues rated the Bank above industry benchmark and as a 'great place to work', which 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.

The outlook for 2023 remains challenging, with indications of a weakening property market, expected declines in economic activity and further reductions in consumer spending, and pressure on real incomes. However, the Bank's financial strength underpinned by its close proximity to customers means it retains a high-quality loan book that is not showing any material signs of deterioration and credit losses remain low. As a customer-centric bank we continue to monitor customer activity and behaviours closely for signs of stress, taking action where appropriate ensuring we are well placed to build on the progress to date and develop a successful business supporting customers long into the future.

We are on a very interesting journey and continue to see great opportunities in the UK market. I once again want to thank all our colleagues for making this journey possible and our customers for trusting us with their business.

MIKAEL HALLÅKER
Chair

20 March 2023

A year of continued growth

For Handelsbanken plc, 2022 marked a solid year of progress against our plans, combined with a strong financial performance. We increased our income whilst decreasing our costs; our return on equity improved; our cost-to-income ratio decreased; deposits continued to grow; we maintained net new business inflows to our global multi asset funds; and our overall credit book remained strong and resilient.

The Bank's new UK-wide structure – creating smaller geographical clusters of branches known as 'districts' – has started to embed effectively across the organisation, already demonstrating some of the benefits it will bring to our customers in the months and years to come. This new structure of 14 districts, which came into force in July 2021, replaced our five region structure and also saw the creation of a more streamlined set of central support functions. We combined this with a recalibration of our branch network, which concluded in 2022 and saw 37 branch teams merge with a neighbouring one to create larger teams, better capable of meeting our customers' expectations well into the future. Customers now benefit from a fuller service offering at their local branch, with greater availability of our Bank-wide experts. And with higher credit discretion at the branch level following the introduction of our district structure, there has been greater local empowerment leading to quicker decisions for our customers. This new organisational structure has been welcomed by colleagues and customers alike, and has helped us to drive sustainable growth throughout the year.

All of this was achieved despite experiencing a year characterised by turbulence in our external environment, which will no doubt be felt keenly in the economy in the months ahead. With the industry and the country eager to move on from the lingering impact of COVID-19, the Russian invasion of Ukraine in February 2022 plunged the world into a sudden humanitarian, geopolitical and economic crisis. And it is this macro environment context, together with a prolonged period of political instability in the UK, which has framed much of the year in terms of our customers' experiences and behaviour.

Record rises in interest rates, combined with a period of market turmoil in the UK, resulted in two customer trends emerging: first, a flight to cash deposits, combined with an understandable decline in investor sentiment from our clients at Handelsbanken Wealth & Asset Management Limited (HWAM), and second, a growing preference from our customers to pay down their existing debt.

Over the year, we therefore saw strong inflows of total customer deposits, with average deposits increasing by 5% to £20.1 billion. In times of uncertainty and economic stress, Handelsbanken's strength and stability has provided a safe haven for our customers, and it was reassuring to see local authority deposits flowing back over this period too.

Our global multi asset funds at HWAM performed resiliently when facing the high levels of turbulence across most investment asset classes, especially Government bonds. This was not enough to offset the impact of the market conditions though, and in result – despite gross new business inflows of £492 million – assets under management and administration reduced by 8%, to £4.07 billion.

Reflecting the quality of our credit book and the prudent nature of our customer base, Handelsbanken plc has seen a higher level of repayments over this period than is typical, with customers reacting to the rapid rise in interest rates by demonstrating a preference to pay down existing debt, rather than continuing to service more expensive term loans.

Whilst our financial performance developed strongly over the year, it has been challenging in the context outlined above to grow our lending book, both on the corporate and personal side, which has been compounded by tough competition on regulated mortgage contracts (RMCs). However, in the latter part of the year, there were clear signs that the overall lending trend was turning, driven by an increase in corporate lending to new-to-Bank customers. With the strong performance on the deposit side, the emerging positive trends on corporate lending, and improved net interest income margins from rises in the BoE base rate, Handelsbanken plc has had its best full year results to date. The resulting increase in our profitability will in part be used to fund the IT infrastructure investments outlined below, in order to further improve the service we offer to our customers.

At the forefront of driving the Bank's sustainable growth is the hard work and commitment of our branches across the country, as they focus on strengthening existing relationships, and increasingly on forging new ones in their local communities. What has been crucial over the past year, is ensuring our local branch teams have the time to nurture these relationships and to be active in their local professional networks. Our new structure has gone some way in helping to facilitate this, but there are a number of exciting projects that have taken place over the year designed to increase our efficiency, and free up our branch teams so that they can focus on value-added customer-facing activity. For example, during 2022 our Branch Connect function was established with a remit to process administrative tasks on behalf of the branches, with a view to streamlining and automating them for maximum efficiency. So far, it has performed over 5,000 administrative tasks, providing our branch colleagues with more time to spend on the advisory conversations that we know our customers value most. Branch Connect's remit will further expand over the course of 2023, freeing up more branch time.

"At the forefront of driving the Bank's sustainable growth is the hard work and commitment of our branches across the country, as they focus on strengthening existing relationships, and increasingly on forging new ones in their local communities."

In 2022, we also began scoping out our business transformation work – a series of projects that will see a substantial modernisation of our IT infrastructure and improvements to our digital channels, allowing us to deliver an enhanced customer experience and provide improved systems and tools that sit behind that, for our colleagues to work with. Among the first of a number of planned developments will be the roll-out of a comprehensive Customer Relationship Management (CRM) system and mortgage origination system, which will assist our branch colleagues as they build deeper customer relationships in their communities. This major investment, which will see the transformation work build incrementally over a number of years, is a demonstration of our commitment to the UK market, where we firmly believe our local relationship banking approach is uniquely valued, and our overall customer proposition has strong growth prospects.

The high levels of service our customers receive, and the value they derive from it, is down to the unwavering efforts of our branch colleagues across the country, to which I pay tribute. Holding onto our top rank for satisfaction for 14 years in a row, for both personal and business banking in an independent survey of British bank customers, is a consistent reflection of their commitment and professionalism[1]. Furthermore, in February 2023 we were again named the most recommended provider for relationship/account management for SMEs[2].

Providing first class customer service means being able to support and advise our customers in an ever-changing economic landscape. One of the fastest developing areas, rightly growing in prominence and relevance for our customer base, is the UK's transition to a net-zero carbon economy. How to navigate the challenges and opportunities arising from this will be fundamental for our customers, and we will continue to support them in this regard, in order to help them make sound financial decisions. As such, over the course of 2022, Handelsbanken plc began to review its broader green finance offering to gauge where we might introduce transition-supportive products and tools that add value to our customers. As part of this, the Bank launched its first green lending product, for vehicle finance, in February 2022. This will be followed up with a number of new green features for many of our existing products, including residential and buy-to-let mortgages, property investment loans and commercial loans. In addition, we intend to provide transition loans to fund, for example, energy efficiency improvement measures to properties. The Bank's green finance work has been informed by the establishment of its Green Business Programme, which is helping to define and deliver the wide-ranging change needed to support customers proactively with their climate change response. This valuable work will continue in 2023, as we also increase the pace of sustainable transition in our own operations and those of our suppliers.

As we close the books on the past year we can reflect on our successes, but we must also prepare for the challenges we and our customers are certain to face. The knock-on effects of the war in Ukraine has exacerbated the cost of living crisis in the UK, and we are likely to enter a prolonged economic downturn. This means we must be vigilant of the impact this may have on our customers. Much like our approach to providing support during the pandemic, our relationship banking model puts us in good stead for identifying signs of stress early, and have those conversations with our customers, providing additional support as and when it is required. We will continue to do this in a tailored way, customer by customer.

I would like to take this opportunity to thank all our customers for their continued loyalty and the ongoing opportunity to provide them with their banking and wealth management services. I also want to express my gratitude to my colleagues across the Bank, as well as my fellow Board members, who have worked with determination throughout the year to ensure that Handelsbanken plc provides the best customer service offering possible.

MIKAEL SØRENSEN
CEO

20 March 2023

1 EPSI Rating, October 2022

2 Independent Service Quality Survey, Competition and Markets Authority, February 2023

Local relationship banking

Handelsbanken 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 long-term approach to customer relationships; a decentralised way of working and a strong local presence, through a nationwide branch network. This means that in communities across the UK, experienced bankers have the autonomy to take swift, sensible decisions and to provide customers with the best possible service. 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. It is also an approach that has demonstrated, since we first began operating in the UK, that those closest to their customers take the best decisions and provide the best advice. In result, branches build broad, strong and lasting relationships throughout the communities they serve.

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.

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.

The Bank is managed on an entity basis and not by business segment, therefore no segmental information is provided. Consolidated financial statements were prepared for the first time for the year ended 31 December 2022 for Handelsbanken plc and its subsidiaries (UK Group).

Changes to our organisation

2022 saw Handelsbanken's new UK-wide structure begin to embed well throughout the organisation – and show strong signs of the benefits it will deliver to our customers. In July 2021, the previous structure of five regional banks was removed, and Handelsbanken's nationwide network of branches was organised into 14 smaller geographical clusters, referred to as districts. Alongside this restructure, a number of mergers were identified in order to form larger branches, with a fuller customer offering, and greater local availability of our experts. This process concluded in the middle of the year, with 37 branches successfully merging with neighbouring branches.

In the second half of 2022, we began realising the benefits of the work we have undertaken to recalibrate the branch network and create a support structure capable of delivering sustainable growth, and highly satisfied customers, well into the future. We have seen stronger interaction between our branches and support functions, creating more efficient ways of working. The clearer district structure, under one chief branch officer, has also allowed for easier sharing of best practice across the network. And having branches organised within smaller geographical districts means that they have pulled together to provide support, challenge and drive change.

Over the years, we have continuously reviewed our branch network, making adjustments to configure it appropriately and position it to deliver the best possible service experience for our customers. As such, it is possible that we will make further adjustments to our branch network configuration over the course of 2023, via this business as usual approach, as and when it makes sense do so for our customers. In 2022, the Bank created Branch Connect, a team to process administrative tasks on behalf of the branches, with a view to streamlining and automating these tasks to maximise efficiency. Going live in August 2022 following a successful pilot, branches have migrated the first bundle of administrative tasks to Branch Connect, resulting in the saving of nearly 160 working days. This team's effectiveness in creating additional capacity in our branches means that we can be more proactive with our customers, dedicating more time to having the advisory conversations we know our customers value most. A second bundle of administrative tasks was piloted in January 2023, before being rolled out in Q1 2023, and a third bundle is earmarked for launch later in the year.

The Bank continues to focus on enhancing its customers' digital experience, with work under way to improve our app and online banking functionality. The Bank has introduced a number of improvements in 2022, both to the functionality and also to the user experience and interface. We will continue to focus on these functionality improvements with some important deliveries currently under development and due for roll-out in the first half of 2023. In addition to this, we are also focusing on customer journeys and how we can create more frictionless and digitalised processes, and self-service capabilities within them. This will sit alongside the all-important local relationship advisory services provided by our branches.

KEY PERFORMANCE INDICATORS

Total income

£733.9m

2021: £532.9m

Total expenses

£386.4m

2021: £406.2m

Profit before credit (losses)/gains

£347.5m

2021: £126.6m

Net Interest Income

£641.1m

2021: £443.0m

Profit before tax

£343.9m

2021: £135.4m

Profit for the year, net of tax

£252.6m

2021: £99.1m

Total assets

£32,764.6m

2021: £32,658.3m

Total liabilities

£30,025.2m

2021: £30,171.4m

Return on equity (RoE)

9.6%

2021: 4%

Cost/income ratio

52.6%

2021: 76.2%

Financial performance

Strong growth in income, together with lower expenses, resulted in a significant improvement in profitability.

Income

↑ 38%

Expenses

↓ 5%

Profit before net credit (losses)/gains

↑ 174%

ROE

9.6%

January–December 2022 compared with January–December 2021

2022 full year profit achieved a record level. Income increased 38% and costs reduced by 5%, driving profit before loan losses up 174% to £347.5 million. The cost income ratio reached 52.6%, an improvement of 23.6% points and return on equity (RoE) climbed to 9.6%, 5.6% units better than 2021. The key drivers for this record year have been the increasing BoE base rate, paired with lower expenses as a peak of investment in Know Your Customer (KYC) has been passed and efficiencies start to be realised.

Total income rose by £201.0 million, where an increase in net interest income (£198 million or 45%) was the major contributor. The sharp rises in the BoE rate during 2022 released the pressure previously placed on our net interest margin from falling and low base rates in recent years. The increased BoE rates have also made the substantial deposit volume growth over the last few years visible in net interest income, by improving the funding position. Income not related to net interest income increased by 3% due to higher business activity and demand as the economy's recovery from the pandemic continued to gather momentum.

Expenses decreased by 5%. This reduction was driven largely by two factors: the effects of provisions made in 2021 in relation to the restructuring of the UK business operation and a lower level of professional fees incurred in relation to KYC activities and other business-wide projects. Uplifts in employee costs, travel and entertainment expenses and IT consultancy fees were mostly offset by a reduction in professional fees. Outside normal salary inflation, the employee cost uplift mainly relates to a one-off cost of living support payment and increased provisions for the profit sharing scheme, Oktogonen.

At 31 December 2022, the net balance sheet provision related to the restructuring of the Bank was £1.7 million (2021: £5.3 million) which includes estimated costs of announced branch and premises closures that are planned and estimated employee costs arising from organisational change. In 2022, the Bank exited the majority of the premises and as a result the majority of the cost was settled. In addition, there was a release of some provision as a result of change in the plan such as use of some premises slightly longer than the original plan. Incurred year to date employee and premises costs (i.e. payments) in relation to restructuring were £2.1 million (2021: £3.2 million) and approximately £3.4 million (2021: £0.2 million) respectively.

The net expected credit losses were £4.4 million (2021: £7.9 million net credit gain) in the year. The increase in expected credit loss provisions is mainly due to elevated credit risks relating to a higher degree of uncertainty factors. These factors are primarily associated with the instability of the operating environment, including the war in Ukraine, which created extensive supply chain disruptions, shortages of input goods and energy, and the availability of labour within certain sectors.

"The Bank's prudent through-the-cycle business model paired with our strong financial position makes us well positioned for sustainable growth"

CET1 ratio

21.3%

Cost/income ratio

52.6%

Funding and liquidity

Capital and liquidity positions remain strong, with significant surplus to both regulatory requirements and risk tolerance. Given the strong capital strength and considering our capital and liquidity plans, the Board has recommended a dividend of £266 million for the year. The recommended dividend reduces the CET1 ratio from 23.6 to 21.3% (2021 20.1%). The Bank reports a Liquidity Coverage Ratio (LCR) of 147% (2021: 475%) as of 31 December 2022. The LCR has reduced during 2022 primarily as a result of the implementation of a behavioural model for the Bank's non-maturity deposits for interest rate risk management purposes.

Business development and outlook

Deposits continued to grow during 2022, average volumes increasing on both corporate and personal banking 5%, £948 million (2022: £20.1 billion, 2021: £19.1 billion). Lending volumes continued to experience a lower demand and fierce competition. Corporate average volumes dropped 3% compared to 2021 and personal banking lending dropped 7% (£870 million). Term lending to new clients has picked up during the year, but has been outstripped by higher than usual repayments. Fixed regulated mortgage has also shown promising improvements, albeit late market uncertainties have impacted the return to growth.

HWAM customer numbers continued to grow in the year, but Assets Under Management & Administration (AUMA) were down 8% compared to last year (2022: £4,073 million, 2021: £4,447 million). The decrease in the value of AUMA was primarily due to negative market performance and, to a lesser extent, net business outflows from the closed Independent Financial Adviser (IFA) distribution channel. HWAM continues to strengthen the quality of engagement and collaboration with the Bank's branches, which has contributed to a continuation of new customer growth. HWAM is supporting more Bank customers with wealth and investment services and gaining referrals from existing satisfied customers.

The recent market turmoil caused by the 2022 autumn 'mini-budget', has again proven the sustainability of our funding model, which is forward looking, capturing the market price for money. In the run up to the turmoil we have seen a few years where leading banks have had excess liquidity, making competition fierce, particularly in personal mortgages. With increasing worries on the economy, the unwinding of a low interest rate environment and cheap funding schemes, we may see a normalisation in the coming year, as more banks will have to refinance their mortgage book under market conditions. This could take some of the pressure on lending margins out, albeit competition is likely to continue to be tight. As a consequence, it would be reasonable to expect this to feed into tighter competition in the deposit space.

In the general market, 2023 is likely to be a year with lower demand for borrowing and potentially a higher degree of default rates, which could impact the credit appetite negatively amongst peer banks. The Bank's business model – with a through-the-cycle view and low risk tolerances – paired with our strong financial position – makes us well poised and focused to capture the right opportunities for growth. Furthermore, we look to continue to invest in our operational capabilities and systems, ensuring continued improvements to our operations capacity and risk management.

MARTIN BJÖRNBERG
Chief Financial Officer

20 March 2023

Business development and change programmes

Stakeholder engagement

Further detail on how the directors have had regard to the matters set out in section 172 (1) forms the directors' statement required under section 414CZA of The Companies Act 2006 and can be found in the Strategic report on page 44.

Climate change

The UK Group is pursuing a number of ambitious goals to tackle climate change, including to be net zero by 2040 at the latest across our business operations, as well as our investment and financing activities. The Bank's work with climate change can be broken down into three, interconnected areas:

1. accelerating and supporting our customers' climate action
2. driving our own operational decarbonisation and that of our suppliers
3. managing physical and transition risks posed to the Bank by climate change.

A cross-functional Green Business Working Group was created during 2021 to devise and deliver the Bank's climate change customer engagement model, with a first focus on real estate decarbonisation and adaptation. A range of green product features, advisory services, digital tools, partnerships, system and process changes, have begun rolling out during the year and will gather pace through 2023. In addition, a Climate Data Project aims to deliver on the Bank's wide-ranging requirements for high quality climate data, from business intelligence and operational target tracking to strategic insights and regulatory reporting. HWAM offers a range of sustainable funds. For more information on the Bank's approach to climate change, please see the Sustainability report, starting on page 12.

Net zero

2040

Regulatory

Consumer Duty

Further to the final publication in July 2022 of the Financial Conduct Authority (FCA) new Consumer Duty principles paper, the UK Group has conducted a comprehensive gap analysis to understand what areas can be improved in line with the Consumer Duty's four outcome areas. As a result, the business is focused on delivering change to meet the expectations of the Consumer Duty and implementing the necessary changes. Handelsbanken plc has had the most satisfied customers according to the external survey EPSI for the last 14 years. The implementation of the changes under Consumer Duty principles is expected to help improve our service to customers and evidence thereof for years to come.

Internal Ratings Based (IRB) approach

Further to the subsidiarisation in 2018, Handelsbanken plc has focused on its strategic objectives, one of which being to obtain an IRB approval from the Prudential Regulation Authority (PRA) for calculating the credit capital requirements. The Bank's preparation to submit an IRB application for its Corporate and Real Estate portfolio, the first stage in its IRB roadmap, is due to be submitted to the PRA in 2023. This will be followed by an application for the Retail portfolio in the coming years. During 2022, the Bank has continued to focus on enhancing its governance and controls arrangements, improving the data and IT infrastructure and building internal IRB models and expertise in line with the relevant regulations.

Investment Firms Prudential Regime (IFPR)

The IFPR is the FCA's new prudential regime for MiFID investment firms, and came into effect on 1 January 2022. HWAM is a MiFID investment firm and has been continuing to embed the regime during the course of 2022 and will produce its first Internal Capital and Risk Assessment (ICARA) document in 2023, in line with regulatory expectations.

Technology

Technology Modernisation

In March 2022, the Bank completed a technology transformation pre-study, which informed business requirements and vision, vendor solution space and architectural options. Work has now commenced on building skills, capabilities and tools in preparation for sustainable technology transformation that will help to future-proof the Bank.

The technology investment will contribute to sustainable growth by building underlying technology enablers that support business process efficiency, increased automation, decommissioning of costly legacy systems together with enhancements to products and channels. These areas will drive income growth and improve customer engagement. Fundamentally the investment will help the Bank to realise longer term cost efficiency, reduce risk and provide a platform for longer term sustainable growth and customer satisfaction.

CRM

The Bank's recent growth has seen the need for improved infrastructure and processes to support our customers' needs through a new CRM solution. A CRM Programme is expected to run a pilot in 2023, spanning front and back office staff, covering the management of vulnerable customers, the complaints process, an integrated CRM platform and a prospect management tool. In the event of a successful pilot, the solution will be rolled out to all relevant users.

Digital Transformation

The Bank accelerated its initiatives during 2022 with a build out of the digital transformation capacity. A team is there to enhance the Bank's digital customer offering in order to meet the increasing needs and expectations of our customers around digital services, augmenting the already strong branch relationships that we hold with our customers. The primary focus is to develop a series of capabilities within the online banking and mobile banking app space which are more commonly becoming 'hygiene factors' in the industry, for example a digital wallet capability and more options for payments or biometric authentication. From there, the Bank is seeking to enhance the core customer journeys, such as home buying, through the implementation of digital solutions including digital signing, secure messaging and document storage.

Wealth Management

Authorised Corporate Director (ACD)

An ACD is responsible for ensuring that the funds are operated, managed and administered in accordance with applicable rules and regulations, and for ensuring that the funds are meeting their objectives and providing value for investors. There has been increasing regulatory focus on strengthening the role that ACDs play within the industry, to facilitate good outcomes for investors. At the end of November 2021, Handelsbanken ACD (HACD) Limited took over the responsibility for fulfilling the ACD role for the Handelsbanken multi asset fund range from the previous external party. Throughout 2022, HWAM has embedded the ACD activities within the wider business. In April 2022, HACD published its first 'Assessment of Value' report for the funds, in line with the FCA's rules. The HACD is a wholly-owned subsidiary with its own Board, which provides independent oversight of all the activities and functions associated with managing the funds.

Customers

According to an independent survey of British banks' personal and business customers, conducted by EPSI Rating Group, Handelsbanken plc was rated top for customer satisfaction for the fourteenth year running. The annual assessment has seen an increase in scores for the Bank compared to 2021 for corporate customers, returning an index score of 78.8 (2021: 77.5), compared with a sector average of 65.9. For personal customers, the Bank had an index value of 81.5 (2021: 82.3), compared with a sector average of 72.2.

In August 2022, the latest independent service quality survey by the Competition and Markets Authority (CMA) was published. The survey looks at small and medium size enterprise (SME) customers' willingness to recommend their bank to other SMEs. For the ninth time in a row, and since the survey started, the Bank is rated highest for relationship/account management amongst the largest 15 providers of SME banking services in Great Britain, with 81% of the SMEs surveyed extremely or very likely to recommend Handelsbanken plc.

Independent survey of British banks' personal and business customers index score

Rated top for

14 years

Taking a long-term sustainable view

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.

The Bank is highly dependent on its standing as a responsible bank to continue 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 enterprise value creation.

One of Handelsbanken plc's overall strategic objectives for 2022 was to develop the Bank's sustainability platform. This platform comprises a range of components as summarised in the graphic below, some of which began the year already in progress while others needed to be put in place through prioritisation, planning and initial development work. We are working to deliver these components carefully in phase with one another with a view to continually evolving stakeholder expectations and formal obligations of the Bank. For instance, in order to strengthen our reporting we are reliant on improving the availability and quality of our data and the systems that underpin this. The work involves a series of data enhancements within an overall Sustainability Data Improvement programme, with each leading to progressively stronger reporting capabilities.

A cornerstone of this platform is Handelsbanken plc's long-term Sustainability strategy. This was launched both internally and externally during Q1 of 2022 and has been followed up throughout the year via a programme of engagement with our branches, districts and central departments. The objective of this engagement has not only been to facilitate recognition of the strategy and its content, but also to support colleagues in integrating relevant activities into their everyday work and change programmes.

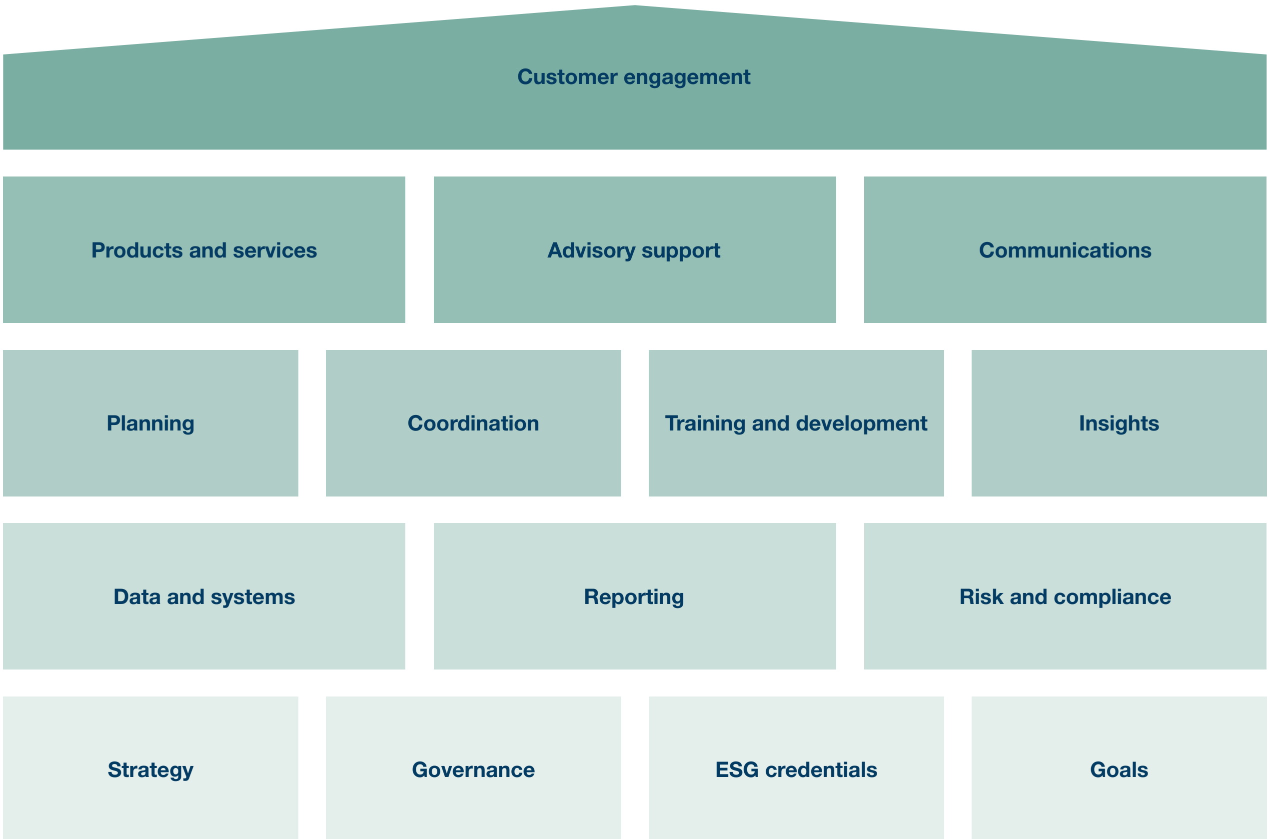
Towards year end, a survey was conducted across the Bank to gauge the success of this initial engagement. It found that 99% of teams were familiar with the strategy to some extent. More than half (57%) had held a team discussion on its implications for their work, while almost a quarter (24%) had initiated new activities off the back of the strategy.

The Sustainability strategy was developed through consultation across the whole business. It 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 facilitates activities being 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 with six of the 17 UN Sustainable Development Goals (SDGs) that Handelsbanken Group has chosen to focus on, as seen below. Aligning these goals with our ESG strategy will support our work contributing to the wider 2030 Sustainable Development Agenda.

The six UN Sustainable Development Goals that Handelsbanken has chosen to focus on

SUSTAINABILITY PLATFORM



The strategy also embraces, as a starting point, 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 13 Climate Action and SDG 5 Gender Equality. These are our 2040 net zero target, as well as other targets on green and sustainable lending, climate-aligned investments, and introducing measures to support more equal long-term savings outcomes between men and women. During 2023, we will review the application of these Group goals within the UK marketplace, in parallel with the establishment of further goals aligned to the Bank's Sustainability strategy.

In its Sustainability strategy, the Bank identifies 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 Diversity and Inclusion (D&I).

The 12 themes reflect the long-term nature of our Sustainability Strategy, where emphasis will be given to particular themes in phases over the years ahead. In this initial phase, the Bank's dominant focus is on our four environmental themes, given the urgency of society's joint response to climate change, nature and biodiversity loss. In parallel, we continue to prioritise D&I initiatives and have begun laying foundations for increased impact with our customers, communities and employees.

THE FIVE GROUP GOALS INITIALLY ADOPTED BY HANDELSBANKEN PLC

1
The Bank is, and is perceived as the most sustainable among comparable competitors

2
Net zero greenhouse gas emissions by 2040 (loans, investments and own operations)

3
20% of the loan volume green or sustainable financing by 2025

4a
Paris-aligned investment portfolios

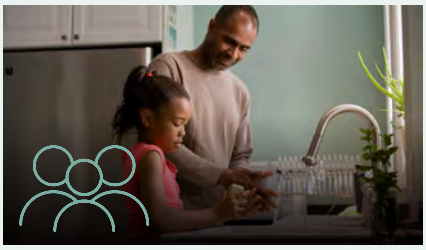
4b
Increase the proportion of investments whose products and services contribute to the Global Goals

5
In 2023, measures for equal savings are introduced

HANDELSBANKEN PLC'S 12 PRIORITY ESG THEMES

Environmental themes

- Climate action – Helping customers adapt
- Climate action – Becoming climate positive
- Go paperless
- Resource thrift



Social themes

- Diversity and inclusion
- Good customers outcomes
- Local community action
- Inspire: Employee empowerment

Governance themes

- Inspire: Leading with values
- Tax responsibility
- Prevent real estate financial crime
- A safe and sound bank

1 Climate action

Our most pressing ESG focus remains 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 22–29 – 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.

In October 2022, Handelsbanken Group published its first interim net zero target, in line with its commitments as a founding signatory to the Net Zero Banking Alliance (NZBA), itself part of the United Nations-initiated Glasgow Financial Alliance for Net Zero (GFANZ). Aligning with the Science Based Targets Initiative (SBTi) and Partnership for Carbon Accounting Financial (PCAF) methodologies, this target is, by 2030, to achieve a 36% reduction in greenhouse gas emissions intensity (relative to 2021) across the Group's real estate lending portfolios. More information on this target and its relationship to Handelsbanken plc's climate change work can also be found within our TCFD report. Under our NZBA obligations, Group interim targets for further high emitting sectors are to be published by April 2024.

As part of an overarching effort to have SBTi-approved targets in place, the Handelsbanken Group will coordinate towards also setting out targets for Scopes 1 and 2 operational emissions. These targets will be determined through the course of 2023, with the intention of disclosing them in 2024.

As this focus on targets suggests, Handelsbanken plc's climate action work is two-fold: supporting customer transition to a low carbon economy, and becoming an operationally climate-positive business, without significant reliance on offsets.

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

To steer focus in this direction, the Bank has adopted a Handelsbanken Group target that by 2025, 20% of its financing volume shall consist of green financing, social financing or financing that contributes to the borrower's measurable, sustainable transition.

During 2022, a Green Business Programme was established to define and then deliver the wide-ranging change needed to support customers proactively with their climate change responses.

The Programme brings together representatives from relevant central functions and our branch network, under a working group led by the Sustainability team. Its work is overseen by a Steering Committee of senior internal stakeholders, chaired by the Head of Sustainability.

The working group's first task was to determine priority customer groups. Four initial priority groups were identified, all of which are within our core real estate portfolios: Residential homeowners, Retail Buy-to-Let, Portfolio Landlords, and Large Property Companies including Housing Associations. Of these groups, Portfolio Landlords were determined to be the biggest priority for a number of reasons, including: the large number of such customers that the Bank serves, the scale of the challenge given tightening Minimum Energy Efficiency Standards (MEES) and other pressures on professional landlords, and the potential to fill an important gap for businesses that would not ordinarily have access to in-house specialists or advisers on net zero transition or long-term strategy.

Through consultation with branch colleagues and relevant departments, a four-stage customer engagement model was agreed, as summarised in the graphic below. The model aims to support a customer with low awareness of climate change and its relevance to their situation right through to significant investment in activities to decarbonise and protect against physical climate risks. A survey of branch teams found that 83% had seen an increase in sustainability engagement with their customers, with 89% rating their customers as receptive to conversations around sustainability.

To realise this customer engagement model, the working group has drawn up a programme of deliverables. These range from advisory support and digital tools to customer communications and enhanced data and MI. They have been prioritised so as to drive early and structured customer engagement, while integrating with the Bank's evolving green and sustainable financing offering. On this front, the Bank launched a Green Vehicle Finance product early in 2022, with green features for residential mortgages, buy-to-let and portfolio/commercial loans in the pipeline for H1 2023. Transition financing products are also planned for launch in 2023, enabling the Bank to support a range of customer measures around energy efficiency and renewables, while a wider range of eligible 'green assets' are being considered for asset financing.

Also during 2022, our large corporate offering was increased from Sustainability-Linked Loans to cover green loans, including loans related to water and maritime life, as well as loans with social criteria, while further transaction growth reflected the wider marketplace.

Further relevant information can be found in the Bank's TCFD report on page 22.

TARGET CUSTOMER ENGAGEMENT MODEL

1 Set the scene

Mix of central communications and branch outreach to raise customer consideration. Branch team picks up customer discussion and sketches out the journey ahead.

2 Assess customer ambitions and risks

Data tools, guidance and management information help corporate manager discuss customer's situation, risks and potential strategies.

3 Create action plan

Branch team offers digital platform, specialist support and referral to external trusted partners and resources, to inform customer's action plan.

4 Secure the finance

Branch and customer discuss financing needs and structuring. Bank offers green and transition financing products and features.

2 Operational sustainability

With a view to leading by example, the Bank is committed to eliminating 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 principal operational opportunities lie in fully decarbonising the Bank's estate, supporting our employees towards sustainable working practices, and engaging across our supply chain. Over 2022, we have brought in a number of new resources with key skills in Sustainability in order to accelerate our work in the coming year.

Looking ahead, we will be focusing on lowering our paper usage through adapting and streamlining our internal processes, as well as increasing the Bank's digital offerings. Alongside reduced paper usage, a key sustainability focus is on resource thrift: the Bank is engaging with its suppliers to factor circularity into the lifecycle of purchased goods. We are continuing to improve sustainability data concerning our working practices, while aiming to start gathering data around commuting and working from home over the coming year. This data will help inform how best to support our employees to work more sustainably, such as our approach to the planned introduction of an electric vehicle scheme and charging facilities, alongside other sustainable benefits.

True to the decentralised nature, branches have increasingly been driving initiatives at the local level, successes and learnings having subsequently been shared with other branches to inform and inspire broader adoption. For example, Wilmslow branch in north west England has taken significant steps to eliminate paper usage within its local operations, the team's example since leading other branches to adopt similar approaches aligned with their own local working practices. The Bank will continue to support its branches with such initiatives, while working to reflect successful process change in central guidance and instructions through feedback processes such as our annual Sustainability survey.

The same locally-led approach has also characterised our work to date with energy efficiency, with branches identifying improvements to their premises and seeking support from the central Facilities function wherever required. Such activities have included nearly all branches switching to LED lights, some moving into more energy efficient buildings, and others actively seeking out energy saving advice and inspiration from the expert team in head office. However, with the Bank stepping up its action on energy efficiency, the Facilities function plans for certain measures to be actively supported across all branches in the coming year.

Alongside direct impacts from our premises, the Bank acknowledges the importance of its supply chain to overall operational sustainability. We are working towards new goals for the measurement and improvement of supply chain sustainability, while reviewing our current governance processes. As a company we do not tolerate modern slavery, human trafficking or forced labour and we are committed to identifying and addressing these risks across our value chain. This is supported by our Supplier Code of Conduct, Ethical Standards Policy and mandatory annual Modern Slavery Act training completed by all employees. The Bank also became an accredited Living Wage Employer in August 2022 and will continue to build on current due diligence and supplier management governance to confirm that those within our supply chain are also paying their employees a living wage. We will continue to build and refine our governance to manage all such risks in our supply chain.

3 Climate environmental data

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 and adequacy of our ensuing emissions reduction initiatives.

Climate-based calculations are made according to the GHG Protocol. Emissions are included from sources that are owned or operatively controlled by the Bank, divided into three categories, referred to as Scopes.

- Scope 1 covers direct emissions from owned/controlled sources. The Bank reports its gas usage as part of Scope 2 district purchased energy emissions on an intensity basis, as UK emissions data have historically been coordinated by Handelsbanken Group in Sweden, where gas usage for heating is extremely limited. However, the Bank intends to take more local control of this process in 2023, and to explore separating Scope 1 and 2 during the year in order to better reflect the UK Bank's usage of gas for heating;
- Scope 2 covers indirect emissions from purchased electricity, heating and cooling. Emissions are calculated on the basis of specific consumption figures for each branch or unit, multiplied by an emission factor. Where specific figures are unavailable, consumption is estimated using adjacent units or energy statistics; and
- Scope 3 covers indirect emissions outside our organisation. For this, the information is received directly from our paper suppliers, travel agency and transporters, and to increase the accuracy of our Scope 3 data we have included laptops in our Purchased Goods calculations. Scope 3 emissions are being reviewed to widen the scope of included data for next year.

Overall 2022 emissions

2,140 tCO_2e

Total emissions per full time employee

0.9 tCO_2e

Overall paper usage

↓ 39%

Electricity usage

↓ 28%

We measure our emissions in tCO_2e which stands for metric tons of carbon dioxide equivalent, a standard unit for measuring greenhouse gases. It does not just cover carbon dioxide but other greenhouse gases too such as methane (CH_4) and nitrous oxide (N_2O). Certain emissions are not included in the calculations, such as emissions from coolants, commuting, and from the Bank's investments. The methodology used for calculating emissions can be found in Handelsbanken Group's annual CDP report on the CDP website.

In 2022, we saw a year-on-year increase in our overall emissions. This is mainly down to an exceptional slump in 2021 emissions caused by the impacts of COVID-19. Our overall 2022 emissions were 2,140 tCO_2e, while our chosen intensity ratio of emissions per full time employee was 0.81 tCO_2e, compared to 2021's 0.71 tCO_2e.

Business travel was the category most affected by the lifting of COVID-19 restriction and the return to in-person meetings with customers. Pre-COVID-19, we had made progressive reductions in business travel and this overall trend line has continued, with 2022 emissions lower than pre-COVID levels. In 2019 they were 645 tCO_2e compared to 369 tCO_2e in 2022, with car mileage in particular reduced by almost half (46%).

We also saw a decrease in other areas, such as the 28% year-on-year reduction in electricity usage, owing in part to a reduction in the number of branches, as well as to energy efficiency measures being put in place across our estate.

These data have informed our 2023 priorities, which include a review of the Bank's travel policy and incentives, as well as a more structured programme of paper reduction. These and other initiatives detailed in the Operational Sustainability section on page 16 will lead to further reduction in our carbon emissions.

Handelsbanken plc is in the process of implementing a data improvement plan across its operations, to give a more comprehensive and precise picture of Scope 1, 2 and 3 emissions. Resource has been increased to coordinate Bank-wide data improvements, with an initial focus on emission-related data. Within Scope 3, the scope of reported categories will be widened to include data on employee commuting, working from home and an expansive view of our purchased goods and services.

This year's reporting contains new emission sources compared to previous years and we have updated our 2021 and 2013 numbers to also incorporate these new sources. The new emissions included for these years are IT equipment and Scope 3 upstream electricity. This has resulted in an increase of 374 tCO_2e to the 2021's total emissions and an increase of 467 tCO_2e to our 2013 baseline*.

Activity	Source emission factors
Electricity consumption	The 2022 UK Government Greenhouse Gas Conversion factors for Company Reporting
Heating and cooling	The 2022 UK Government Greenhouse Gas Conversion factors for Company Reporting
Transport figures	Average across home markets
Business travel	Figures from service provider
Resource consumption	Figures from service provider where available and average across home markets where not
Greenhouse gases	GWP factors CO_2: 1, CH_4: 25 & N_2O: 298. Source: IPCC R4 consistent with the 2022 UK Government Greenhouse Gas Conversion factors for Company Reporting

Our emissions and energy usage data are as follows:

General information	Unit	2022	2021	2013 baseline*
Number of branches reporting	Number	162	196	161
Total office space reported	M[2]	48,586	50 261	31,352
Number of employees covered by environmental data[1]	Number	2,658	2,667	1,351

GHG emissions (tCO_2e)	Unit	2022	2021	2013 baseline*
Scope 1 emissions	Tonnes	N/A	N/A	N/A
Scope 2 emissions[2]	Tonnes	1,266	1,273	3,423
Scope 2 emissions without GO electricity	Tonnes	1,791	2,074	3,423
Scope 3 emissions[3]	Tonnes	874	617	1,044
Total emissions	Tonnes	2,140	1,890	4,467
Total emissions per employee	Tonnes/ employee	0.81	0.71	3.31

Emissions of greenhouse gases by source (tCO_2e)	Unit	2022	2021	2013 baseline*
Emission from energy use (in buildings)	Tonnes	1,314	1340	1724
Emissions from business travel	Tonnes	369	105	529
Emissions from IT equipment[4]	Tonnes	366	308	320
Emissions from other sources	Tonnes	90	137	1895

Energy usage	Unit	2022	2021	2013 baseline*
Total energy consumption (in buildings)	MWh	10,048	11,236	9,267
Electricity consumption	MWh	2,712	3,776	3,404
Change in electricity consumption from preceding year	%	-28%	-2%	N/A
Proportion renewable electricity[5]	%	100%	100%	0%
Total electricity consumption per employee	MWh	1.02	1.42	2.52
Use of heating and cooling	MWh	7,336	7,460	5,863

Business travel	Unit	2022	2021	2013 baseline*
Total business travel	Km	2,942,175	814,340	3,772,042
Business travel per employee	Km/ employee	1,107	305	2,792
Travel by air	Km	443,833	24,945	1,018,816
Travel by car	Km	1,262,561	542,986	1,968,145
Travel by train	Km	1,235,781	246,409	785,081

Resource efficiency	Unit	2022	2021	2013 baseline*
Paper usage	Tonnes	74	122	138
Paper usage per employee	Kg/ employee	28	46	102
Water consumption[6]	M[3]	17,157	13,537	16,143

1 Number of employees according to the definition in the Annual Report average number of full-time employees.

2 Scope 2 covers indirect emissions from purchased electricity, heating and cooling. Emissions are calculated on the basis of specific consumption figures for each branch or unit, multiplied by an emission factor. When specific figures are unavailable, consumption is estimated using adjacent units or energy statistics.

3 Scope 3 – Covers other indirect emissions from business travel, transport, use of paper, water consumption, upstream emissions from electricity and purchased IT-hardware. Scope 3 emissions being reviewed to widen scope of included data for next year.

4 New category: Internal IT hardware supplied by central IT department. Based on supplier data from 2022-2020 and pre-2020 estimates based on number of employees are used.

5 We purchase Renewable energy certificates after total volume of electricity is calculated.

6 Data estimated from the Bank's own properties in Sweden.

* 2013 is used as a baseline year. This was the first year data from markets outside Sweden (including UK) were incorporated into sustainability reporting.

4 Diversity 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. This is why we prioritised D&I, including equality, as a focus for the Bank in 2022 and beyond.

We focus not just on leadership but also on supporting women throughout the Bank to build their careers, as we believe this will bring about sustainable change. The Bank was one of the first signatories of the Women in Finance Charter, a voluntary charter set up by HM Treasury, where signatories publicly commit to increasing the number of women, particularly at leadership level. Since signing up in 2016, we have seen an increase of 50% of female leaders, currently our figure is 28%. Whilst we acknowledge we are not where we need to be, we are mindful of taking a long-term approach to embed sustainable change and progress. With this in mind we have taken or are taking a number of focused actions as part of our D&I agenda.

In 2022, the Bank offered a number of training courses to both managers and employees on the subject of Inclusion. 615 colleagues have completed the training and, of those who submitted the evaluation form, 96% felt the content was relevant to them, and 93% were inspired by new ways of thinking on the subject.

We have also signed up to the 10,000 Black Interns initiative which is aimed at addressing the under-representation of Black people within financial services. 2023 will be our third year participating and have doubled our commitment (from 2022) to hiring 10 Black Interns for the summer of 2023.

Late in 2022, the Bank committed to take part in the Inclusive Employers Standard and began to gather evidence from around the organisation to support its submission. We are required to provide detail, evidence and examples of how we embed Inclusion across six pillars: Engage, Equip, Empower, Embed, Evaluate and Evolve. Our responses will be assessed and used to measure where we are on our D&I journey. In March 2023, alongside an accreditation award we will receive a bespoke, focused action plan that will support us to progress our strategy and embed workplace Inclusion.

Since establishing a D&I framework, we have allocated two Employee Resource Groups (ERGs) that actively support and help drive our D&I agenda: the Gender ERG and the LGBTQ+ & Allies ERG. Through these Bank-wide groups we provide a space for discussion and thus help raise awareness of difference through a collective voice.

More information on the Bank's D&I work can be found in the Directors' report on page 64.

5 Learning and development

As Sustainability is a very broad concept which affects all of our operations, we understand the importance of acquiring the knowledge and skills necessary in order to shape the Bank's sustainable future.

Following a successful internal pilot of a video-based Sustainability learning platform aimed at finance professionals, a decision was made to roll the platform out to all employees in 2023. This will form part of the Bank's mandatory Sustainability training, while offering role-specific training pathways.

Training days, facilitated by a leading Sustainability consultancy, have been held twice during 2022; they have involved the Bank's Board, leadership team, and all those with core Sustainability responsibilities in the organisation. Participants fed back that the days gave them a broader appreciation of the scope and pace of economic transition; the banking and real estate sectors' response to date; and a clearer sense of how we can work together on practical initiatives and measures.

Between October 2021 and February 2022, the Bank held property decarbonisation workshops across all of its UK districts and branches. The workshops brought together relevant expertise from the Bank's Sustainability, Credit, Investment and Product teams to explore the drivers of Sustainability in the residential and commercial real estate sectors, the risks and opportunities for the Bank and its customers, and the role we can play in supporting customers' transitions to net zero. In 2022, these workshops were attended by 311 branch managers, corporate managers and private banking managers.

Sustainability also forms part of the Bank's induction programme, where new joiners are introduced to the Sustainability strategy. We have also embraced decentralised learning in the form of Lunch & Learn sessions and team 'fikas', where the Sustainability team has presented to various parts of the Bank and fielded questions from colleagues.

6 Local community engagement

Being active in their 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 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 that we can maximise our positive environmental and social impact.

As a local relationship bank, we are closely embedded in over 150 communities across the UK. Our colleagues give regularly in terms of time, money and knowledge, whether this is to charities, local institutions or initiatives. The Bank offers matched funding, whereby it matches up to £500 per employee per year for donations made to established good causes. In 2022, £40,444 of matched funding was used compared to £20,835 in 2021. In addition, total branch charitable giving in 2022 was £15,861, compared to £9,472 in 2021.

Another way to support local initiatives is by providing time for colleagues to give back to their communities through volunteering. In 2022, the Bank introduced the CSR Day, entitling employees to one day's paid leave to volunteer in their communities. As at 31 December 2022, 154 colleagues used their 2022 CSR entitlement and spent 148 days volunteering in the community. We have seen the impact grow over the year with the number of CSR days taken increasing per quarter. We expect this trend to continue into 2023 as the Bank seeks to partner with an external provider to step up its support for colleagues wishing to use this opportunity.

Branches embedded in communities

>150

Matched funding per employee per year

£500

Days volunteering in the community

148

Matched funding used

£40,444

7 How we embed Sustainability

In 2022, the Bank updated its Sustainability policy, encompassing how all parts of the organisation must work with core ESG areas, from climate and the environment to financial crime prevention and tax responsibility.

Supplementing our Sustainability policy, the Bank issues internal, non-negotiable 'CEO Guidelines' in a number of key areas, such as business relations in the armaments and defence industry, forestry and farming, dealing with the tobacco industry, human rights and working conditions, and environmental impact and climate change. In 2022, updates to the latter guideline included an expanded section on fossil fuels, detailing the Bank's moratorium on any coal-related financing and on companies/projects involved in or connected to new oil or gas exploitation. An overarching Sustainability guideline was also introduced, highlighting the Bank's sustainability goals.

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.

The Bank's 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 approach to climate-related risks on page 24. 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.

During 2022, the Bank's product governance procedures were reviewed and consideration of sustainability factors was formally incorporated into the development of all new products and changes to existing products. Through 2023, the Bank will review and adapt its Change Management processes and customer journeys in a similar way.

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 – for the first time in 2022 – by mandatory annual modern slavery training, which was completed by all employees.

Finally, a key focus for integrating sustainability into everyday work across the organisation has been the business planning process. In response to requests from colleagues for more support to incorporate Sustainability Strategy-aligned activities into their business plans, a dedicated week was launched with daily activities and tools to create relevant and tangible activities for 2023. This broad support was supplemented by collaborative business planning meetings between the Sustainability team and a number of key functions, with these co-planned initiatives already being enacted together in 2023.

Securing alignment, mobilising change

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 produced our first TCFD report in both our Handelsbanken Group climate change progress report and within the UK plc's annual financial statements.

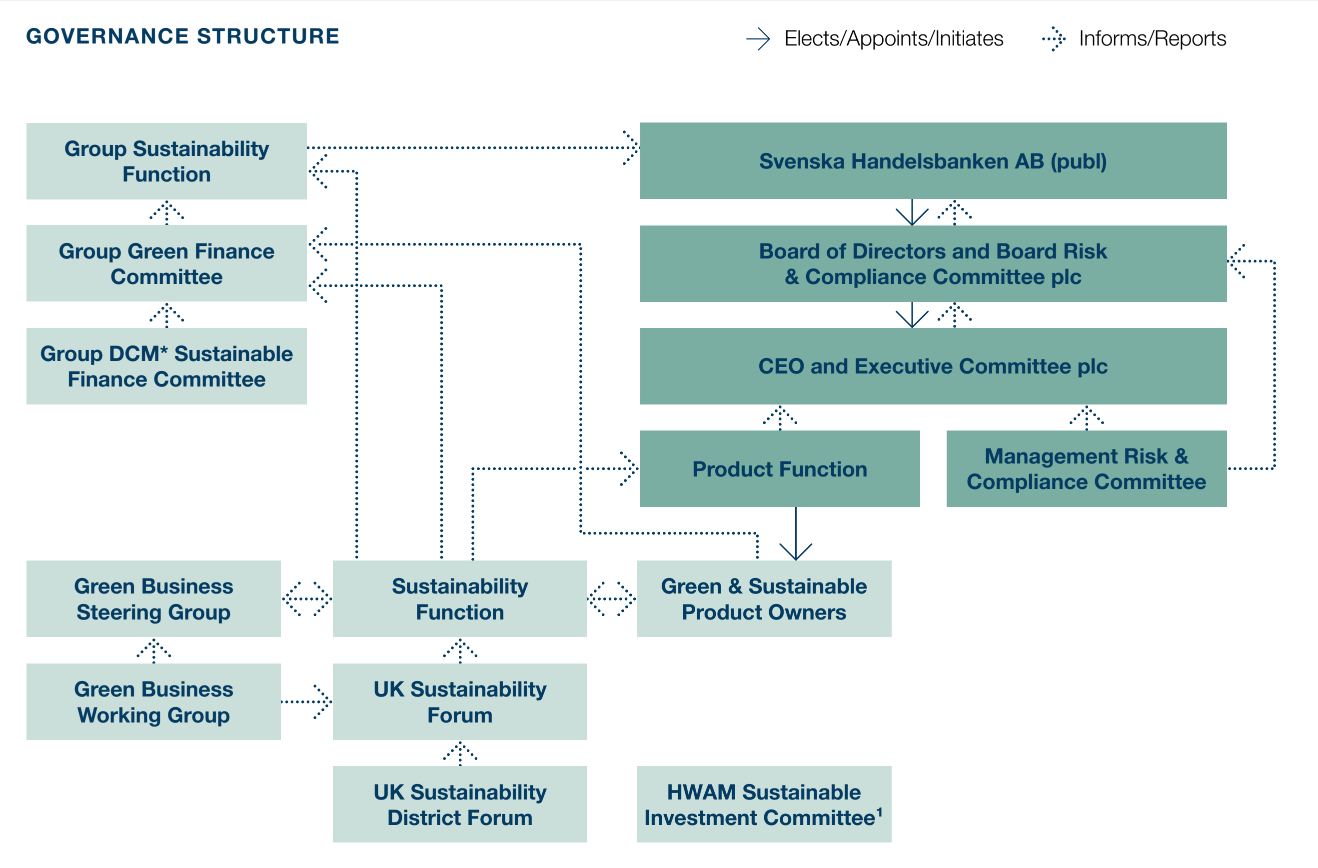
The work on enhancing and developing our TCFD disclosures is iterative and continues, following impact materiality principles. The Handelsbanken Group has set the goal of net zero emissions of greenhouse gases as soon as possible, and by 2040 at the latest. This target applies to the entire Handelsbanken Group and covers lending, leasing and investments, as well as Handelsbanken Group's own operations, such as energy consumption and business travel.

Interim targets for 2030 have been released for our first high emitting, material sector, as part of our commitment towards the Net Zero Banking Alliance (NZBA) and UN Principles for Responsible Banking (PRB), the former of which we are a founding signatory. The Handelsbanken Group has also published an initial transition plan, recognising that this will evolve over time as standards such as those from the Glasgow Financial Alliance for Net Zero (GFANZ) or the Transition Plan Taskforce (TPT), are published.

More about Handelsbanken Group's climate change strategy and progress can be found in the Climate Change Progress Report, available online within Handelsbanken's Sustainability webpages.

1 Governance

The governance structure below underpins the sustainability oversight in the Bank and across Handelsbanken Group.



The Handelsbanken plc Board has ultimate accountability for all climate change risk related matters in the Bank. The Board sets the strategic direction, taking into consideration Handelsbanken Group's approach to climate risk, and the Board Risk and Compliance Committee (BRCC) oversees the risk.

Members of the Board have received briefings and training during the year to help them understand risks and opportunities from climate change. This included a dedicated sustainability training session in October 2022, convened by the Sustainability department with the involvement of external speakers.

The Board has been provided with an overview of the risks, opportunities and resource requirements in relation to climate change. In 2022, 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, 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 ESG 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. A climate response plan was implemented in 2021, with the progress of the plan continuing to be monitored on a quarterly basis. The BRCC approved the incorporation of climate change risk into the existing Risk Management Framework (RMF) 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 page 28.

At 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 senior management function (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 operates a UK Sustainability Forum representing broad sustainability considerations across all aspects of the business, and a UK Sustainability District Forum to facilitate representation and communication through the branch network.

1 The HWAM Sustainable Investment Committee reports into the HWAM Management Group

* DCM: Debt Capital Markets

A cross-functional Green Business Working Group (GBWG) was formed in 2022 to drive and support active customer engagement around climate and sustainability questions, and to support the Bank providing the products and services customers will require for their transition. Chaired by the Sustainability team and meeting fortnightly, GBWG comprises relevant functions including Products, Customer Experience, Digital, Training and Credit, and serves to aide alignment and momentum against a programme of agreed deliverables. To facilitate due oversight and governance of this programme, a Green Business Steering Group – chaired by the Head of Sustainability and with relevant Executive Committee representation – receives reports on GBWG progress and discusses relevant questions arising. The Chief Risk Officer joins this Steering Group to support the Green Business programme alignment with the Bank's evolving risks in this area.

Debt Capital Markets (DCM) incorporates the Loan Market Association's (LMA) principles into bespoke client Loan Agreements where appropriate. Counterparties are raised to Handelsbanken Group's Green Finance Committee (GFC) for approval prior to being eligible for sustainable finance. Possible GFC responses include the vetoing of counterparties deemed to be misaligned with the Bank's guidelines from being eligible for sustainable finance.

Similarly, HWAM has a dedicated Sustainable Investment Committee. The Committee reviews each proposed investment to determine whether it is aligned with the HWAM Sustainable Investment Policy, and has veto rights on any investments not aligned with the policy.

From an HR perspective, following consultation with the Pension Committee the Bank will shortly be offering sustainable pension options to staff on both Defined Contribution and Defined Benefit schemes. In addition to this, an online portal will be created providing details in various formats.

In other respects, Handelsbanken's work on climate-related issues adheres to the decentralised structure. This means that every unit has the responsibility to identify risks related to climate change and integrate them into their operations. To exemplify this integration approach, during 2022:

- A dedicated role was created in the product development function, working across the financing product owners to sharpen and accelerate deployment of green and sustainable finance products and the ancillary services required for our customers and branches to access these;
- Dedicated Sustainability groups were established within the Credit and Risk teams, in order to consolidate and grow these departments' expertise and focus;
- The Bank's product governance processes were comprehensively reviewed, with the result that consideration of Sustainability factors is now built in to all stages of the product review and development journey; and
- The Bank's credit review process was also strengthened around ESG questions, with the introduction of a questionnaire process for all corporate property and trading company customers.

2 Strategy

Climate change is an important strategic consideration for Handelsbanken plc, and while it presents risks 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 combat climate change. Those signed 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 – founding signatory) – and through that the Glasgow Financial Alliance for Net Zero (GFANZ) – first 2030 interim target published October 2022
- Net Zero Asset Managers Initiative (NZAMI)
- Partnership for Carbon Accounting Financials (PCAF)
- Science Based Targets initiative (SBTi) – 1.5°C aligned targets to be submitted for approval in 2023
- Bankers for Net Zero (founding signatory)
- Coalition for the Energy Efficiency of Buildings (CEEB) under the Green Finance Institute

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. To support our customers, we are imminently looking to launch products for transition finance, multiple further sustainable lending products, and an online, interactive customer tool to help our customers receive information and tips.

Although the Bank and other market actors will increasingly engage 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, we are dependent to an extent on the UK government's commitment to increase Minimum Energy Efficiency Standards (MEES) across the residential, private rental, social, public sector and commercial property sectors in England and Wales. The Scottish government is progressing a similar strategy. We are active in industry forums, such as the Green Finance Institute and Bankers for Net Zero, where we are working with think tanks such as E3G and South Pole to engage the Government in the need for science-based, 1.5°C aligned policy.

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 with products such as adaptation-related finance.

In 2022, we launched an electric vehicle asset finance product, with a discount provided over regular vehicle financing. The programme has grown significantly since inception, with approximately 19% of cars financed now being electric. To complement efforts and support a robust approach, a monthly dashboard has been created, with MI shared across the business. This reports various metrics, such as average CO_2 of vehicles financed, percentage of cars financed that are electric, monthly trends vs. UK averages, and car vs. Light Commercial Vehicle (LCV) breakdowns. An excerpt is shown below from December 2022.

Cars – fuel type

Where commensurate with our conservative credit policy, we will seek to finance businesses that are providing climate change solutions and as such we are currently reviewing eligible assets within our asset finance division.

The Bank has developed a customer engagement portal, covering various physical and transition related criteria. This will allow 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 consultative advice and financial support where required. As ever, we will use the feedback from this customer engagement, supplemented with insights from customer surveys, such as our landlord surveys undertaken in 2022, to inform our product priorities and customer needs. For example, our initial 2022 landlord survey identified various priorities as challenges for landlords in the wake of the energy crisis linked to the Russia-Ukraine conflict.

To date, our DCM team has delivered eight Sustainability-Linked Loans (SLLs) for large corporate customers. In 2022, Handelsbanken plc's sustainable finance offering for larger corporate customers was increased from SLLs to also cover Green Loans, including loans related to water and maritime life, as well as loans with social criteria.

HWAM has four global sustainable multi asset fund options for UK customers which account for varying customer risk profiles.

The Handelsbanken Group began work to reduce its climate impact many years ago, and since 2017 the Bank buys carbon credits for all operational emissions we are unable to avoid. Our goal is to reduce emissions through policy, process and behaviour change, and to neutralise only residual hard-to-abate emissions through carbon credits and investment in negative emissions.

The Handelsbanken Group purchases carbon credits from programmes registered with the UN Clean Development Mechanism (CDM). Through 2022, the Handelsbanken Group has compensated 10,250 tCO_2e. Details of the projects can be found on the registry.goldstandard.org website, project IDs 1138 and 1196. As an extension of this work, the Bank also invests in carbon removal certificates, the aim of which is to support and expand the market for negative emissions.

The UK Sustainability Strategy prioritises a focus on decarbonising the entire banking estate. The Bank has set an ambition to go paperless over 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 increasing operational sustainability through resource thrift, following principles of 'Eliminate, Reduce, Reuse, Recycle'.

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". The fact 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. More detail is listed under the Risk Management section of this disclosure.

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. In the UK Bank and at Group level, oil and gas represented below 0.5% of total loans to the public in December 2021, shown in last year's disclosure. Whilst fossil fuel exposure is still tracked, exact disclosure levels will not be provided for December 2022 due to the level of immateriality.

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 its 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, and to perform forward-looking scenario analysis.

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.

To date, the Pillar 2A assessment has concluded that no additional capital is required mainly considering that:

- The Bank has immaterial exposure to the most carbon intensive sectors; the fact that other factors such as development of new processes, training and adaptation are a more efficient mitigant than capital; although further improvements are expected in the upcoming years, the Bank has appropriate controls in place to mitigate physical risk (e.g. customer confirmation of appropriate insurance) and transition risk; and
- Climate change has also featured as part of the Internal Capital Adequacy Assessment (ICAAP) firm-wide stress test scenarios as an idiosyncratic event.

During 2021, the Bank undertook the first long-term scenario analysis for climate change risks. The exercise was based on BoE'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 (an external data provider) was used to assess transition and physical risk to the portfolio. In 2022, the Bank performed a refresh of the analysis performed in 2021 and introduced further enhancements such as the comparison to the results of the CBES scenarios.

The climate change scenario analysis covers the longer term assessment that is focused on credit provisions. In the 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 such as the introduction of risk tolerances.

3 Risk management

Climate change is embedded in the Bank-wide RMF which allows for climate risks to be managed in line with other risks. This includes identification, assessment, management, monitoring and reporting of climate risks. Given the nature of climate change risk, it has been classified as a cross-cutting risk in the Bank's risk taxonomy.

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. During 2022, the assessment has been refreshed and it now includes assessments of market and liquidity risks.

Climate-related risks have been classified into physical and transition risks and were assessed using the existing risk assessment matrix that looks at the likelihood and potential impact of an event happening over the next 12 months.

Owners have been assigned to identify climate risks from the first line of defence, and the risks have been included in the scope of second line of defence's oversight and third line of defence's (internal audit) audit plan.

Handelsbanken plc has introduced Climate Risk Early Warning Indicators (EWIs) within its quarterly ESG and Climate Risk MI report with the objective to identify trends in climate risk indicators that may negatively impact the Bank's portfolio and to prompt appropriate mitigating actions. All risk indicators are listed in the Metrics and Targets section of the report.

Climate change is managed across the three lines of defence as summarised below:

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.

Second line risk oversight	– Providing ongoing oversight with advisory input and challenge to aid the Bank meeting external and internal climate risk management requirements.
	– Coordinate further embedment of climate change risk across business functions and second line risk oversight, The Climate Change Risk working group's tasks include:
	  – Coordinate progress against SS3/19 plan.
	  – Further embedding climate change risk into the risk management processes, improving climate change reporting and support improvements in climate change capabilities.
	  – Coordinate climate change scenario analysis and stress test, including development of modelling capabilities.
	  – Production of quarterly climate risk management information.
	  – Use scenario and risk analysis to build into Bank's strategy, communication and broader ESG plan.

Internal audit	– Included climate risk in the annual risk assessment process. – Independent assurance on activity to embed climate change risk management.

The management of the main risk categories are summarised below:

1

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 EPCs and related risks (fire risks/social and 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. Handelsbanken plc is also working on developing a tool to support the account managers in embedding climate and sustainability considerations in their interactions with the customers whilst also capturing additional climate-related data.

2

LIQUIDITY AND FUNDING RISK

Handelsbanken plc has identified some key climate related risk factors that would impact the Bank's cost of funding, such as, adverse climate events that affect inflation and market interest rates, the Bank failing to deliver on the net zero targets, and concentration of collateral in high flood risk areas that could be detrimental to the Net Stable Funding Ratio (NSFR) should the Loan To Value increase.

These risks are monitored on an ongoing basis via the annual risk assessment mentioned above where the materiality of the risks are assessed and controls are being put in place, as well as the quarterly ESG and Climate Risk MI report where the EWIs are monitored.

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.

3

OPERATIONAL RISK

Risk Control Self-Assessment (RCSA) is the key mechanism through which the Bank understands its operational risk exposure. RCSA is used to identify and measure operational risks faced by the Bank in order to facilitate the effective management of risks within risk tolerance. Climate change risk is classified as a cross-cutting risk in the Bank's taxonomy given that it can run across a spectrum of risk categories; climate-related risks within operational risk in the Bank include business continuity, third party management and damage to the Bank's physical assets.

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 financial market infrastructure providers, 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.

The third party due diligence questionnaire sent to all new high/medium risk suppliers at on-boarding stage was updated in 2021 with questions added regarding management and disclosure of climate risks. We are currently increasing governance within this process to give an enhanced understanding of supplier performance.

4 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 PRB. 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 Scope 3 emissions from Handelsbanken Group's financing, investment and leasing business.

Handelsbanken Group's climate-related goals align with the 1.5°C ambition set out in the Paris Agreement. With regard to Scope 1 and 2 emissions, we will establish a plan beyond net zero, looking at 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 PCAF standard 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.

In October 2022, Handelsbanken Group published interim targets for 2030 relating to real estate lending, in line with a 1.5°C science-based trajectory, satisfying its NZBA commitments by disclosing for an initial high risk, materially impactful sector. The current interim target is for a 36% reduction in GHG emissions intensity (CO_2e/m^2) across the Group's real estate lending portfolio by 2030, using a 2021 baseline. The targets were created using PCAF methodology. Handelsbanken Group also publish absolute emissions and emissions intensity metrics in line with best practice. Further targets will be published by April 2024.

An early stage transition plan was also disclosed. This will be refined as established transition plan frameworks are developed. Investment will be made into negative emissions, sparingly and favouring nature-based over technological solutions, in order to compensate those emissions that cannot reasonably be neutralised at source.

To catalyse progress towards net zero internally, Handelsbanken Group set a Group-wide target that, by 2025, at least 20% of its total lending will be defined as 'green', 'social' 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 and sustainable financing products, we will also develop appropriate support for our branches, enabling them to engage with customers on their 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 – including Bankers for Net Zero initiative, UK Finance, and Green Finance Institute – to recommend policies that would help banks and their customers' transition to net zero more rapidly.

We are aware that in order to reach our ambitious goals, we must have access to relevant and high quality ESG data. Based on the output of an initial ESG data gap analysis by Handelsbanken Group in 2021, we have begun developing a data improvement plan. This will be substantially enhanced by a plc-led gap analysis taking place in 2023, which will consider data requirements from the perspectives of strategy, risks, customer needs, product and service opportunities, and reporting. We are in the process of recruiting dedicated resources to take forward the subsequent work to improve and operationalise our ESG data, including the establishment of new metrics, MI and reporting. The Bank has also developed metrics to monitor progress and manage the risks of climate change. These metrics aid discussions and inform strategic decisions made by management and the Board. The metrics below are shared with the Management and Board Risk Committee as well as the Executive Committee to support oversight by senior management and Board. As mentioned in the Risk Management section, Climate Risk EWIs have also been defined, covering the risk indicators 4, 5, and 6 in the list below. 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 Bank's environmental guidelines**
5. **Exposure to enhanced due diligence sectors and climate change sensitive sectors**
6. **Exposure to flood risk for assets secured on real estate**

Direct environmental impact

As part of the Bank's commitments under SBTi, 1.5°C-aligned targets will be set for Scope 1 and 2 emissions through the course of 2023. Consequently, we are currently gathering data needed to support this exercise, and intend to be able to disclose science-based metrics and accompanying decarbonisation targets in next year's disclosure.

In addition, we are undertaking various exercises including a 'branch of the future' pilot project, which considers Primary Energy Demand (PED) and many other elements, as well as looking into ancillary factors such as charging station installation points at branches. We are also engaging the landlords of our commercial premises to decarbonise, and are exploring green lease arrangements or Power Purchase Agreements (PPAs) to procure additional renewable energy from projects which would not have been realised without our financial support.

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 operations, as part of our long-term Sustainability Strategy. We are considering ways to decarbonise our business travel recognising the necessary transition towards electric vehicles. Group has implemented a travel hierarchy based on low carbon travel choices, which we will work to reflect for our UK operations. For air travel, we are considering the feasibility of deploying an internal carbon price, subject to available data and practical constraints.

Indirect environmental impact

The Bank monitors progress in the amount of green loans it has provided in its lending book, as well as the amount of sustainable investments in HWAM.

As at the end of Q4 2022, Handelsbanken plc had SLL commitments of £364 million, up 28.6% year-on-year (end of Q4 2021: £283 million). The Bank intends to increase the coverage of its SLL offering, from large corporates towards the mid-sized marketplace, with the support of the DCM team, which already has good experience in this area. We are in the process of developing further green products to support this metric and our overall Group goals.

HWAM offers four multi asset sustainable funds that work to incentivise better corporate behaviour and support positive environmental and social impact. These funds are rated between A and AA by MSCI, and as of 31 December 2022, assets under management (AUM) were £361 million, which is a 10% decrease compared to the previous year, driven by market weakness. Sustainable fund assets as a percentage of overall AUM of our multi asset funds increased from 11.4% to 11.7% in 2022.

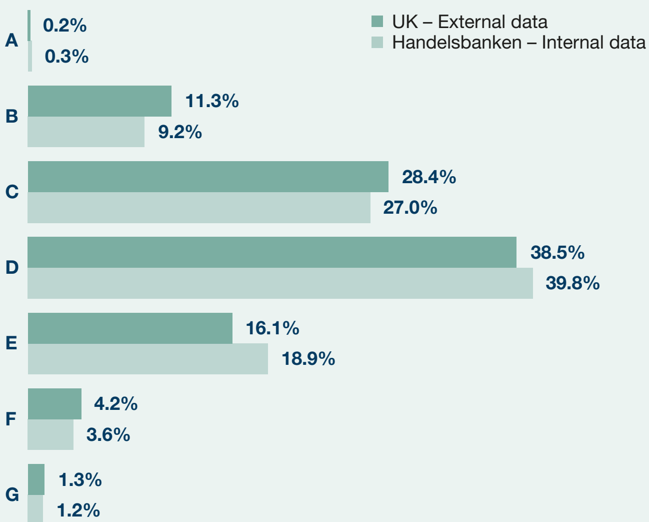
The Bank also recognises the TCFD's updated 2021 implementation guidance concerning internal carbon price considerations, and is reviewing this further as it relates to our indirect environmental impact, such as from pricing real estate based on emissions data. This will be subject to data availability and the practical feasibility of operational execution.

Transition 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 2022 for our real estate collateral is shown below, compared to the UK market as of September 2022. 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 portfolio has more than one rated property.

Figure 2: Distribution of EPC ratings vs. national average



Climate risk sector exposure

The Bank has assessed physical and transition climate risk exposure to sectors with high physical or transitional climate risk. MI is recorded in line with PRA and European Central Bank (ECB) expectations. The table below shows exposures to these sectors relative to total Corporate Lending and Property Management. As fossil fuel sector exposure, both direct and indirect, is cumulatively immaterial at <0.5% total, this has been removed from Climate MI.

Table 1: Percentage of lending by sector

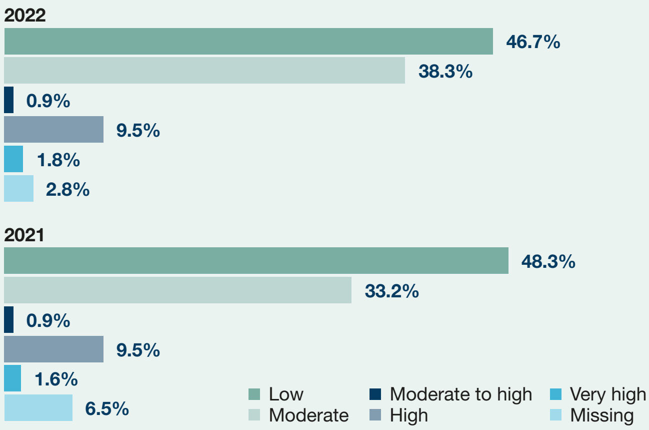
Proportion of lending to Climate Change Sensitive Sectors

Sector	2022	2021	YoY Change (pp)
Agriculture and Fishing	1.00%	0.96%	0.04
Business Services related to accommodation and food (i.e. tourism) and human health	6.83%	7.93%	-1.10
Construction	6.17%	6.94%	-0.77
Electricity (production, trade, supply)	0.03%	0.06%	-0.03
Finance industry	4.42%	3.68%	0.74
Manufacturing various (e.g. food, textiles, apparel, leather, wood and paper products, chemicals)	2.36%	2.31%	0.05
Public administration	0.01%	0.01%	0.00
Real Estate	72.97%	72.25%	0.72
Transport, Utilities and Storage	1.01%	1.04%	-0.03
Water collection or transport	0.59%	0.55%	0.04

Exposure to flood risk

The Bank has sourced flood risk data at postcode level from JBA. 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 2022 floodability index which indicates the likelihood of flooding for postcodes in the UK; it is based on a qualitative scale on five bands, ranging from low to very high flood risk. As of 31 December 2022, 11% of the collateral is in areas that have high or very high flood risk (2021: 11%). 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.

Figure 3: Distribution of collateral by flood risk rating



Chair's introduction

The Handelsbanken plc Board's work this year has been impacted by numerous changes in the operating environment which have helped shape our deliberations. This has included the legacy of the global pandemic; increasing focus on the climate emergency and the net zero transition; and volatility and geopolitical events which have adversely impacted the macroeconomic environment.

Board and activity

As a Board we continually assess the Bank's situation, and have taken informed decisions to secure a position that will enable us to deliver sustainable growth on behalf of our key stakeholders; all underpinned by a long-standing and deeply embedded commitment to high standards of corporate governance. The Board seeks to oversee all actions adhering to the standards, processes and culture we ultimately set. In another busy year, the monthly scheduled Board meetings were supplemented by training, briefing sessions and ad hoc meetings to address key areas, including strategy and execution, financial performance, risk management and corporate governance.

The Board receives regular updates on developments in business transformation and change projects, financial crime prevention, IT strategy, diversity and inclusion, sustainability and climate change and regular updates from the Bank's Chief Economist. Below is a summary of our work and decisions:

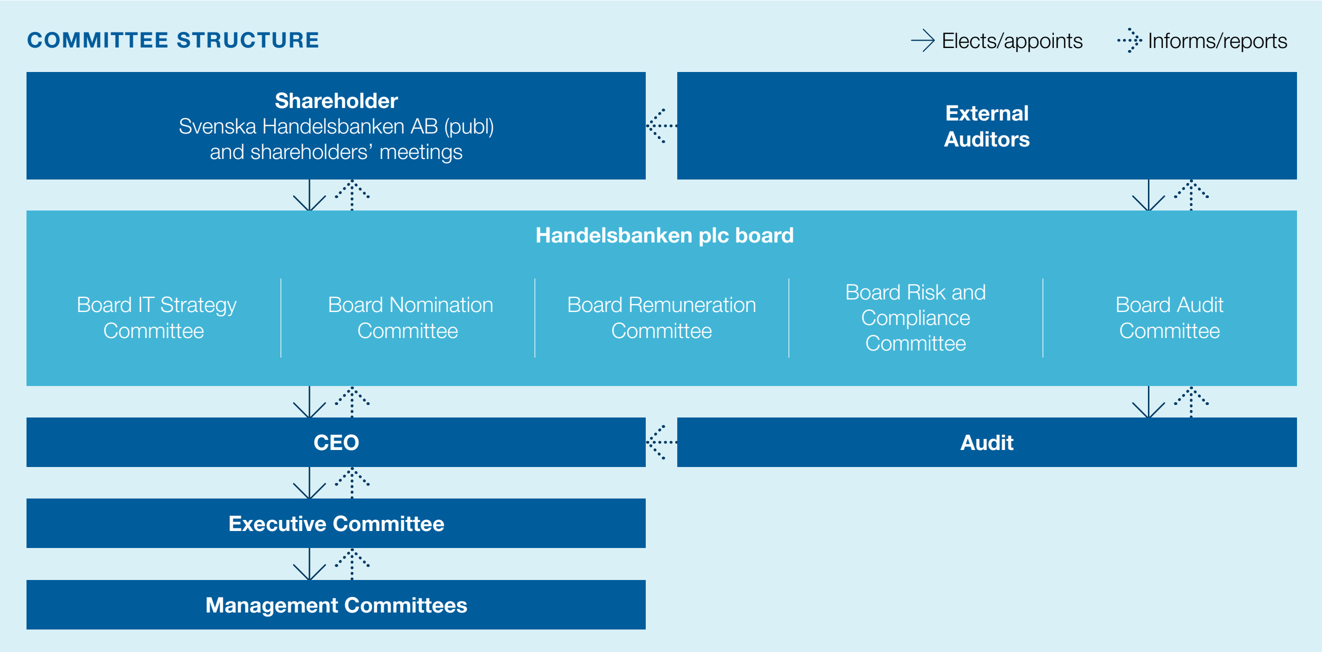
- Strategy: The Board retains close oversight over the simplification and streamlining of the organisational structure, which aim to increase efficiency, clarify responsibility and prepare the Bank for the next phase of growth. The Board also considered the Bank's Business plan and oversaw updates to its strategy, ensuring alignment of strategic objectives with the wider Group;
- Board effectiveness: The Board carried out an external effectiveness review this year. It was a positive report that concluded that the Board was operating effectively. Further detail can be found on page 31;
- Succession: The Board, through the Nomination Committee, has continued to monitor Board succession plans, having undertaken thorough planning last year. This year additional focus has been on that of the executive directors and senior management. This included a detailed review of the skills and experience required and the strategic ambitions of the Bank. The Board recognises that inclusion and diversity is a strength and will continue to build upon this in 2023. Whilst the Board has a good gender balance there is more that can be done. Progress has been slower across the Bank, including in the senior leadership positions, and the Board continues to assess what can be done to accelerate this;
- Financial performance: Regular updates from the CEO and Chief Financial Officer on the Bank's performance have kept the Board informed. There has been particular focus on business volumes and the effect of increasing interest rates and the capital and liquidity position of the Bank;
- Governance and Risk Management: There have been improvements to the policy framework and the governance framework of the Bank. In addition, the Board reviewed, challenged and approved the Bank's prudential documents including the ICAAP, Internal Adequacy Assessment Process (ILAAP), recovery plan, risk tolerance statements and the RMF. The Board noted improvement in the consistency and content of all documents and challenged them thoroughly through briefing sessions;
- Sustainability: This has been a key component of the Board agenda this year, when not discussed directly it has been an overlay for other parts of the agenda. The Board, along with the executive team, spent a day considering the Bank's sustainability offering. This included consideration of how customers could be supported, new product lines and how the Bank could strengthen its ESG offerings;
- Regulation: The Board 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; and
- People: The Handelsbanken culture is integral to the way the Bank is run and helps customers in getting 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, and to support staff during this challenging time a one-off cost of living payment was made (excluding directors) and the Bank's employee offering reviewed.

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 so that each committee operates effectively. Independent non-executive directors are represented on all Board committees, to allow for independent challenge.

The below illustrates the committee structure as at 31 December 2022:



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.

Whilst the Board aims to lead the Bank in a way that delivers long-term sustainable success and preserves the valuable Handelsbanken culture, the Board's committees continued to play an important role in the governance and oversight of the Bank by facilitating adherence to strong governance practice and principles and providing appropriate oversight. The Board IT Strategy Committee supports the Board in the formulation, and has oversight of, the Board approved UK IT Strategy. A report from the Board committees, which sets out their approach and considerations can be found in the Governance report section starting on page 52.

Board and senior management are supported through continuous development and training with the Nomination Committee reviewing succession planning each year to help facilitate the optimum balance of expertise, skills and experience across senior management in the Bank. 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

The Board carries out an annual evaluation of its work and whilst not obliged to comply with UK Corporate Governance Code (the Code), an external independent Board effectiveness review is carried out every three years in line with the Code. In 2022 Lintstock Limited, an independent third party, was appointed to undertake an externally facilitated Board effectiveness evaluation. This is the second external review undertaken for the Handelsbanken plc Board. The findings of the review were presented in Q4 2022 and concluded that the Board and its individual members operate effectively and possessed the right balance of skills and expertise. As well as presentation of the findings to the Board, a separate session was held to discuss the outputs and a schedule of findings was created which is overseen by the Nomination Committee on behalf of the Board.

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.

Culture and values

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, however the Board recognises the importance of its role in setting the tone of the Bank's culture and embedding it throughout the organisation. As a consequence, there are strong incentives for high risk awareness and for prudence in the business operations with the decentralised business model being combined with centralised controls. A number of information sources are used to gauge the company's culture and these include pulse surveys, adherence to conduct rules, disciplinary procedures, incident logs, customer complaints and assessing the effectiveness of the Bank's RMF. The Handelsbanken culture, which empowers colleagues to make decisions and take responsibility is embedded throughout the organisation.

Looking ahead

Handelsbanken plc complied with the Wates Principles for the reporting period ended 31 December 2022. 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 2022 and subsequent Board effectiveness reviews, which will result in the continued strengthening of governance across the Bank.

MIKAEL HALLÅKER
Chair

20 March 2023

Meeting and attendance table

The Board and Board committees held a number of scheduled meetings in 2022 at which senior executives, external advisors and independent advisors were invited, as required, to attend and present on business developments and governance matters. Sufficient time is scheduled at the start of every Board meeting, and as required, for the Chair 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 2022. 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 2022

Board Member	Board Meeting	Remuneration Committee	Audit Committee	Risk & Compliance Committee	Nomination Committee	IT Strategy Committee
Mikael Hallåker (Chair)	11/11	7/7				3/3
John Ellacott	11/11	7/7	5/5	4/4		
Maureen Laurie	11/11	7/7			4/4	3/3
Agneta Lilja	11/11			4/4	4/4	3/3
Mikael Sørensen	11/11					
Martin Björnberg	7/7					
Arja Taaveniku	11/11			4/4		3/3
Margaret Willis	11/11	7/7	5/5	4/4		
Patricia Jackson	11/11		5/5	4/4	4/4	
Jörgen Olander	4/4					

1) The Board met on five separate occasions in the year to consider one-off items where a Board approval or training was required and five additional credit application meetings

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, with an additional five meetings to consider one-off items

4) The Board Audit Committee met on two occasions in the year for combined meetings with the Board Risk and Compliance Committee

5) The Board Risk and Compliance Committee met on an additional five separate occasions in the year to consider one-off items and two for combined meetings with Board Audit Committee

6) The Board Nomination Committee met on eight separate occasions in the year to consider one-off items, two for training and one by circulation

7) Martin Björnberg replaced Jörgen Olander as CFO and executive director on the 21 March 2022

SUBSIDIARY GOVERNANCE

HWAM

HWAM was acquired by the Handelsbanken Group in 2013 and became a wholly-owned subsidiary of Handelsbanken plc on 30 November 2018. HWAM provides investment and wealth management advice and solutions to UK-based clients.

HWAM is regulated in its own right by the FCA (Company Registration number 4132340) and has its own Board which meets four times a year. The Board incorporates two executive directors, two non-executive directors (including the Chair) and one independent non-executive director:

Tracey Davidson (Chair) (non-executive director)
appointed on 24 May 2013

Margaret Willis (independent non-executive director)
appointed on the 1 February 2022

Michael Broom (non-executive director)
appointed on the 17 May 2018

Graham Turner (Chief Executive Officer)

Peter McCree (Chief Operating Officer)

A number of Board and Management Committees are established in HWAM to support the Board and the business in making informed decisions. The CEO of HWAM updates the Handelsbanken plc Board and Executive Committee on proceedings at the subsidiary regularly. Since November 2021, HWAM has an in-house Authorised Corporate Director (ACD) which reports to its own independent Board.

In line with the usual parent subsidiary relationship across the Handelsbanken Group, HWAM's business model, vision, strategy and governance shall be aligned with that of Handelsbanken plc, as detailed above, unless UK regulations state otherwise. HWAM is subject to internal audits by the Internal Audit department in Handelsbanken plc and external audit by PwC. For more details on the audit arrangements of HWAM and how they are overseen please refer to the Committee Reports section on page 52.

The HWAM Board receives regular updates from HWAM's business functions including the second line of defence. During 2022, the evolution of risk tolerance metrics, Consumer Duty, fund performance, financial crime prevention and business growth have received specific attention.

Svenska Property Nominees Limited (SPNL)

SPNL is a nominee company, established to enable Handelsbanken plc to perfect legal charges over securities. It is classed as a dormant company under the Companies Act and has two directors appointed, both of which are executives of the Bank. The SPNL Board meets once a year.

Delivering high standards of governance

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. 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 an FCA essay series. Our purpose remains best understood through our goal, mission and the core values the Handelsbanken Group has stayed true to for the last 50 years; it finds clearest expression in colleagues' actions and the stakeholder outcomes these produce.

The Bank's only corporate goal is shared with the wider Handelsbanken Group: 'to have higher profitability than the average of comparable peer banks in its home markets'. This goal is achieved through continual focus on having more satisfied customers and lower costs than the Bank's competitors. The 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. With stable finances the Bank is able to support its customers regardless of external factors. High profitability and a healthy, sustainable business are crucial for the shareholder who has invested in the Bank. In addition, it contributes to lower funding costs, good growth and the Bank being perceived as an attractive employer.

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. Our all employee profit share foundation, Oktogonen, steers us in this same direction. And we steer clear of ideas which could conflict with this long-term, shared perspective, such as bonus incentives, budgets or financial forecasts. Please refer to page 41 for details of our remuneration system.

The Bank's mission describes on a high level what kind of Bank we want to be and is supported by our UK business strategy which outlines how we are going to achieve this. The business strategy is progressed with a yearly business plan, setting out a number of strategic and operational objectives in the year ahead for the Bank to focus on to progress the strategy.

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.

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 comparable peers against our own.

The above purpose and goal guide the way we think and work throughout the Bank. They are communicated consistently to all employees, using training, 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 make sure 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. To assist with this, the Board continually monitors and takes opportunities to improve its performance. This has been demonstrated through acting on the feedback of the external evaluation which has been a powerful and valuable feedback mechanism for improving effectiveness, maximising strengths and highlighting areas for further development. This has led to a review of the structure of the Board and Board Committee agendas, with increased delegation to Board Committees to allow time for strategic focus such as developing understanding of the Bank's customer segments, products, processing and the sustainability plans. The number of Board meetings has also reduced from 11 to nine in 2023 to allow management more time between reporting cycles.

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 on page 44.

Highlights of the work completed by the Board during 2022 can be found in the Corporate Governance report on page 52.

Our Board of directors

"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. The shareholder approves the appointment of the Board members, based on recommendations from the Nomination Committee and approval by the Board. 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 Chair) 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.

There is a clear division of responsibilities between the Board and the executive leadership of the Bank, with a separate Chair and CEO to enable a balance of power and effective decision-making. The Chair is responsible for setting the tone from the top in terms of the purpose, vision and values of the Bank and leading and managing the Board in an effective way. The day-to-day running and management of the Bank is 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.

Number of independent Directors

4/9

Number of women on the board

5/9

- R Remuneration Committee
- I IT Strategy Committee
- N Nomination Committee
- A Audit Committee
- C Risk and Compliance Committee
- ● Chair

MIKAEL HALLÅKER
Chair

R I

Mikael Hallåker has worked for the parent company Svenska Handelsbanken since 2001 and is currently the Chair 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 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.

MAUREEN LAURIE
Senior Independent Non-Executive Director

R N I C

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.

JOHN ELLACOTT
Independent Non-Executive Director

A C R

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

AGNETA LILJA
Non-Executive Director

N I C

Agneta Lilja started her career in Svenska Handelsbanken 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 Svenska Handelsbanken senior management, as Head of Central Infrastructure, Chief Information Officer and executive director.

MIKAEL SØRENSEN
Chief Executive Officer

Mikael Sørensen was appointed CEO of Handelsbanken UK in September 2016. Before joining the UK, Mikael worked in numerous roles and regions across the Handelsbanken Group, including Branch Manager and Regional Area Manager in Denmark, General Manager in Poland, and as CEO in the Netherlands from 2007 to 2016. He has been a member of Handelsbanken's Group Senior Management since 2013. Mikael sits on the Board of the Swedish Chamber of Commerce, a not-for-profit organisation aimed at supporting entrepreneurs and businesses within the Swedish-British business community.

MARTIN BJÖRNBERG
Chief Financial Officer

Martin Björnberg joined Svenska Handelsbanken AB (publ) in 1989. Martin started working in the Bank's branch operations as an account manager before moving to IT and business development operations where he led improvement and efficiency programmes for the Bank's retail processes. Between 2002 and 2017 Martin moved on to hold senior management positions in one of the Swedish regions. He was also Head of HR for the Swedish Regional banks unit in Stockholm. Martin has held his current position of Chief Financial Officer for Handelsbanken plc's operation since April 2017, with a short break between 1 December 2021 and 1 March 2022 when the position was held by Jörgen Olander. He is also a director of a Handelsbanken Group entity, Stadshypotek AB.

MARGARET WILLIS
Independent Non-Executive Director

R C A

Margaret has over 40 years' experience in financial services, having held a number of senior roles. 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. Margaret is the Chair of Music for Youth, a national, UK-based youth arts charity.

Margaret is also an Independent Non-Executive Director (INED) on the Board of HWAM since 1 February 2022.

ARJA TAAVENIKU
Non-Executive Director

C I

Arja has extensive experience of the Handelsbanken Group, as she is an independent non-executive director of the Bank's shareholder Svenska Handelsbanken. 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 the CEO of a subsidiary of Kingfisher Plc, and a member of the Kingfisher Plc executive team between 2015 and 2018. Arja has also held a non-executive director role at Nobia Group. Arja is currently chair of the board at Svenska Handelsfastigheter AB and Polarn O. Pyret. She holds a non-executive director position at FTSE250 Dunelm plc.

PATRICIA JACKSON
Independent Non-Executive Director

C A N

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 BoE. In 2004 she became partner and Head of the Banking Risk Practice at EY and was 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 board of SMBC Nikko Capital Markets and chair of the Risk Committee of a sister company SMBC Bank International, the European hub of SMBC.

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, please refer to the Directors' report on page 64. 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, so that they remain appropriate and diverse in order to support effective decision making. The Nomination Committee will also oversee the comprehensive and tailored induction programme offered in the event of a new director joining the Board.

Independence
The Board exercises supervision over and evaluates the CEO on an annual basis, through a process led by the Chair. 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.

Board Training
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 2022, training has incorporated, amongst other things, deep dive sessions in respect of operational resilience regulations, the Bank's development model, IRB, D&I, cyber, BEIS: governance and audit reform and ESG.

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 HWAM, providing high level guidance to its Board of directors, setting out certain matters reserved for the plc. The steering guidelines for HWAM are formally established by the UK CEO.

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 are translated into detailed instructions, supported by training where appropriate.

The Senior Managers Regime applies to individuals performing a senior management function (SMF). An 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 make sure 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.

Integrity of information

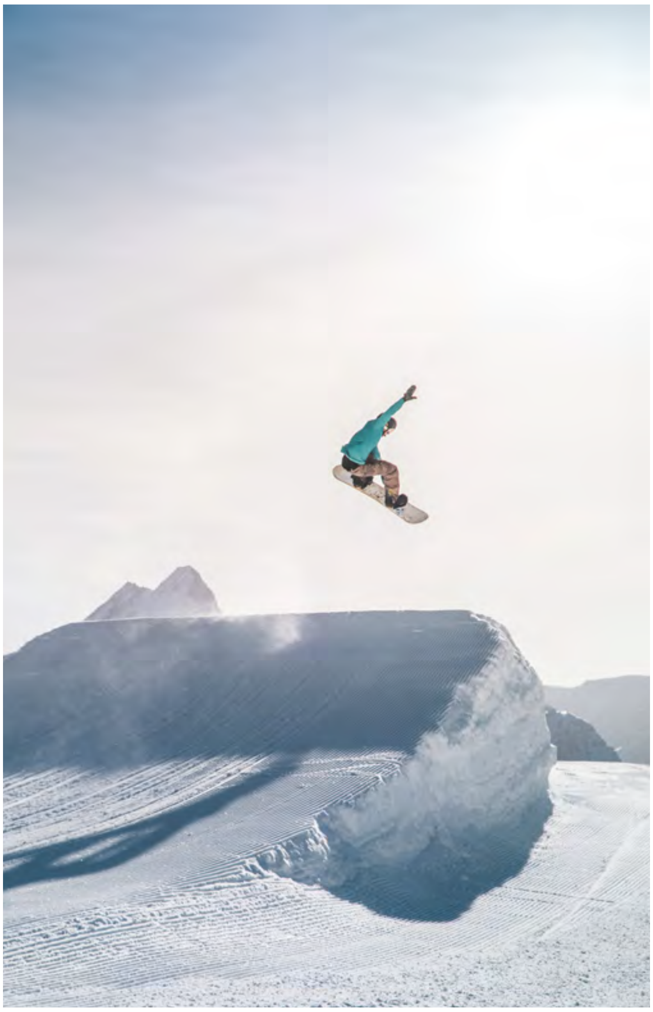
The Board receives regular, timely and accurate information on the business including financial data, risks, compliance and strategy. Financial information is collated by the Finance function whose team members are appropriately qualified to verify the integrity of such information. The financial statements are externally audited by PricewaterhouseCoopers LLP (PwC) 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 Chair 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 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 enable the business to meet 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 68.

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 oversees, reviews, assesses and challenges risks and controls and, where appropriate in line with its Terms of Reference, make recommendations and reports 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 RMF, 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 RMF, 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

The Remuneration policy outlines Handelsbanken plc's approach towards remuneration and is approved by the Board. The objective of the policy is to deliver a competitive and regulatory compliant reward offering, which is gender-equal and gender-neutral, and that enables the Bank to attract, retain and develop suitably qualified employees, whilst always aligning with the Bank's strategic business plan, risk profile, culture and values. The policy applies to all departments, units and branches and all employees, including directors and non-executive directors. Handelsbanken Wealth & Asset Management (HWAM) is a wholly-owned subsidiary of the Bank and fully aligns with this policy, allowing for necessary deviation where the nature of the business, law, regulation and/or regulatory interpretation diverge from the equivalent position of the Bank, in which case the subsidiary informs the Bank of any deviation to this policy. Remuneration at the Bank is compliant with 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.

Remuneration structure

The Bank's principles for remuneration for employees are long established. In general, Handelsbanken has low tolerance of risk and our remuneration policy, which is primarily based on fixed remuneration, is consistent with and underpins that risk tolerance. Fixed remuneration also contributes to healthy and sustainable operations. Performance-based variable remuneration is applied with great caution and only to a very limited extent in our subsidiary. Performance-based variable remuneration is not given to risk takers.

Remuneration is set individually for each employee, and for 2022 was mainly paid in the form of fixed remuneration. Salaries are reviewed annually and are set locally in accordance with the Bank's decentralised culture, and are based on salary setting factors which are determined in advance. These factors include:

- Work performance and results achieved;
- Competence and skills including performance against both technical and behavioural competencies;
- Being a cultural ambassador;
- Market and economic situation;
- The nature and degree of difficulty of the job;
- Leadership (for managers who are responsible for the career development of employees); and
- The market.

Annual changes to salaries are not guaranteed and will, in addition to the criteria set out above, take into account affordability and the assessment of risk as provided by the Bank's control functions. Due consideration will also be given to compliance with the relevant conduct rules for the role. The Bank is committed to providing equal opportunities in employment for all employees, and does not discriminate against 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, colour, nationality, national or ethnic origins, religion or belief. This commitment includes remuneration for our employees, and as part of this commitment, the Committee receives analysis with regard to gender equal pay on at least an annual basis. The Bank's gender pay gap is not related to equal pay, and there is close monitoring of pay for all roles and at all levels to ensure gender neutrality.

Remuneration and decision making

The Remuneration Committee makes recommendations to the Board on the remuneration and other terms of employment for the Bank's senior management. The Bank's Executive Committee is responsible for developing and implementing an appropriate remuneration system with oversight from the Remuneration Committee. The Chief Human Resources Officer is responsible for setting out how the remuneration framework works in general and for ensuring that the total reward offering, including fixed compensation, is consistent for all employees.

The Bank's Risk Control function is responsible for the analysis of the risks associated with the remuneration system and carries out an annual follow up of how the remuneration system is applied as well as an analysis of the key business risks, including an evaluation of whether the remuneration system promotes sound, efficient risk management and is in keeping with the Bank's policy of risk tolerance.

The Bank's Compliance function examines any compliance issues when any changes to the remuneration policy are proposed, ensuring continued compliance with UK regulations. It also conducts an annual review of the remuneration systems, the outcomes of which are presented to the Committee.

The Bank's Internal Audit function provides the Committee with an internal view of the robustness of the Bank's internal controls with regard to how the remuneration system is applied, which also includes an assessment of the Bank's overall control environment, which is presented to the Committee.

As part of the annual salary review process, the control functions assess the key risks facing the Bank and the control environment, and whether these should impact the overall level of remuneration increase. This assessment is considered by the Committee when determining the overall level of remuneration increase. The same exercise is also carried out when the level of any Oktogonen allocation for the Bank is being considered by the Committee.

Fixed remuneration

Fixed remuneration is made up of various component parts, which include, but are not limited to: cash salary, car allowance and customary employee benefits including pension and right to salary during a period of notice. Fixed remuneration may also, in some circumstances, include salary supplements, utilised for example, whilst an employee is undertaking a more senior role on a temporary basis. The form of the special salary supplement must be clearly stated in the employee's terms and conditions of employment, and shall be allowed on a temporary basis. Special salary supplements are not pensionable income.

Fixed remuneration exceeding £250,000 must be authorised by the Committee. The views of the Chair of the Bank's Board as a representative of Svenska Handelsbanken AB (publ) shall be taken into account with regard any such decisions.

Payments to an employee of the Bank in relation to an early termination of a contract of employment for whatever reason, shall reflect performance achieved over time and shall not reward failure or misconduct. Such payments are subject to approval by the Chief Human Resources Officer of the Bank, and generally do not exceed 12 months' salary. Severance payments for any roles within the scope of the Committee are approved by the Committee.

Variable remuneration

All employees are eligible to participate in the Oktogonen Profit Sharing Scheme which is classified as variable remuneration, the details of which are outlined in the Directors' report.

Guaranteed variable remuneration is not permitted according to the remuneration policy.

Individual performance-based variable remuneration

A small number of employees in the HWAM investment management team are eligible to receive individual performance-based variable remuneration, and are also eligible to participate in the profit sharing scheme. Those eligible for individual performance-based pay are required to invest 100% of the deferred variable remuneration into the HWAM fund range, i.e. within one or more multi asset funds.

The assessment of performance by HWAM, which forms the basis for the allocation of individual performance-based variable remuneration, must be primarily based on risk-adjusted profit metrics. Both current and future risks are to be taken into consideration. The performance assessment must be based on a perspective of several years, to take into account the underlying business cycle and any business risks, and on long-term sustainable profits. The assessment must also take into account the operations' cost of capital and liquidity. In the assessment, it must be possible to consider the employee and the unit's contribution to the Bank's total business operations, even if these cannot be quantified. In addition the results that form the basis for performance-based variable remuneration must be based on results achieved without incurring credit, market or liquidity risk for Handelsbanken. The assessment must also include how well the unit has been able to attract, retain and develop competent employees, thus being able to maintain high quality in its operations, in order to contribute to the achievement of Handelsbanken Group's corporate goal in the long term. The individual performance-based variable remuneration must also reflect a sustainable, risk-adjusted performance, with the Bank's salary-setting factors being taken into account.

Proposals for the allocation of performance-based variable remuneration must include thorough documentation of performance and risks. For all employees who receive individual performance-based variable remuneration, at least 50% of allocated individual performance-based variable remuneration must be deferred for three years, regardless of the position held or the financial year that the variable remuneration relates to. For variable remuneration of more than 3,000,000 SEK circa (£250,000) 60% of the remuneration is to be deferred for four years.

For variable remuneration where a longer evaluation period is deemed necessary, 60% of the amount is to be deferred for a maximum of five years. Payment and the right of ownership to the variable remuneration do not accrue to the person with the entitlement until the expiry of the deferment period. Deferred variable remuneration can be removed or reduced if losses, increased risks or increased expenses arise during the deferment period, or if payment is deemed to be unjustifiable in view of the Bank's financial situation. No employee may receive performance-based variable remuneration equivalent to more than 100% of their fixed remuneration.

Control functions

No individual performance-related variable remuneration is provided at internal control functions. Internal control functions only participate in the Oktogonen profit-sharing scheme. To ensure that they are truly independent of their responsibilities and to avoid any conflicts of interest, the remuneration for the heads of control functions i.e. Chief Audit Officer, Chief Compliance Officer, and Chief Risk Officer are decided upon by the Board following recommendations by the Remuneration Committee. In addition, the Committee decides on remuneration for any deputies to the Heads of Control Functions and the Money Laundering Reporting Officer.

The Prescribed Responsibility for safeguarding the independence of the Chief Audit Officer is assigned to the Chair of the Audit Committee, and the Prescribed Responsibility for safeguarding the independence of the Chief Compliance Officer and the Chief Risk Officer is assigned to the Chair of the Board Risk & Compliance Committee who, in each case, also maintains oversight of the performance and remuneration of those control functions and the employees performing those roles.

Risk adjustment and remuneration

The allocation to the profit-sharing scheme, Oktogonen, is adjusted based on an evaluation of Handelsbanken Group's corporate goal, calculated as return on equity (ROE) compared with peer banks in the Bank's main markets, and on the Board's overall assessment of the Bank's performance.

For individual performance-based variable remuneration, which is only applied to a very small number of HWAM employees, and in adherence to FCA SYSC 19D.3.62-64, SYSC 19G and the FCA's General guidance on the application of ex-post risk adjustment to variable remuneration, HWAM operates a malus and clawback system while also having the option to exercise in-year adjustments. Any variable remuneration already awarded under the HWAM Individual Variable Pay scheme may require repayment by any eligible employee over the period of five years post allocation date in addition to any in-year deduction or withholding of any future disbursement over the combined period of the allocation's deferral.

Specific criteria are applied to individual performance-based variable remuneration in respect of ex-post risk adjustments. In instances of unprecedented circumstances the company reserves the right to apply a more cautious approach to the timeline of deferments, for example, an extension to deferral timescales.

Remuneration of material risk takers (MRTS)

MRTs are identified individuals within the Bank with material managerial responsibilities and decision-making powers and whose professional activities have a material impact on the Bank's risk profile.

The Bank carries out an annual review of MRTs, both on an individual and consolidated basis. Employees are assessed against the qualitative and quantitative criteria set out in the Capital Requirements Directive V (CRD V) and European Banking Authority (EBA) regulations. This process is managed by the Human Resources function with support from the Governance, Compliance and Risk functions. The assessment also identifies employees who carry out activities which enable them to expose the Bank to a material level of risk and therefore should be identified as MRTs, even where these staff members do not fall within any of the mandatory criteria outlined by the EBA. This assessment and analysis is documented in a report which is presented to the Committee annually.

For HWAM and HACD, assessment of risk-takers is carried out on an entity by entity basis, under the MIFiDPRU, AIFM Remuneration Code and under the above criteria.

Persons who have only been identified by virtue of the level of their remuneration may be exempt from being identified as risk-takers, unless they are assessed as being able to materially affect the Bank's risk profile by other means in their professional roles. In order to be regarded as having a material impact on the Bank's risk profile, the person – alone or together with others – must have the right to decide for the Bank on either major credit risk, market risk or liquidity risk. Fixed remuneration for MRTs is set using the salary setting factors outlined in Remuneration Structure above.

No MRT receives individual performance-based variable remuneration. However, the Bank's Profit Sharing Scheme is classified as variable remuneration and MRTs are eligible to participate. The Oktogonen profit sharing scheme is de-minimus. However, in line with regulatory requirements our MRT employees are subject to malus and clawback. They must undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration.

The Directors' Remuneration disclosure can be found in note 8.

Stakeholder engagement

The following disclosure describes how the directors Handelsbanken plc 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 52 and the Sustainability report starting on page 12.

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 Handelsbanken plc Board recognises its 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.

"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

1 Our colleagues

WHY WE ENGAGE

We have a fundamental belief in our colleagues and their desire and capacity to do a good job and 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.

INSIGHTS AND OUTCOMES

The Bank has undertaken a number of pulse surveys this year to capture the views of employees, and this 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 surveys considered employee sentiment in relation to COVID-19; this revealed high levels of employee engagement and endorsement for the Bank's crisis response, 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.

HOW WE ENGAGE

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

Direct

- The non-executive directors have visited branches in the course of the year. This enabled them to have first-hand discussions with branch employees;
- 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 facilitate the right items being on the agenda for discussion whilst providing additional insight;
- The Board has been involved in steps to formulate a D&I strategy. This has enabled the Board to understand the key issues and allowed them to provide informed input into the shape it is taking;
- The CEO and Chief HR Officer attend the UK Works Council, which is a forum to provide a strong voice for employees. The Chair of the UK Works Council has attended Board meetings and Non-Executive Directors have also attended meetings when invited by the UK Works Council;
- The CEO holds regular physical or digital sessions with colleagues across the Bank, and in 2022 was joined by the Chair on a series of meeting around the country holding mixed group discussions. There have been 'town-hall' sessions to address first-hand questions from the business; and
- 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.

Indirect

- The CEO's regular report to the Board provides insights from across the Bank, and has been expanded during 2022 to include dashboards and metrics (including personnel), providing additional understanding of issues and challenges faced by the Bank; and
- 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.

2 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 and Senior Managers participated in an interactive session with a customer on sustainability and initiatives that would be helpful for customers. This provided insight into what can be done to push the Sustainability agenda;
- The Chair, as part of his travels around the country, met customers and heard first-hand about customer views; and
- The CEO regularly meets with customers enabling exposure to and awareness of matters of importance to them.

Indirect

- The CEO's report to the Board includes an overview of metrics about branch performance. This gives the Board insight into customer feedback, competitor and industry developments locally as well as 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;
- Developing the digital proposition has been a key focus this year as uptake increases. This is an area of continuing focus and the Bank strives to improve functionality and usability; and
- The results of the CMA independent service 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.

INSIGHT AND OUTCOMES

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. 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 Board's focus on the green agenda, organisational change and technology at Board meetings during the year reflects this. The Bank remains committed to investment in its digital platforms to improve capabilities and to enable focus and oversight in this area. The Board IT Strategy Committee was established in 2020 to oversee the IT strategy, and as the Board moves into the next phase of the technological modernisation programme its remit is being reviewed.

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.

3 Public authorities

WHY WE ENGAGE

As a responsible bank, there is constructive engagement with all relevant public authorities and 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 provide the right resources 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 discussed when the Board met with a customer to consider green products, appropriate support will be developed for our branches, enabling them to engage with customers on their green and sustainable financing needs.

The Board has received updates from the Public Affairs department regularly. This facilitates 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.

INSIGHTS AND OUTCOMES

Handelsbanken plc has useful and transparent relationships with its regulators and with other public authorities including HMRC and HM Treasury. Regular liaison helps the Bank remain 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 so that 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.

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; and
- 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 2022;
- 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; and
- The Bank's Public Affairs department enables transparency and alignment of views and enhanced proactive engagement with authorities.

4 Our suppliers

WHY WE ENGAGE

Suppliers are engaged on a range of issues 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 enables the Bank to be 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 and 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; and

– 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.

2022 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.

The supplier management team are in regular contact with our key suppliers to monitor supplier performance against agreed deliverables to minimise any impact on the disruption of services. On a quarterly basis the supplier management team discuss performance (including objectives and plans throughout the year), risk and issues, change management, continuous process improvements, and contract and commercial management. 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.

5 Our communities

WHY WE ENGAGE

Handelsbanken plc relies on the trust and support of our communities to prosper to achieve local and sustainable growth through word-of-mouth referral. 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 and public institutions, among others.

Active engagement with representative organisations, business groups and industry peers facilitates the Bank's understanding of these stakeholders' interests and concerns, and facilitates their understanding of 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.

INSIGHTS AND OUTCOMES

Topics are diverse and often unique 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.

Employees are allowed to take a 'charity day' each year 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 approved a tax policy during 2022, 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 RMF.

HOW WE ENGAGE

Direct

- During the year the Board has received regular updates on the Bank's sustainability work giving them an overview of initiatives in this area;
- Invited a customer to a workshop attended by the Board and senior management to consider how to develop the sustainability offering; and
- Received a presentation from a customer who is a leader in the sustainability field on initiatives they have taken to assist customers.

Indirect

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

6 The environment

WHY WE ENGAGE

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 and participated in a session with the Senior Management team on climate and green environmental initiatives, including considering the development of 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 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 2022; and

– 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; and

– A common measurable environmental goal relating to the use of paper has been established for our branches and departments and 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 PRB initiative. 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°C goal.

While we already offer our UK customers a range of sustainable investment funds via the Banks subsidiary HWAM, 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.

7 Shareholder

WHY WE ENGAGE

The Bank's strategy, values and policies are closely aligned with its Parent and only shareholder Svenska Handelsbanken. 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 visited Stockholm in the year and met with members of the Group Executive team, including the Group CEO. It was an opportunity to discuss ways of working and how we interact to consider the approach to specific topics;
- The Board, whilst independent in its judgement, understands the need to align with Group policies where appropriate and the proven Handelsbanken Group model. This is supported by the Chair, 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 (CIO);
- The Parent issues 'steering guidelines' directly to the Board clarifying matters reserved for the shareholder; and
- 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 about initiatives at Group;
- The Remuneration Committee is 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; and
- 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 Chair 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 enabling the alignment of processes and policies.

The Bank 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.

8 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, corporate leaders take time to engage with those students and academics who find aspects of the Bank's model of relevance to their studies.

Board Nomination Committee

AGNETA LILJA
Non-Executive Director

The Nomination Committee's purpose is to periodically review the composition and effectiveness of the Board. The Committee also approves descriptions of roles, capabilities and time commitments required for Board appointments and makes recommendations to the Board and to the shareholder for the appointment of new Board members and members of Board committees.

The Committee is responsible for reviewing the current succession plan for both executive and non-executive directors and monitoring the effectiveness of interaction between Board Committees. 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 Annual General Meeting (AGM).

Maintaining a balanced Board and considering the skills and experience of individual Board members have remained in focus, especially with 2022 being the first full year of service for three non-executive directors. 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 page 32, and individual members in the Wates principle 2 section on pages 37–38.

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 included:

- Leading on the tender for the external Board Effectiveness Evaluation. The Nomination Committee also considered the findings and will continue to monitor them on behalf of the Board;
- The Committee received updates on succession planning for the Board and senior management, with particular focus on Executive Directors. There is a continued focus on the recruitment process to deliver 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 focused on strengthening the Bank's leadership (management and executive) so that it has the talent needed for the future. This provided the Committee with a view of the talent pipeline of potential leaders as well as 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	2022	2021
Executive Committee	36%	36%
Senior Management	28%	25%
Employees	48%	47%

- Aware of the macroeconomic challenges, 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;
- The Committee has qualitative responsibility for identifying and reviewing those in the business deemed to be 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 and a review of criteria in 2021 to bring it into line with peers, this 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 of the Board; and
- The terms and time commitment of non-executive directors were considered so that they remained appropriate. No changes were made in the year, however it will continue to be monitored. To assist with succession, new appointments in 2021 were offered for four years, so preventing all of the Board's tenures ending at the same time. Chair succession was also considered and timelines put in place to ensure deliverables could be met. 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, proposing any updates considered necessary. For the year ending 31 December 2022 an external Board effectiveness review was completed by Linstock, which incorporated all the Board committees. The Committee was seen to be effective with the key priorities to consider executive succession in more detail and monitor the pool of internal candidates, which the Bank prided itself on cultivating.

Additional information
The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. During the year, the Committee has 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 Chair and the Nomination Committee. The Nomination Committee, as part of its deliberations, consider the current composition to help deliver 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 enabling a robust and thorough process, which includes the diversity of the Board. The Board is committed to enhancing diversity and it is something that will be focused upon in 2023.

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 Teneo (formerly Ridgeway Partners) for searches in the year and Korn Ferry on a consultancy basis, all of which were considered successful partners. A tender process is considered for each appointment to enable the best candidates being found.

Induction and training
All new directors are provided with a tailored induction programme which takes into account existing experience and the need to develop an understanding of Handelsbanken culture. This is supported by a structured training plan, overseen by this Committee so that the Board is informed of all necessary developments.

Evaluation of the appointment process
During and following any recruitment process the Committee reflects on the process to continually refine and improve the process. During 2022, taking into account the Board's commitment to diversity and the requirements for current and future composition of the Board, the Committee evaluated the process and its components parts and found it to be effective.

Board Remuneration Committee

MAUREEN LAURIE
Senior Independent Non-Executive Director

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 HWAM (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 HWAM 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 Chair 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 reappointment at the AGM.

In addition to the members, the Chief Human Resources Officer attends all meetings and other directors of the Board are invited to join meetings as appropriate. Details of meeting attendance can be found in the Corporate Governance report on page 32, and individual members in the Wates principle 2 section on pages 37–38.

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. In the course of the year, Mercer Kepler presented on a variety of matters including, but not limited to, regulatory updates and reporting disclosures. Mercer Kepler also undertook remuneration benchmarking review.

Activities and considerations during the year included:

All Employee Remuneration

- Regular updates were received from advisers Mercer Kepler on the external remuneration environment and trends including competitor information around reward. A particular focus was on what the financial services industry in general was doing to help employees with increases to the cost of living. The Committee also approved the overall salary increase spend effective 1 January 2023 and supported the management proposal to differentiate the overall salary spend, with an increase to the overall guidance for those employees earning less than £50k per annum. There were no across the board inflationary increases. To assist with increases to cost of living during 2022, the Committee supported a series of measures for employees, whilst remaining mindful of the Bank's strategic objectives and external economic volatilities. Employee support included: (i) a one off cost of living payment of £1,500 which was paid to all employees in October 2022, with the exception of directors. Each employee received the same payment irrespective of time spent in the business or their full-time/part-time status; (ii) providing employees with the ability to sell a certain amount of unused holiday entitlement; (iii) utilising the aforementioned annual salary review to direct more of the spend to those in lower earning roles in the Bank.
- Supported the Bank in achieving Living Wage accreditation and approved the Group Board recommendation for an Oktogonen allocation of £2.5 million which equated to approximately £884.71 per employee, pro-rated. The allocation was delivered via an HMRC-approved Share Incentive Plan (SIP), with Handelsbanken shares being deferred for five years, and saw 97% of eligible employees opting into the scheme. There was an award of dividends of SEK 5.0 (circa £0.39) per share linked to the SIP which were reinvested in the purchase of additional Handelsbanken shares. Further detail on Oktogonen can be seen in the Directors' report.
- Supported the Bank's management to initiate a project looking at the Bank's total reward offering including a review of the benefit offering and job architecture, and ratified the individual performance-related variable pay awards for eligible HWAM employees, none of whom were MRTs.

Executive and Senior Manager Remuneration

- Worked with our external remuneration advisers to develop the benchmarking for the Bank's senior management, and recommended to the Board the remuneration to be awarded to the executive directors of the Board and the Bank's senior management including heads of control functions and their deputies, and the MLRO. Consideration was given to ensure alignment wherever possible between the terms and conditions of senior management and the Bank's employees in general.
- Approved the remuneration for new appointments to the Bank's senior management in the course of 2022 and reviewed and supported the goals and KPIs for the Bank's senior management to ensure the appropriate alignment between performance and reward.

Risk and Other Matters

- Kept under review the remuneration policy during the past year. No significant changes were made that impacted remuneration, but the review ensured continued compliance with remuneration regulatory requirements.
- Considered the gender pay gap analysis, noting a continuous improvement year on year, with the mean gap reducing by 1.5% and the median by 1.4%. The Bank has seen an overall improvement of 8.3% in the mean gender pay gap and 6.7% in the median since the first results were published in 2018, however the actions to be taken to support further reductions in the gender pay gap remain monitored.
- Approved any MRT adjustments in relation to the Oktogonen Profit Sharing Scheme allocation and approved the MRT quantitative analysis. There was also review and approval of all regulatory reporting requirements including director remuneration, high earners report and A450.

Governance

The Committee reviews its Terms of Reference annually, proposing any updates considered necessary. In addition the Committee was reviewed as part of the external Board Evaluation by Lintstock. The results rated the Committee highly and found it to be operating effectively having a strong grasp of key issues. Future priorities include increasing focus to address the industry-wide issue of recruiting and retaining staff and leveraging the Bank's external advisors to assist.

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

PATRICIA JACKSON
Independent Non-Executive Director

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. The Committee also monitors risk control and risk management in the Bank, and oversees the Bank's processes for monitoring compliance with laws and regulations.

The Committee provides oversight, review and challenge of the suitability of the Bank's RMF and considers reports from, and oversees the work of, the Chief Risk Officer, the Chief Credit Officer and the Chief Compliance Officer. Jaimita Tailor was appointed on 30 May 2022 as the new Chief Compliance Officer, replacing Louise Kingston.

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.

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 page 32, and individual members in the Wates principle 2 section on pages 37–38.

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 2022, 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 2022. Stress test results demonstrated that the Bank could withstand stress with only minor reliance on capital buffers. The Committee also reviewed and recommended for Board approval the Recovery Plan;

– The Committee provided oversight and advice to the Board in relation to current and potential future risk exposures of the Bank, including reviewing management's approach for mitigation of these risks. The Committee has focused on monitoring that there is appropriate attention and action being taken where the Bank is outside the Board's risk tolerance, including escalation to the Board where required. Discussions have focused around the operational risks, including data quality, information security, operational resilience and the Bank's approach to regulatory risk and delivery of change;

– The Committee reviewed the determination and monitoring of the risk tolerances and challenged the suitability of scenarios used for stress testing, in light of the changing macroeconomic environment and its impact on the Bank's wider risk profile and tolerance. The risk profile against risk tolerances was monitored by the Committee throughout 2022;

– To facilitate the review of ICAAP and ILAAP, dedicated meetings 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 provided feedback and worked with management to support appropriate focus being given;

- 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 year, the Committee also gave consideration to the Bank's approach to the risks associated with climate change;
- The Committee approved the 2022 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; and
- 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, proposing any updates considered necessary. For the year ending 31 December 2022, an external Board effectiveness review was completed by Lintstock, which incorporated all the Board committees. Key highlights specific to the Committee were the impact of the new Chair on meetings and the relationship with management which was commended. The Committee had good oversight of the RMF and was effective in reviewing risk exposures, risk management processes and systems and risk tolerances. The risks in the Bank were seen to be well understood and no activities were felt to be high risk. Although an improvement had been made to reporting and MI, further enhancements were required to provide more succinct commentary that focuses appropriately on key risk areas.

Additional information

The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. During the year the Committee has 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

JOHN ELLACOTT
Independent Non-Executive Director

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.

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

Details of meeting attendance can be found in the Corporate Governance report on page 32 and individual members in the Wates principle 2 section on pages 37–38.

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 2022, the Committee considered a number of matters related to the Bank's financial reporting, including the macro-economic 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 actively challenged and discussed the management overlays incorporated in the total provision amount as at 31 December 2022 considering the impact of inflation and interest rates on property values and customers' repayment capacity. 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. In addition, the Committee has reviewed and recommended for Board approval the Pillar 3 disclosures that the Bank is required to produce individually for the first time, and not as part of the Handelsbanken Group, as a result of UK's post-Brexit rules;
- 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 any impact of COVID-19, Brexit and the overall macroeconomic situation. The Committee also 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. The going concern statement is included in the Directors' report on page 66;

- 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 a decision to consolidate the financial statements of the Bank with those of its subsidiary HWAM. The BEIS Governance and Audit reform and its implication for the Bank and the Committee has also been considered, awaiting legislation to be passed;
- During the year, the Committee has continued to pursue 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;
- As part of its ongoing oversight of policies, the Committee recommended and approved updates to the policies covering credit provisions, whistleblowing, financial accounting, tax and external audit;
- Business updates relating to the ongoing work with addressing audit findings were received from the Product and IT functions; and
- At one of the meetings during the year, the Committee welcomed the Group Chief Auditor and was informed about Internal Audit's focus at Group as well as the process for escalating the Bank's internal audit findings to the Group Audit Committee.

Internal audit

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

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

During 2022, 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 certain regulatory attestations, operational resilience, regulatory reporting, financial crime, information security and the payments process.

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

The effectiveness of the Internal Audit department is reviewed and monitored by the Committee annually using feedback from the Board, senior managers and other relevant stakeholders. The Committee also checks 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. During 2023, an external quality assessment review will be performed on the internal audit function by a third party.

External audit

The external auditor used by the Bank is the same firm that is used by its Parent Svenska Handelsbanken. 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 auditors' 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 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) has during 2022 handed over responsibility for the external audit to PwC who was formally appointed as the Bank's new external auditor in Q1 2022. 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 (EY) had continued to be effective for the financial year ending 31 December 2021 at the Committee meeting in June 2022. The effectiveness of PwC will be evaluated during Q2 2023 based on the 2022 financial year.

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, and where in compliance with independence standards, 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. There was one non-audit service performed by PwC related to the financial year ending 31 December 2022, a CASS (Client Asset Assurance Standard) audit. This service is permitted and approved by the FRC Ethical Standards, and PwC confirmed their independence and ability to perform the work prior to the audit. The fees for all audit services paid to our external auditors during the financial year are set out in note 7.

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. The Chief Compliance Officer attends all Committee meetings and presents the status of outstanding whistleblowing reports for the year 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 2022, the Committee has deemed the arrangements in relation to whistleblowing to be working satisfactorily.

Governance

The Committee reviews its Terms of Reference annually, proposing any updates considered necessary. For the year ending 31 December 2022, an external Board effectiveness review was completed by Linstock, which incorporated all the Board committees. The Committee was highly rated in all areas evaluated with the key priorities moving forward. This includes continued focus on high risk internal audit findings so that deliverables are met within the agreed timelines, the review of the consolidated financial reporting and enhancements to the financial governance regime.

Fair, balanced and understandable

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

Additional information

The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. During the year the Committee has 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

AGNETA LILJA
Non-Executive Director

The Board established a Board IT Strategy Committee in 2020. The Committee shall help in the formulation, and have oversight of, the Board approved UK IT Strategy.

The Committee comprises four non-executive directors, one of which is independent. Appointment of the Committee Chair and its members 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.

The CIO attends all meetings and other directors of the Board are invited to join meetings as appropriate. The Group CIO is also a regular attendee to provide an update on the Group IT Strategy and relevant programme and projects as well as Handelsbanken Group dependencies and service level agreements.

Details of meeting attendance can be found in the Corporate Governance report on page 32, and individual members in the Wates principle 2 section on pages 37–38.

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

Activities and considerations during the year included:

- During 2022, the Committee held four meetings with the primary focus being the oversight of the Bank's IT Strategy and Modernisation Programme which is intended to support the Bank to maintain pace with the evolving demands in the financial services industry;
- In considering the IT Strategy, alignment with the Group-wide IT principles, information security and data management obligations are important and the Committee visited the Group's IT operations in Stockholm so that synergies across the Group are utilised and an integrated approach is adopted where appropriate; and
- The Committee has also reviewed the existing core banking solution and the Bank's digitalisation progress from a customer point of view. In doing so, it has considered ways of improving the customer experience using a standardised, simplified and integrated IT environment, whilst retaining robust information 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. For the year ending 31 December 2022 an external Board effectiveness review was completed by Lintstock which included all Board committees. The recommendations from the review included undertaking an objective review to reaffirm the status of the Committee and whether its mandate requires any further strengthening to provide the necessary authority going forward. The interface with the Board Risk and Compliance Committee would also benefit from some more clear lines, specifically differentiating between IT risks and the business and technical aspects of the IT strategy.

Additional information

The Chair informs on matters dealt with at each Committee meeting at the subsequent Board meeting. During the year the Committee has 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.

As discussed in the stakeholder engagement section on pages 44–51, 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 facilitates the Bank being 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 44–51.

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

MIKAEL SØRENSEN
CEO

20 March 2023

DIRECTORS' REPORT

Long-term approach to relationships

MIKAEL SØRENSEN
Chief Executive Officer

The directors present their report and the financial statements for the Bank and its subsidiaries for the year ended 31 December 2022.

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 2022.

Proposed dividend

The Board of Directors of Handelsbanken plc met on 14 March 2023 and recommended a final dividend of £266 million (2021: nil) which is for approval at the AGM.

Directors

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

Mikael Hallåker (Chair)
Maureen Laurie (Senior Independent Director)
John Ellacott
Agneta Lilja
Mikael Sørensen
Arja Taaveniku
Margaret Willis
Jörgen Olander (resigned 21 March 2022)
Patricia Jackson
Martin Björnberg (reappointed 21 March 2022)

Directors' third party indemnity insurance

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

Political and charitable donations

There were no political donations made or political expenditure incurred in the financial year (2021: nil).

During the year, the Bank made £55,621 (2021: £94,736) of 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 Bank's corporate goal. To retain employees, the right conditions must exist for personal and career development, embracing each individual's experience, circumstances and background. In line with our culture, we empower and enable all employees across the Bank to access appropriate development and learning resources. We are diversifying our learning offerings, so that where possible that they are delivered in a blended format to accommodate different working styles, provide flexibility, accessibility and 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 will 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; and
- allowing a person with a disability time off for regular medical check-ups and treatment related to their condition.

Following the pandemic and taking into account employee feedback, the Bank has introduced Hybrid Working Guidelines, allowing employees more flexibility in the way they work, further enhancing employee engagement and wellbeing whilst also complementing our unique culture. As a people-orientated bank, we are keen to create a working environment where each individual can flourish and work in a way that suits their roles and responsibilities, both professional and personal. We recognise that the implementation of this policy empowers our managers and colleagues to make the right decisions about their work and individual needs; whilst ensuring how they work and collaborate has our customers at the centre of their thoughts and actions.

Employee communication and engagement

High quality collaboration and engaging communication between employees in all areas of the Bank are important tools in achieving our corporate goal, and in continually teaching and embedding the Bank's corporate culture.

The Bank seeks feedback from employees in a variety of ways – pulse surveys, focus groups, Q&A sessions with the CEO and other members of the senior management, visits to branches and functions, staff suggestions, etc. Many of these methods provide senior managers and decision makers with almost instant feedback from colleagues across the Bank who feel they would like to know more or to contribute to decisions made about the future of the Bank.

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 another forum to provide feedback and be consulted on important changes in the Bank. The CEO and the Chief Human Resource Officer have quarterly meetings with the UKWC. UKWC members are elected for a period of three years on a staggered basis, ensuring there is both continuity and a chance for different voices to be heard. On matters that they are consulted upon, the views of the UKWC are taken into account by the senior management. A representative of the UKWC are invited to meet with the Board at least annually.

One member of the UKWC also represents the Bank on Handelsbanken Group's European Works Council (EWC). The aim of the EWC is for all employees in Europe to be given relevant and regular information and the opportunity 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 video presentations from senior managers and executive directors, including the CEO and Chief Financial Officer. Internal news articles as well as videos 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 so 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 are held regularly throughout the year. All employees are invited to sign up to attend these sessions, and ask questions of their choosing.

Following the programme of reorganisation of the Bank's operations during 2021, the focus during 2022 has been on embedding the new structures and organisation across the business, ensuring continued employee engagement in the new team environments, and focusing on sustainable growth.

To keep employees 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 customers receive the best standards of service and care. At Handelsbanken plc, we have always focused on running the Bank in a prudent, risk-averse manner and view the values of personal responsibility, empowerment and accountability as fundamental to our way of doing business. That is why the Bank 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 and 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 support with individual action plans and personal development being 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 facilitate motivated and engaged colleagues, underpinning the culture of the Bank and so maintaining the skills, knowledge and expertise necessary for effective performance.

Equal opportunities and D&I

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 enable all training and development being 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; and
- 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 UK diversity and inclusion working group has been instrumental in driving greater engagement and raising awareness across the UK.

In 2021, following our restructure, we adapted our Diversity and Inclusion (D&I) strategy to enable alignment with our new 'One Bank' structure. In addition, two Employee Resource Groups (Gender and LGBTQ+) have been established to support and drive the D&I agenda. A policy has now been developed which will support the achievement of our D&I vision. The policy sets 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, 53% of staff have shared their diversity data, but we recognise a higher completion rate is needed to be able to set focused and meaningful D&I actions. We set a target of a 16% increase of current data collection (to take us to 60% overall) and so far we have achieved 9%; this remains a key area of focus. 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 2023. Our Board is already 56% female, and our Executive Committee is 36% female. 35% of those senior leaders who are direct reports to Executive Committee members are female.

The Bank undertakes Gender Pay Reporting in line with The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Oktogonen – our employee profit sharing scheme

The profit-sharing scheme, Oktogonen, covers all employees in Handelsbanken Group and is classified as variable remuneration. The SYSC 19D.3 Remuneration principles in the FCA Handbook have been applied to design and implementation of the scheme in the UK.

Assessments that form the basis for the allocation to the profit-sharing scheme are based on Handelsbanken Group's corporate goal, calculated as return on equity (ROE) compared with peer banks in the Bank's main markets, and on the Board's overall assessment of the Bank's performance and risk management. The assessment must also take into account the Bank's costs for capital and liquidity and is limited to a maximum allocation across Handelsbanken Group of SEK 850 million (circa £67 million).

Profit-sharing scheme allocations, which employees of the Bank may be eligible to receive, are resolved by Svenska Handelsbanken AB (publ) through the Group Central Board. However, the Bank's Board ratifies any allocation, taking into account the Bank's overall performance. The performance assessment must be risk adjusted, and based on a perspective over several years, to take into account the underlying business cycle and any business risks, and on long-term sustainable profits. The assessment must also take into account the Bank's cost of capital and liquidity. The Remuneration Committee shall also decide if any individual adjustments to Oktogonen allocations in terms of malus and/or clawback shall be applied to relevant employees and/or leavers.

In the event of an allocation, all participating employees are allocated an equal amount (or pro rata for part time employees and/or time spent in the Bank in the performance year), regardless of work duties or managerial status. The amount per employee is limited according to the rules of the profit-sharing scheme to a maximum SEK 100,000 (£8,000 subject to FX rates) per employee. For Oktogonen in the UK, Handelsbanken plc utilises a Share Incentive Plan (SIP) model and defers the maximum amount possible via the SIP i.e. up to £3,600 per annum currently. The SIP model allows a significant proportion (i.e. a minimum of circa 45%) of an allocation (depending on the exchange rate and the quantum) to be awarded in the form of Handelsbanken Group shares and deferred for 5 years, and is also subject to malus and clawback clauses where required and in line with regulatory requirements including SYSC 19D of the FCA Handbook. If the Oktogonen allocation per person in a particular year exceeds the maximum free shares award provided for in the SIP legislation (£3,600 currently), the excess may be allocated in cash. However employees will be given the option to use the excess to purchase additional shares via the SIP up to statutory limits and/or to make an additional contribution to their pension scheme. For leavers and expats who are not eligible to participate in the SIP, they will receive the allocation in cash and 'good leaver' status will be applied to leavers. All shares held by employees are eligible to receive dividends if awarded, which are reinvested into the purchase of additional shares for employees. The Bank continues to welcome the use of this HMRC SIP framework, supporting Group-wide principles that promote employee ownership, good risk management and a strong appreciation of how long-term performance is valued.

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 44 and the Bank's Section 172 statement, on page 62.

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 the CRM system.

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 68.

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); and
- acquired as prescribed by Article 22(2), Directive 77/91/EEC.

Regulation

The Bank is authorised by the PRA and regulated by the FCA. 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 UK Group has reviewed events from 31 December 2022 up until the authorisation of the financial statements for issue.

On 14 March 2023, the Directors recommended a dividend for 2022 of £52.57 per ordinary share. The total dividend will be paid, subject to approval at the AGM, on 25 April 2023. As the dividend was recommended after 31 December 2022, it is classified as a non-adjusting event and is therefore not recognised in the financial statements for the year ended 31 December 2022.

There have been no significant events between 31 December 2022 and the date of approval of the annual report and consolidated financial statements which would require a change to or additional disclosure in the financial statements.

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 2024.

For further information on Handelsbanken plc's going concern statement, please see note 1 on page 91.

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 2023, 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 year, please see information within this Directors' report.

Auditors

Ernst & Young LLP were in place as auditor of the Handelsbanken plc since its subsidiarisation in 2018. PricewaterhouseCoopers LLP was appointed to serve as auditors beginning from the 2022 financial calendar year.

Approved by the Board of Directors

And signed on behalf of the Board

MIKAEL SØRENSEN
CEO

20 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Director's confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

How we manage risk

Handelsbanken plc works on the basis of a proven 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 aims to maintain a robust financial and capital position, defined by regulatory and internal ratios, by seeking to maintain liquidity reserves and by matching cash flow to safeguard its low liquidity risk.

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 risk is embedded in the corporate culture, through empowerment, good administrative order and supported by aligned RMFs for the Bank and Investment Businesses (HWAM and HACD). 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 RMF. The Bank's decentralised organisation, with a local presence, enables decision making being managed in close proximity 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.

RMF

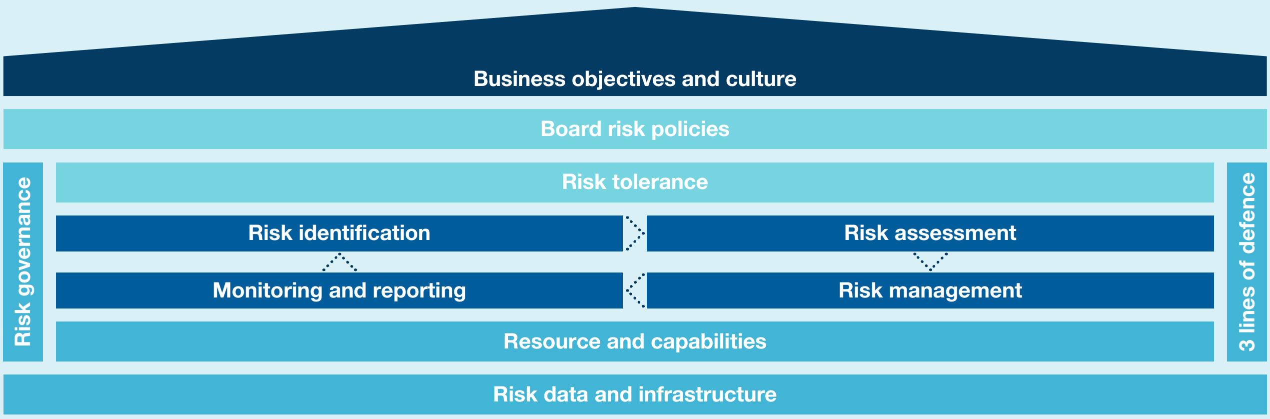
Managing risk effectively is fundamental to the Bank's strategy and to enable sustainable growth. Handelsbanken plc has an established RMF that sets out the Bank's structure of risk management including risk tolerance, governance and the approach to effectively identify, assess, manage and report relevant 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 are described and defined, including controls, monitoring and reporting. The Bank continues enhancing and embedding improvements to the framework, in order to continue to aim for best industry practice.

HWAM and HACD take a similar approach to their RMFs.

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 delegated the oversight of risks and risk management to the Board Risk and Compliance Committee.

Risk management framework



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 example, Credit, Operational, Model and Financial Crime Risk Management.

Within HWAM, the HWAM Board has responsibility for setting strategy and corporate objectives and has the ultimate responsibility in ensuring risks are managed effectively. The Board has delegated the oversight of risks and risk management to the Management Group, which in turn, has created an Audit, Risk and Compliance Committee. There are a number of other Committees which support the Management Group e.g. Investment Management Operating Committee, Distribution Committee, Sustainability Committee.

HACD has its own Board with responsibility for the high level supervision of the regulatory activities of the ACD, focusing on compliance, risk, systems and controls and regulatory responsibilities. There are three HACD Board Committees which consider the risk profile of the multi asset fund range: the Investment Oversight Committee, the Product Governance Committee and the Audit, Risk and Compliance Committee, as well as a Management and Oversight Committee.

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 its business model.

Risk tolerances are set by the Bank and HWAM Boards and are used to guide decision making and risk management across the UK Group. The Risk Tolerance Statements consist 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 the 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; and
- 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. The Bank's Internal Audit function also provides internal audit services to the Bank's subsidiaries.

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 identifying, 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; and
- Emerging risks are newly identified risks or existing risks that are changing in terms of dynamics, and have 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 measurable. 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 and provide oversight over the risk identification processes, and are 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 undertaken 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 check that risk controls and mitigating actions remain 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 performs day-to-day risk monitoring in line with the RMF, 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; and
- 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 provides oversight and produces 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.

The key stress testing processes performed by the Bank are:

- Firm-wide stress test assessed as part of the ICAAP to assess the impact of idiosyncratic and macroeconomic events on the overall capital position and profitability of the Bank;
- Liquidity stress test used for the ILAAP to assess the impact of idiosyncratic and macroeconomic events on the overall liquidity position of the Bank;
- Firm-wide stress test performed as part of Recovery Planning to test the Bank's recovery plan to the maximum extent possible;
- Reverse stress testing, which is used to assess potential tail events that could harm the Bank's business model in absence of mitigating actions;
- Operational risk scenario analysis that analyses the Bank's key operational risks to assess potential impact and to test the controls and mitigating actions; and
- Scenario and Stress Testing is undertaken in relation to forecasting and assessing potential credit losses. The results of these stresses are included in the ICAAP and form part of Risk Control's forward-looking analysis.

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

Within HWAM, the Internal Capital and Risk Assessment process requires identification of potential material harms that may result from the ongoing operation or the wind down of the business, and includes a firm-wide stress test, liquidity stress test, operational risk scenario analysis and wind down planning. This process incorporates the ACD function.

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
- Investment and 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 and business model that focuses 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 UK economy continues to slow as the full effect of the cost of living crisis takes hold. Consumer expenditure is being hit by significant tax rises and inflation of over 10% with energy costs still doubling (after the Government's 'energy price guarantee'). Consumer expenditure is expected to be further challenged by government spending reductions and rising mortgage rates. There are approximately 25% of fixed rate mortgages renewed annually, (7% of all households), and new mortgages typically seeing debt servicing moving from 17% of disposable income to close to 30%. The scale of these increases is reducing demand for mortgages albeit driving up broader savings rates. Our expectation is the overall impact on consumer expenditure for the next two years could be as much as a reduction of 4% p.a.

Interest rates have now risen to 4.0%, from 0.1% in November 2021, and are expected to peak at 4.5% in 2023.

The Bank forecasts that inflation will have peaked in Oct 2022, and will fall slowly through the first half of 2023, and more rapidly in the latter half of the year. However inflation is not forecast to fall to its 2% target level in 2023 as businesses are reviewing costs and pricing levels and these, particularly within service industries, are difficult to reverse once implemented. Interest rates are therefore expected to fall more slowly than the markets expect, only reaching 3.5% in early 2025 (well above the neutral rate of 2.5%).

Unemployment has fallen to 3.5%, a level not seen in over 40 years. There are still concerns over the number of workers who are simply leaving the labour market, particularly older workers who have opted for early retirement. Overall migration levels have held up well post Brexit, but the mix of migration has changed, with more recent migrants having higher levels of skills, a trend which has negatively impacted industrial sectors which had grown dependent on lower cost labour such as hospitality and agriculture.

Consumers are increasingly cautious, mortgage approvals are forecast to remain depressed in 2023. House prices have now started to cool with house prices now expected to fall by 8% in 2023. At least a part of the impact of these house price falls will be masked by inflation, and nominal prices are likely to only decline by 3.5%.

2022 was the fifth warmest on record with average global temperatures 1.2°C above pre-industrial levels. 12 months of extreme weather events were observed in UK, Europe and across the world, with floods, wildfires, heatwaves and extreme cold devastating communities, challenging infrastructure and damaging food supply chains. Our expectation for 2023, is for increased global temperatures as the temperature suppressing effects of the La Niña cycle weakens, which will give rise to further extreme weather events. This will lead to significant headwinds for consumers and firms in the form of food inflation, increasing cost of energy and a need for investment to enhance real estate to cope.

Our expectation is that business investment will now be slower than previously anticipated.

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 have 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. The 2023 ICAAP document was prepared based on the Bank's risk exposures as at 31 December 2022, the Bank's analysis of the impacts of the geopolitical crisis indicated at that point in time there were no direct material impacts on the financial statements.

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: Individual, SME, Corporate and Property.

Handelsbanken plc's business model focuses on taking credit risks in the branch operations. The objective is to reduce risks, so that the business model is relatively independent of changes in the economic cycle. Consequently, Handelsbanken plc is not a full-service or universal bank, but it offers a limited number of core products and services of high quality that are relevant for the Core Customers and meet their expectations.

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 has a low tolerance for credit risk. The Bank is only prepared to take credit risks on customers whom the branches know well and build long-term relationships with. This local relationship banking model improves the quality of credit decisions, as the branch knows its customers and the local conditions better than anyone else at the Bank. The Bank only lends to borrowers if there are demonstrable grounds for believing that the borrower is fully able to repay, which results in customers with a better repayment capacity than average being taken on. The Bank does not have an even distribution of lending across the risk curve, rather a concentration in better credit risk classes – credit quality must never be compromised in favour of achieving higher volume or a higher margin.

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 issues, actively manage higher risks 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. Consequently, the Bank never decentralises its 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 enable the Bank to maintain a strong control environment we:

- Have comprehensive 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;
- Focused our work on mitigating all risks and ensuring proper oversight;
- Maintain the consistency and quality of data; and
- Have effective governance and risk escalation reporting processes.

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. **An 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, lessons learnt and knowledge sharing as best practice**
7. **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 shown resilience and maintained a high quality risk distribution throughout the COVID-19 pandemic. The significant majority of concessions and financial support that the Bank provided during COVID-19 were effective in assisting our customers to maintain their credit quality. As a result the Bank is well positioned to face the challenges brought about by the macroeconomic environment. The portfolio has proven to be resilient and remains strong, with the significant majority of customers assessed to have stronger than normal repayment capacities.

The Bank is prepared to support our customers through their lifecycle with the Bank, including as they face the potential strain created by the increased cost of living pressure, higher interest rate and inflation linked expenses. Our local operating model, dynamic rating approach and expert account managers enable the Bank to respond to changing customer circumstances, and we have a range of support options available to assist customers as required. These options will be assessed on a case-by-case basis. Our account managers, on average, manage 80 retail customers.

A significant proportion of the Bank's loan portfolio (57%) is provided to Property Management customers, secured on Income Producing Real Estate. 27% of the portfolio is provided to Individuals. The substantial majority of the Individual portfolio is secured on residential real estate via Regulated Mortgage Contracts. The remaining 16% of the portfolio is provided to non-Property Management Corporate customers. Overall, in excess of 90% of total portfolio is secured on UK properties, mainly private dwellings, securing regulated mortgage contracts or income producing real estate. In total, across all customers 10% 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. Collateral valuations are undertaken by professionally-qualified experts at origination and reviewed annually by credit experts. In addition, the Bank uses Automatic Valuation Monitoring and appropriate property indices to support our valuation overview processes at portfolio level. Valuations at counterpart level are subject to annual monitoring and are undertaken by credit experts in branches.

The portfolio remains very well secured with modest LTVs. Weighted average LTVs for Property Management customers secured on investment property collateral is 47.3% and the weighted average LTV for Private Individuals secured on residential properties which form collateral for a regulated mortgage contract is 55.3%.

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 2022:

2022

LTV	<50%	50-60%	60-70%	70-75%	75-80%	80-90%	90-100%	>100%
Private Individuals £m	**2,052**	**1,124**	**1,126**	**547**	**385**	**168**	**28**	**39**
Private Individuals %	**37.5%**	**20.6%**	**20.6%**	**10.0%**	**7.0%**	**3.1%**	**0.5%**	**0.7%**
Property Management £m	**7,136**	**3,670**	**496**	**177**	**55**	**56**	**21**	**145**
Property Management %	**60.7%**	**31.2%**	**4.2%**	**1.5%**	**0.5%**	**0.5%**	**0.2%**	**1.2%**

2021

LTV	<50%	50-60%	60-70%	70-75%	75-80%	80-90%	90-100%	>100%
Private Individuals £m	2,072	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%

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 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. The Bank uses sector and counterparty credit risk tolerances to monitor changes in levels of concentration on a monthly basis.

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 the Bank maintain sufficient capital whilst 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.

Concentration risk is a function of the Bank's strategic low risk tolerance, with a focus on secured recourse and the branch operating model. As a low risk, secured lender, the Bank has an intentional property concentration in line with the Bank's strategy and long established expertise in this sector. These concentrations are mitigated by mature procedures and controls, including:

– having clear qualitative (risk rating) parameters set out in credit policy;
– undertaking active, through-the-cycle risk management via local branches, using defined processes for annual reviews, CQE (Credit Quality Examination) and watchlist and monthly monitoring via risk tolerances to ensure risks are well managed;
– having a Pillar 2A buffer for sector concentration risk (and using the Herfindahl-Hirschman index to monitor concentration risk via the ICAAP);
– monitoring single counter party concentrations; and
– having a UK market concentration, as a result of our geographic operating model (mitigated by virtue of having UK-wide diversification).

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 ECL 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 ECL and for definitions, please see note 1(i) of these financial statements. The relevant figures can be found in note 10 of the financial statements.

The Bank has used collective provisions (post model adjustments) in the ECL calculations in 2022. The collective provisions have been designed to reflect potential significant increases in credit risk within specific segments of the portfolio which have not yet been reflected in specific impairments. These collective provisions are generally applied as a result of changes in the macroeconomic environment.

This means, in practice, that the model calculated ECL could be disclosed as 'specific' provisions (as they are based on agreement specific customer level information), while the collective provisions are calculated using expert judgement and are used to measure risks as a timely response to increased credit risks which are not yet evident within specific customer level provisions.

In 2022, the Bank has used collective provisions to reflect geopolitical risks that have increased risks within defined segments.

We have recorded an IFRS 9 balance sheet provision of £28.1 million in the year to 31 December 2022, an increase of £4.2 million when compared with the 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 2022 total £107 million, including customers 90 days past due. Arrears volumes have increased by £22 million when compared with prior year. Current arrears volumes represent 0.55% of exposure at default. £83 million relates to customers considered in financial difficulty. Delays in refinancing matured loans, caused by operational factors and the legacy impact AML processes, have contributed to the growth in arrears volumes.

Model-based provision calculations for credit agreements in Stage 1 and Stage 2

For definitions and additional information on model-based calculations of ECL, 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 form the basis for the construction of the model and parameters applied, current data comprise the prevailing balances on the reporting date (as included in the calculation requirements) and forward-looking data refer to the macroeconomic scenarios used to calculate future risk parameters and exposures.

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 and 2 modelled IFRS 9 volumes have increased from £15.9 million to £24.1 million, up £8.2 million, when compared to 31 December 2021. This increase reflects increased economic uncertainty caused by the macroeconomic environment, which has resulted in management's decision to introduce post model adjustments. There was a positive trend in rating distribution during the first half of 2022; this positive rating trend has now stopped and there are early signs during the second half of the year of increased strain, which has resulted in some negative rating changes.

Government and temporary modifications granted as financial support measures which were introduced to mitigate the economic consequences caused by COVID-19 were 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.

In May 2022, the Bank introduced a new rating methodology for Retail (Private Individual) customers. This new methodology forms part of our work towards IRB transition, and is designed to combine a statistical and expert judgement into the assignment of credit ratings. The new methodology has increased the number of available risk classes which has improved discrimination and rank ordering. The impact of the additional risk classes has meant the portfolio is now more distributed. The redistribution has resulted in some negative migration, but as at 31 December 2022, we have not seen material changes in the underlying credit quality of our Private Individual portfolio.

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 2022, active forbearance totalled £39.1 million, a decrease of £30.1 million from that at 31 December 2021.

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, although like all higher risk exposures they are subject to quarterly reporting and review by the local credit teams. This enables 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; and
- Where changes have been made to a borrower's facilities that are considered in line with our commercial risk appetite.

As at 31 December 2022, there were 180 defaults across the portfolio, totalling £94.4 million, based on exposure at default. £48.9 million of this EAD was derived from secured Property Management exposure.

The Bank has continued to monitor a high risk population of customers, and this high risk portfolio has been kept under regular review and now includes those sectors considered most vulnerable to increased strain caused by changes to the macroeconomic environment, especially fuel and energy volatility. These customers include those operating in care homes, property portfolios (residential and commercial), hospitality and leisure, hotels, travel, transportation, manufacturing, agriculture and non-food retail.

As at 31 December 2022, our EAD to these higher risk customers totalled £1.1 billion. £857 million of exposure at default 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.

The Bank's Board oversees key decisions for the funding and liquidity strategy, as outlined in the Bank's Funding and Liquidity Risk Policy. 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.

Liquidity and funding in the Handelsbanken Group

The Bank primarily relies on Handelsbanken Group for its liquidity contingency support. 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 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.

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 is implemented by the Bank's Board via the Funding and Liquidity Risk Policy.

Liquidity and funding in Handelsbanken plc

The Funding and Liquidity Risk Policy 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 enable:

– The Board and senior management to be informed about the ongoing identification, assessment and management of liquidity and funding risks;

– All material liquidity and funding risks to be 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 to be 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 to have adequate liquidity contingency planning as part of the Bank's recovery plan and a clear understanding of available mitigation actions and sources of funding under stress;

– The results of the ILAAP to be taken into account as part of business strategy and funding and liquidity planning; and

– The Bank to meet the PRA's Overall Liquidity Adequacy Rule (OLAR).

As of 31 December 2022, the Bank's balance sheet funding includes £20.4 billion (2021: £19.2 billion) of deposits from personal and corporate customers. This is supplemented by £7.2 billion (2021: £7.9 billion) of predominantly long-term funding from Svenska Handelsbanken. This funding includes £400 million of subordinated Tier 2 debt and £150 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 £2.2 billion (2021: £3.0 billion) funding short-term assets only. The majority of all sources of funding are denominated in sterling.

Balances in the BoE Reserve Account totalled £7.9 billion (2021: £8.3 billion) as of 31 December 2022. The Bank's asset encumbrance is limited to Cash ratio deposits held at the BoE only.

The Bank reports a LCR of 147% (2021: 475%) as of 31 December 2022, and maintains the LCR above internal buffers set on top of the minimum regulatory requirement of 100%. The LCR has reduced during 2022 primarily as a result of the implementation of a behavioural model for the Bank's non-maturity deposits for interest rate risk management purposes.

UK Group	**2022**	**2021**
Liquidity coverage ratio (LCR)%	**147%**	475%

UK Group	**2022 £'000**	**2021 £'000**
High quality liquid assets	**7,904,334**	8,254,283
Cash outflows	**6,792,143**	5,786,303
Deposits from the public and small and medium sized companies	***917,451***	987,966
Unsecured capital marketing and large corporate deposits	***5,461,774***	4,372,312
Other cash outflows	***412,918***	426,025
Cash inflows	**1,414,674**	4,048,917
Inflows from fully performing exposures	***1,414,674***	4,048,917

Liquidity and funding in HWAM and HACD

Under IFPR, there is a requirement to hold an amount of liquid assets equal to one third of the firm's Fixed Overhead Requirement. Consideration must also be given to any higher requirement needed to meet (1) the liquid assets needed at any given point in time to fund ongoing operations as well as to mitigate any adverse trends throughout the economic cycle, or (2) the liquid assets required in the event of an orderly wind down.

Investment and Market Risk

The Bank has defined market risk 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. From a HWAM perspective, Investment and Market Risk includes investment breaches and investment performance risk, and liquidity risk. HWAM does not engage in proprietary trading and therefore investment and market risk are centred on investment performance and the resultant impact on assets under management and HWAM's income. Liquidity risk in this context relates to enabling clients to redeem their investments or access their portfolio cash within reasonable time periods and in accordance with fund terms and regulations.

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 a 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 cash flow.

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

HWAM provides wealth management advice and solutions, and provides asset management through active global multi asset investing, offering a range of investment vehicles with different risk/return outcomes. These services are provided to private investors, owner-managed companies, charities, trusts and pension funds. It does not engage in proprietary trading. The investment process includes strategic asset allocation, which is a risk framework for identifying the asset mix most likely to deliver strong returns for a given level of risk, and tactical asset allocation, which reflects shorter term views based on analysis of the economic cycle and adjusts exposure to asset classes, styles, geographic areas and industry sectors. Instrument selection looks at due diligence, counterparty risk and cost efficiency; and active risk controls look holistically at exposures, stress testing scenarios and drivers of tracking errors, amongst other things, enabling portfolios to be managed within mandates.

Within HWAM liquidity risk exists in an investment context and is managed in accordance with a Liquidity Policy which seeks to facilitate the funds and portfolios having sufficient and appropriate liquidity to enable clients to redeem their investment in a reasonable allocated time period and where relevant, in accordance with the fund terms, prospectus and rules. An independent third party provider supplies liquidity information and analysis on each of the multi asset funds, and this is overseen by the ACD.

Outlook

The Bank has transitioned both funding and lending away from LIBOR linked contracts to alternative rates bar a small number of customer loans which could not be transitioned due to operational, legal or regulatory reasons. These exposures reference the synthetic LIBOR rate and the Bank is actively looking working with those customers to find alternatives.

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems or external events including legal risk.

Operational risk management is a core component of the RMF and is embedded in day-to-day business activities. Responsibilities are set out in a combination of policies to identify, assess, mitigate, monitor and report operational risk that could impact the achievement of business objectives and ability to stay within tolerance levels set by the Board.

Business operations, as risk and control owners, 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

The UK Group's exposure to operational risk is impacted through the operation of banking, wealth and asset management services; engagement with third parties; delivery of new products and services; and making effective use of reliable data in a changing external environment to deliver on the Bank's strategic objectives. Alongside ongoing risk and control monitoring, operational risk oversight is focused on a number of key areas. Management continues to address risks with material residual exposures in line with the low risk tolerance of the Bank.

Operational risk comprises a broad spectrum of risks; those that are currently of most significance for the Bank and its subsidiaries are:

Financial crime risk

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

The UK Group has continued to improve its financial crime control framework to identify, assess and mitigate the risks of its services and products being used for the purposes of financial crime. As a result, the residual financial crime risk at the UK Group has reduced against the previous year.

Payments risk

Payments risk is the risk of payments processed untimely, erroneously or duplicated, resulting in the detriment to customers, or regulatory breaches and includes the compliance with external payment scheme rules and regulations.

The Bank facilitates customer payments through its various channels, such as online banking and mobile app platforms, customer support service as well as via branches. The types of payments the Bank facilitates includes, but is not limited to, CHAPS, Bacs and Faster Payments. Whilst the payments landscape modernises at pace the Bank continues to progress efforts within its payment systems as well as control environment to meet both customer and regulatory requirements.

Compliance risk

Compliance risk is the risk of regulatory sanctions, material financial loss, or loss to reputation the UK Group 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 UK Group 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 UK Group. This assists in the mitigation of risks associated with non-compliance with laws and regulations. Areas regarding the new Consumer Duty requirements, vulnerable customer support and management, the macroeconomic environment regarding the cost of living as well as financial crime prevention continue to require focus in time and resource within the financial services sector as the landscape evolves further. Progress continues to be 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 UK Group's needs. The UK Group's IT therefore needs to be resilient, secure, available and appropriately governed such that IT supports the business to achieve its objectives, provides quality products and services to our customers, executes on our strategies and meets 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 plays a key role in supporting the mitigation of Information Security, Data, Change and Resilience 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 the related risks.

The UK Group also continues to enhance processes to meet evolving business, customer and regulatory requirements and expectations impacting on IT, Information Security, Data, Resilience and Change and to mitigate the associated risks. This includes continuing to enhance and invest in systems, technologies, processes, people and capabilities (including reporting and oversight) in alignment with the UK Group's IT strategy, modernisation imperative, the broader direction of the UK Group and that of the Handelsbanken Group.

Handelsbanken Group is a material outsource provider of services, including IT services, to the Bank. These services are covered by a formal Service Agreement (SA) between Handelsbanken Group and the Bank. Changes and enhancements to the Service Agreement are made on a continuous basis in cooperation with the Bank's Legal and Supplier Management departments. A range of service meetings take place to support the ongoing governance and management of Group service provision. These include Executive meetings with both the Bank's CIO and Handelsbanken Group CIO in attendance, Management meetings to foster close supplier relationship management and delivery meetings focused on delivery and operational demands. A formal escalation and dispute resolution procedure is established and exercised through these channels.

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

Change management risks are managed through the UK Group's change methodology and aforementioned framework and are reported through governance, up to and including the Board. This approach provides 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 UK Group.

Business Resilience Risk

Business Resilience Risk is the risk of disruption to UK Group's (including IT systems and data) ability to operate through and/or recover from disruptive/impactful continuity events (for example, natural disasters, IT systems failure).

The UK Group continues to refine its framework by aligning to industry good practice. Over the past year there has been significant focus on enhancements to its business continuity programme, further to continuous identification, assessment and mitigation of the associated risks within this area.

The UK Group has achieved a number of the key deliverables in accordance with prescribed regulatory time frames connected to Operational Resilience. This work remains ongoing to meet future commitments and to embed the resulting practices within the UK Group.

Third party management risk

Third Party Management risk is the risk of the UK Group'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 UK Group 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 maintain effective supplier relationships.

There remains regulatory focus on Outsourcing and Third Party Risk Management, including oversight of sub-outsourcing arrangements (fourth and fifth-party providers) as well as increasing consideration of the risks associated with Cloud Service Providers (CSP) including but not limited to cross-border data security, compliance risk and cloud concentration risk. This will continue to remain an area of focus as part of ongoing framework enhancements.

The Bank continues to enhance and embed its third party management risk framework including procurement management and supplier relationship management with oversight of service providers to support with their adherence to these requirements.

Conduct Risk

Conduct Risk is the risk of action or inaction and conduct of the UK Group's employees, at each stage of the product lifecycle or customer journey that may result in poor or unfair outcomes for our customers. This may impact brand and/or our market integrity, resulting in reputational damage to the UK Group.

The UK Group continues its work to embed Conduct Risk within its working practices in order to mitigate poor customer outcomes and to enhance the visibility of its exposure to conduct risk across its operational landscape.

A series of focus areas exist, the most notable of which concerns the UK Group's compliance with is obligations under the Consumer Duty regulation. Future work in this area includes further development of customer outcome testing to support the Bank delivering in line with the standards set.

Monitoring

The operational risk requirements are defined and documented within the relevant RMFs, and associated policies, standards, instructions, and Board risk tolerance statements, which are aligned with Svenska Handelsbanken's policies and risk tolerance.

Monitoring of key operational risks focuses on the implementation of risk mitigation action plans, operational risk events, and the assessment of controls and is undertaken in line with the three lines of defence approach. 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 UK Group undertakes annual, forward-looking scenario analysis to gain insight into severe, but plausible, operational risk events that could materially impact the Bank's ability to deliver on the strategic objectives and/or operational risk capital. The Bank's scenario analysis examines risks both within the risk profile, as well as horizon scanning or market-wide stresses such as geopolitical risk, and how these could crystallise into an operational risk event.

Outlook

The UK Group's operational risk outlook is impacted by the environment in which it operates as well as its strategy. Current themes the Bank remains vigilant of include:

- The scale, complexity and pace of change, particularly in meeting strategic (including organisational change technology), regulatory and remediation programmes;
- Availability of skilled talent required within the workforce to meet its strategic and regulatory objectives;
- Disparities within the workforce resulting from hybrid working practices;
- IT and operational resilience and the continued increase in the sophistication of technology and cyber-crime threats;
- Threats to infrastructure resulting from the current geopolitical landscape, including cyber attacks and potential energy supply disruption;
- Third-party supplier concentration risk, including Svenska Handelsbanken and cloud service providers; and
- Regulatory environment and the volume of changes impacting the industry.

The UK Group continues to invest in these areas to maintain and develop appropriate controls and help facilitate residual risk exposures being managed within tolerance, whilst at the same time enhancing frameworks and processes to meet the evolving regulations and external requirements.

Climate Change Risk

The climate change risk management is described in the TCFD report on pages 22–29.

Environmental, Social and Governance Risk (ESG)

The Bank's approach to ESG is described in the Sustainability report on pages 12–21.

Capital management

The UK Group 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 and 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% 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 2022, the TCR for the Bank is set at 10.8%.

Capital buffers

The regulatory capital buffer framework is designed so that firms maintain enough capital above their regulatory minimum to withstand periods of stress. All buffers are required to be met with CET1 capital.

The Capital Conservation Buffer (CCB) is a standard buffer of 2.5% of RWAs designed to provide for losses in the event of stress. The Countercyclical Capital Buffer (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. The UK Group exposures are almost exclusively in the UK, therefore as of 31 December 2022, the Bank applies the UK CCyB rate of 1% of RWAs set by the Financial Policy Committee (FPC). The CCyB is planned to increase to 2% in July 2023.

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 described above. The PRA does not permit firms to disclose if they are subject to such a buffer.

Leverage Ratio

The UK Group is not in scope of the 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 focused on ensuring that the UK banks have sufficient capital resources and liabilities to absorb losses to allow them to return to business as usual following a recovery or resolution event and without recourse to taxpayer funds. Handelsbanken plc, as a material subsidiary of a foreign owned group, is subject to MREL on an interim basis from 1 January 2020, at 18% of RWA, reduced by any applicable BofE scalar. End-state MREL requirements are effective from 1 January 2023 at 21.6% of RWA, reduced by any applicable BofE scalar. MREL applies the same to Handelsbanken plc and the UK Group.

The UK Group 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 2022, the UK Group has £150 million of unsecured senior non-preferred debt. With this £150 million of MREL-compliant debt and £3.1 billion of capital resources, the UK Group has a total capital and MREL ratio of 26.1% of RWA, as of 31 December 2022.

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 facilitates the capital position being appropriately reviewed, with visibility and challenge of the capital ratios, risk tolerance and the outlook.

Capital adequacy management

As of 31 December 2022, the UK Group's consolidated CET1 ratio and T1 ratio were 21.3%. Handelsbanken plc's individual CET1 ratio and T1 ratio were 21.5%.

In managing the available capital resources of the UK Group, 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 issued to its Parent, Svenska Handelsbanken. The Bank has not issued any Additional Tier 1 capital. The Bank's regulatory capital resources are as follows:

UK Group	2022 £m	2021 £m
Common equity tier		
Paid up capital	**5**	5
Share premium	**2,071**	2,071
Retained earnings	**411**	312
Current year P&L	**253**	99
Goodwill and other	**(48)**	(50)
Adjustment to retained earnings for foreseeable dividends	**(266)**	–
Common equity Tier 1 capital	**2,426**	2,437
Additional Tier 1 instruments	**–**	–
Total Tier 1 capital	**2,426**	2,437
Tier 2	**400**	400
Total capital resources	**2,826**	2,837

The recommended dividend of £266 million reduces the CET1 ratio from 23.6% to 21.3%.

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 2022, the Bank's RWAs decreased by c. £0.7 billion, compared to 31 December 2021, reflecting lower lending volumes in 2022. The following table summarises the Bank's RWAs:

UK Group	RWAs 2022 £m	RWAs 2021 £m
Credit risk according to standardised approach	**10,364**	11,083
Operational risk according to BIA	**1,040**	1,049
Market risks	**–**	–
Total RWAs	**11,404**	12,132

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.

	2022		2021	
UK Group £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	**8,146**	**8,310**	8,486	8,442
Institutions	**5,572**	**4,984**	4,197	4,309
Corporates	**2,648**	**2,764**	2,823	3,055
Retail	**444**	**450**	450	469
Secured by mortgages on immovable property	**19,535**	**19,984**	20,594	20,835
– of which, secured by mortgages on residential property	**12,814**	**13,176**	*13,689*	*13,849*
Exposures in default*	**94**	**107**	96	94
Items associated with particularly high risk*	**113**	**145**	161	164
Other items	**118**	**132**	98	139
Total	**36,670**	**36,876**	36,905	37,507

* Sourced from Common Reporting Framework

Capital adequacy ratios

The Bank's capital adequacy ratios are as follows:

UK Group	2022	2021
Common equity Tier 1 capital ratio	**21.3%**	20.1%
Tier 1 capital ratio	**21.3%**	20.1%
Total capital ratio	**24.8%**	23.4%

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 and central bank claims, as per the PRA Rulebook. The Bank's leverage ratio is as follows:

UK Group	2022 £m	2021 £m
Tier 1 capital	**2,426**	2,437
Exposure measure	**25,680**	25,318
Of which, on-balance sheet	***32,970***	*32,705*
Of which, (-) asset deduction	***(48)***	*(49)*
Of which, off-balance sheet	***(7,945)***	*(8,284)*
Leverage ratio	**9.4%**	9.6%

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 2022	Long-term	Short-term
Standard & Poor's	**AA-**	**A-1+**
Fitch	**AA (S)**	**F1+**

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HANDELSBANKEN PLC

Report on the audit of the financial statements

Opinion

In our opinion, Handelsbanken plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's and company's profit and the group's and company's cash flows 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.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 December 2022; the consolidated and company statements of profit or loss and comprehensive income, the consolidated and company statements of changes in equity, and the consolidated and company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 7 (group) and Note 6.2 (company), we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Context

This is our first year of audit. The group comprises Handelsbanken plc (either the company, or the Bank) and Handelsbanken Wealth and Asset Management Limited (HWAM). Prior to the commencement of the current financial year and our formal appointment in April 2022, we maintained independence procedures as a consequence of the pre-existing audit relationship between PwC Sweden and the Bank's parent, Svenska Handelsbanken AB, incorporated in Sweden. After appointment, we met with management to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former auditors and reviewed their audit working papers to obtain evidence over the 2021 opening balance sheet and comparative financial information.

Audit scope

- We performed a full scope audit of the consolidated and company financial statements of Handelsbanken plc. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The scope of the audit and the nature, timing and extent of audit procedures were determined with consideration of our risk assessment, the financial significance of account balances and other qualitative factors.
- Audit procedures were performed over all account balances and disclosures which represent a risk of material misstatement to the financial statements.

Key audit matters

- Expected credit losses (ECL) on loans to the public (group and company)
- Accounting for effective interest rate (EIR) (group and company)

Materiality

- Overall group materiality: £17,195,000 based on 5% of Profit before tax from continuing operations.
- Overall company materiality: £17,013,000 based on 5% of Profit before tax from continuing operations.
- Performance materiality: £12,896,000 (group) and £12,759,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses (ECL) on loans to the public (group and company) An expected credit loss provision of £24.8m (2021: £22.2m) was recognised on loans to the public in the year. Under IFRS 9, impairment losses are recognised on an expected credit loss (ECL) basis which requires the use of forward looking information, reflecting management's view of potential future economic scenarios. The standard also requires management to make judgements regarding when a loan has experienced a 'significant increase in credit risk'. The ECL for stage 1 and 2 loans is determined by impairment models which include several assumptions and assessments. Key inputs and assumptions include probability of default (PD), loss given default (LGD), exposure at default (EAD) and the use of multiple probability weighted economic scenarios. Post model adjustments (PMAs) are recorded to modelled output to account for situations where known or expected risk factors and information are not fully incorporated in the modelling process. Individual impairment assessments are performed for credit impaired loans (which are categorised as stage 3 loans). We focused our work on the areas that we considered to be the most judgemental, being: – The appropriateness of staging criteria selected by management to determine whether a significant increase in credit risk ("SICR") has arisen; – Methodology and key assumptions used to build the models that calculate the ECL; – Assumptions used to estimate the impact of multiple economic scenarios; – Completeness and valuation of post model adjustments ("PMAs"); and – Measurement of individually assessed provisions. Refer to Notes 1 and 10 in the financial statements.	We understood and critically assessed the appropriateness of the impairment policy (including the definitions of default and significant increase in credit risk). We evaluated the design effectiveness and implementation of key controls over the impairment process. We assessed the methodology for determining the SICR criteria and assessed its appropriateness. We independently tested the staging allocation by reperforming this across the loans portfolio and on a sample basis, with reference to the SICR thresholds. We involved credit risk modelling specialists to review ECL model methodology, implementation (through code reviews and replication of the ECL calculation for a sample of customers), and model performance. We tested the completeness and accuracy of key data inputs, sourced from underlying systems, that are applied in the calculation of ECL. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures. We tested the reasonableness of macroeconomic and forward-looking information used in the ECL models by evaluating the coherence of the assumptions against our own knowledge and that or other market constituents. We assessed the appropriateness of methodologies used to determine and quantify the post model adjustments required and the reasonableness of key assumptions. Based on our knowledge and understanding of the limitations in models and industry emerging risks, we critically assessed the completeness of the post model adjustments. For a sample of individually impaired loans, we evaluated specific circumstances of the borrower, including the latest developments, scenarios and weighting assigned for measuring the impairment provision, and whether the key judgements were appropriate. We evaluated and tested the disclosures in the financial statements. Overall, based on the procedures performed and the evidence obtained, we found management's determination of expected credit loss provision to be reasonable and materially compliant with the requirements of IFRS 9.

Accounting for effective interest rate (EIR) (group and company)	
Interest income recorded was £912m (2021: £571m). The majority of income recorded comprises elements that are individually low in value, automatically calculated and based on the contractual terms of the financial instrument. The accounting standard requires interest receivable and similar income to be recognised on an effective interest rate ('EIR') basis. We focused our work in relation to the application of EIR method on interest, fees and commission, specifically the judgement regarding the period over which such items should be spread. Refer to Notes 1 and 3 in the financial statements.	We evaluated the design and implementation of the key controls over the accounting for effective interest rate. We evaluated the methodology to assess whether it is in compliance with the requirements of IFRS 9. We tested the interest rate and fees recorded for a sample of loans to underlying customer agreements. For a sample of loans, we performed an independent recalculation of the income and fees recorded by performing a cash flows analysis specific to the loans. We then compared our independent calculation to that recorded by the company. We assessed the appropriateness of the basis for the spreading of EIR adjustments, and the sensitivity thereof. We tested the assumptions regarding customer repayment behaviour against supporting evidence. We assessed the disclosures made in the financial statements. From the evidence we obtained, we concluded that the estimates and judgements used in determining EIR adjustments are reasonable and materially compliant with the requirements of IFRS 9.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Handelsbanken plc provides corporate and retail banking services to customers in the United Kingdom. It operates through a series of branches, with centralised regional support and oversight arrangements. The group comprises Handelsbanken plc and Handelsbanken Wealth and Asset Management Limited (HWAM). There are a number of centralised functions operated by the ultimate parent company, Svenska Handelsbanken AB, incorporated in Sweden, on which the group is reliant, and that are relevant to the audit of the company.

A key element of our audit involved instructing PwC Sweden to test certain controls and processes, including:

- Information Technology General Controls (ITGC) and automated business controls operated in Sweden; and
- Expected credit loss provisions on stage 1 and 2 loans.

We interacted regularly with PwC Sweden throughout the course of the audit. This included reviewing their working papers and evaluating the work performed and their findings. We concluded that the procedures performed on our behalf were sufficient for the purposes of our audit.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements. These procedures included consideration of the impact of climate risk on loan provisioning.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements–group	**Financial statements–company**
Overall materiality	£17,195,000.	£17,013,000.
How we determined it	5% of Profit before tax from continuing operations	5% of Profit before tax from continuing operations
Rationale for benchmark applied	Profit before tax is a key measure used by management and the parent shareholder in assessing the performance of the group, and is a generally accepted auditing benchmark.	Profit before tax is a key measure used by management and the parent shareholder in assessing the performance of the group, and is a generally accepted auditing benchmark.

The group audit involved two components, being the Bank and HWAM. Handelsbanken plc is the only significant component in the scope of our group audit, on which the materiality allocated is less than our overall group materiality. The materiality allocated across the significant component was £16,335,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £12,896,000 for the group financial statements and £12,759,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors–the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls–and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £860,000 (group audit) and £820,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

– assessing and challenging key assumptions used by directors in their determination of going concern of the group and company;
– assessing the liquidity and capital forecasts prepared by management. This included reviewing the results of stress testing performed by management of both liquidity and regulatory capital, including considering the severity of the stress scenarios that were used;
– assessing the intragroup arrangements with respect to financing and operational support on which the group and company depend, and the continued availability of these;
– corroborated legal and regulatory correspondence with audit procedures performed, including discussing directly with group's and company's lead regulator, the PRA, to assess whether there were any issues noted which may impact the going concern of the group and company;
– consideration as to whether our audit procedures have identified events or conditions which may impact going concern of the group and company; and
– critically evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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 group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and the Directors' report

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 year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the rules of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates, including the expected credit loss provision on loans to the public. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- enquiries of management, internal audit and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing key correspondence with regulatory authorities (such as the PRA and the FCA);
- assessing matters reported through whistleblowing and reviewing management's consideration thereof, and their results;
- identifying and testing journal entries that we assessed as having a higher risk of being fraudulent;
- challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the expected credit loss on loans the public; and
- incorporating unpredictability into the nature, timing and/or extent of our testing above.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting
Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the members on 26 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

DARREN MEEK
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME, UK GROUP

FOR THE YEAR ENDED 31 DECEMBER 2022

UK Group	Note	2022 £'000	2021 £'000
Interest income		912,438	571,072
of which interest income according to the effective interest method		*912,438*	*571,072*
Interest expense		(271,326)	(128,033)
Net interest income	3	**641,112**	**443,039**
Fee and commission income		72,357	71,651
Fee and commission expense		(3,656)	(3,301)
Net fee and commission income	4	**68,701**	**68,350**
Net gains on financial transactions and other income	5	24,081	21,464
Total income		**733,894**	**532,853**
Personnel costs	6	(240,280)	(232,331)
Depreciation, amortisation and impairment of property, equipment, right-of-use and intangible assets	15,16,27	(23,420)	(32,815)
Other operating expenses	7	(122,681)	(141,061)
Total expenses		**(386,381)**	**(406,207)**
Profit before credit (losses)/gains and net gains from disposal		**347,513**	**126,646**
Net credit (losses)/gains	10	(4,415)	7,945
Net gains on disposal of property, equipment and intangible assets		818	775
Profit before tax		**343,916**	**135,366**
Taxes	11	(91,284)	(36,253)
Profit for the year		**252,632**	**99,113**
Other comprehensive income, net of tax		–	–
Profit and total comprehensive income for the year		**252,632**	**99,113**

There is no other comprehensive income for the year ended 31 December 2022.

The results for the year were derived wholly from Handelsbanken UK Group's continuing operations.

The notes on pages 91–130 form part of these financial statements.

CONSOLIDATED BALANCE SHEET, UK GROUP

AS AT 31 DECEMBER 2022

UK Group	Note	31 December 2022 £'000	31 December 2021 £'000
ASSETS			
Cash and balances with central banks	12	7,944,713	8,284,357
Other loans to central banks	13	99,900	102,779
Loans to other credit institutions	14	5,523,785	3,944,381
Loans to the public	2	19,028,715	20,177,506
Intangible assets	15	47,844	49,420
Property and equipment	16	18,435	18,917
Right-of-use assets	27	51,454	58,053
Deferred tax assets	11	3,869	2,150
Assets held for sale	17	–	145
Prepaid expenses and accrued income	18	14,187	14,112
Other assets	19	31,723	6,431
Total assets		**32,764,625**	**32,658,251**
LIABILITIES			
Due to credit institutions	14	7,239,434	7,875,770
Deposits from the public	20	20,486,618	19,201,850
Issued securities	21	2,190,225	2,976,981
Current tax liabilities		3,916	1,514
Deferred tax liabilities		3,020	2,719
Provisions	22	22,843	18,189
Lease liabilities		52,611	61,633
Accrued expenses and deferred income	23	10,203	13,436
Other liabilities	24	16,294	19,330
Total liabilities		**30,025,164**	**30,171,422**
EQUITY			
Share capital	25	5,050	5,050
Share premium	25	2,070,619	2,070,619
Retained earnings		411,160	312,047
Profit for the year		252,632	99,113
Total equity		**2,739,461**	**2,486,829**
Total liabilities and equity		**32,764,625**	**32,658,251**

These financial statements were approved by the Board of directors and authorised for issue on 20 March 2023.

The notes on pages 91–130 form part of these financial statements.

MARTIN BJÖRNBERG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, UK GROUP

FOR THE YEAR ENDED 31 DECEMBER 2022

UK Group 2022	Note	Share capital £'000	Share premium £'000	Retained earnings including profit for the year £'000	Total £'000
At 1 January 2022	25	5,050	2,070,619	411,160	**2,486,829**
Total comprehensive income		–	–	252,632	**252,632**
At 31 December 2022		**5,050**	**2,070,619**	**663,792**	**2,739,461**

2021	Note	Share capital £'000	Share premium £'000	Retained earnings including profit for the year £'000	Total £'000
At 1 January 2021	25	5,050	2,070,619	312,047	**2,387,716**
Total comprehensive income		–	–	99,113	**99,113**
At 31 December 2021		**5,050**	**2,070,619**	**411,160**	**2,486,829**

CONSOLIDATED CASH FLOW STATEMENT, UK GROUP

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
OPERATING ACTIVITIES			
Operating profit		343,916	135,366
of which paid in interest		*828,237*	*572,704*
of which paid out interest		*(243,797)*	*(131,592)*
Adjustment for non-cash items in profit:			
Net credit losses/(gains)	10	4,415	(7,945)
Gains on financial transactions		(2,229)	(2,905)
Net losses/(gains) on disposal of property, equipment and intangible assets		(818)	(775)
Depreciation, amortisation and impairment of property, equipment, right-of-use and intangible assets	15,16 & 27	23,420	32,815
Lease liability interest expense	27	1,328	1,555
Acquisition of right of use asset	27	(7,388)	(3,100)
Changes in the assets and liabilities of operating activities:			
Other loans to central banks	13	2,879	(4,386)
Loans to other credit institutions		(1,598,199)	(241,068)
Loans to the public		1,144,359	688,529
Due to credit institutions	14	(636,336)	(1,358,541)
Deposits from the public	20	1,284,768	122,809
Issued securities	21	(786,756)	(3,147)
Provisions	22	4,654	3,526
Lease liabilities		4,549	2,589
Income tax (payment)		(90,301)	(32,713)
Other assets	19	(25,292)	5,058
Prepaid expenses and accrued income	18	(75)	(1,632)
Other liabilities	24	(3,036)	(711)
of which payments made for variable lease expenses	*27*	*(3,899)*	*(3,659)*
of which payments made for short-term and low value leases	*27*	*(576)*	*(506)*
of which other		*1,439*	*3,454*
Accrued expenses and deferred income	23	(3,233)	(5,470)
Other		(11,971)	(369)
Cash outflow from operating activities		**(351,346)**	**(670,515)**
INVESTING ACTIVITIES			
Assets held for sale		963	65
Acquisitions of property and equipment	16	(4,714)	(3,323)
Disposal of property and equipment	16	1,216	996
Acquisitions of intangible assets	15	(6,635)	(3,463)
Cash outflow from investing activities		**(9,170)**	**(5,725)**
FINANCING ACTIVITIES			
Payments made for lease liabilities	27	(12,141)	(13,551)
Cash outflow from financing activities		**(12,141)**	**(13,551)**
Cash outflow for the year		**(372,657)**	**(689,791)**
Cash balance at beginning of year	12	8,368,955	9,058,894
Net foreign exchange differences		324	(148)
Cash balance at end of year	12	**7,996,622**	**8,368,955**

NOTES TO THE FINANCIAL STATEMENTS, UK GROUP

FOR THE YEAR ENDED 31 DECEMBER 2022

Note 1 Basis for preparation and material accounting policy information

(a) Statement of compliance

The parent company, 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 the inside back cover. The UK Group is principally engaged in the provision of Banking and Wealth Management services.

Basis of accounting

Although the parent company continues to meet the exemption criteria to produce consolidated accounts, this is the first year that consolidated financial statements are prepared for the UK Group. Handelsbanken plc has two direct subsidiaries, Handelsbanken Wealth and Asset Management Limited (HWAM), Svenska Property Nominees Limited (SPNL) and three indirect subsidiaries (owned via HWAM) as shown in note 12.2. The UK Group consolidated financial statements comprise of these direct and indirect subsidiaries.

The report and consolidated financial statements of the UK Group have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. They have been prepared on a historical cost basis unless otherwise stated. The parent company's accounting policies are shown in note 1.2.

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

Going concern

The consolidated financial statements are prepared on a going concern basis as the directors are satisfied that Handelsbanken plc and its subsidiaries have the resources to continue in business for the foreseeable future–which has been taken as at least 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 UK Group benefits from support (from the ultimate parent, Svenska Handelsbanken) available in the form of capital and contingency funding arrangements, as well as operational support in some areas of activity, and the directors are satisfied that these will continue to be available for the foreseeable future. The UK Group aims to maintain a robust financial, capital and liquidity position, defined by regulatory and internal ratios. The UK Group has a diversified liquidity profile. Alongside the capital plan, a sensitivity analysis is undertaken to understand the impact of a range of factors on the capital projections and future regulatory changes. The UK Group has tested the resilience of the business by performing capital and liquidity stress tests. The stress tests include identification of material risks which can adversely impact the UK Group's capital and liquidity positions, development of severe but plausible stress test scenarios, and calculation of financial, capital and liquidity impacts. The results of the UK Group's stress testing support the going concern assessment.

After making due enquiries, the directors believe that the UK Group has sufficient resources to continue its activities for the foreseeable future, and over the going concern assessment period through to 31 March 2024.

(b) Changes in Accounting Policies

New and amended standards and interpretations

During the current year, the UK Group did not adopt any new standards, amendments or interpretations.

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 UK Group.

(c) Basis of consolidation and presentation

Subsidiaries

All companies directly or indirectly controlled by Handelsbanken plc (subsidiaries) have been fully consolidated. 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% of the voting power at shareholders' meetings or the equivalent.

Subsidiaries are consolidated according to the acquisition method. This means that the acquisition of a subsidiary is regarded as a transaction where the group acquires the company's identifiable assets and assumes its liabilities and obligations. In the case of business combinations, an acquisition balance sheet is prepared, where identifiable assets and liabilities are valued at fair value at the acquisition date. The cost of the business combination comprises the fair value of all assets, liabilities and issued equity instruments provided as payment for the net assets in the subsidiary. Any surplus due to the cost of the business combination exceeding the identifiable net assets on the acquisition balance sheet is recognised as goodwill in the group's balance sheet. Acquisition-related expenses are recognised when they arise. The subsidiary's financial reports are included in the consolidated accounts starting on the acquisition date until the date on which control ceases. Intra-group transactions and balances are eliminated when preparing the group's financial reports.

When accounting for business combinations, the acquired operations are recognised in the group's accounts from the acquisition date. The acquisition date is the date when controlling interest over the acquired entity starts. The acquisition date may differ from the date when the transaction is legally established.

(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 assesses the operations of the UK Group 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 UK Group's functional and presentation currency.

Note 1 Basis for preparation and material accounting policy information continued

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 UK Group 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 UK Group 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 UK Group's business model for managing the financial instruments, as well as whether the instruments' contractual cash flows constitute solely payments of principal and interest. All of the UK Group'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 UK Group's financial liabilities are measured at amortised cost as it does not have any derivatives or financial liabilities recognised under the fair value classification.

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

Assessment of the business model

The business model for managing financial assets defines classification into measurement categories. The business model is determined at the portfolio level, as this best reflects how the operations are governed and how information is reported to and evaluated by UK Group'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 likely to be 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 UK Group 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 UK Group 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 UK Group 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 UK Group changes the business model it applies for the management of a portfolio of financial assets. The reclassification of financial liabilities is not permitted after initial recognition.

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

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

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

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

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

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).

Note 1 Basis for preparation and material accounting policy information continued

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.

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 have been explained on page 91.

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 area 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 macroeconomic 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 101 where post-core model adjustments have been explained.

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 year's credit losses (expected and actual) are recognised in the income statement under the item Net credit (losses)/ gains. The item Credit losses consists of the year's provisions for expected credit losses, less reversals of previous provisions, as well as write-offs and recoveries during the year.

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.

Note 1 Basis for preparation and material accounting policy information continued

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 UK Group 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 22–29 into judgements associated with recognition, measurement, presentation and disclosure, where so permitted by UK adopted International Accounting Standards. At 31 December 2022, the UK Group 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 UK Group has given due 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 UK Group 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 UK Group 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 UK Group must assess whether:

i the contract involves the use of an identified asset;

ii it has the right to direct the use of the asset, explicitly or implicitly;

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

iv it has the right to operate the asset.

UK Group has leasehold interests in its branches 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.

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 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, 15 bp is added to all interest curves and maturities.

UK Group as lessee

UK Group 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 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, UK Group includes initial direct costs attributable to the right-of-use asset, however UK Group 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 UK Group's incremental borrowing rate.

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

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

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

III. Short-term and leases of low-value assets

UK Group 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, UK Group 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 UK Group 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.

When accounting for business combinations, the acquisition price is allocated to the value of acquired identifiable assets, liabilities and contingent liabilities in the acquired business. These assets may also include intangible assets that would not have been recognised on the balance sheet if they had been acquired separately or internally generated. The part of the acquisition price in a business combination that cannot be allocated to identifiable assets and liabilities is recognised as goodwill.

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 as follows:

Internally developed software	five years
Purchased software and licences	five years
Acquisition brand	five years
Customer contracts	twenty years

The amortisation period is tested on an individual basis at the time of new acquisition and also continually if there are indications that the useful life may have changed. For the impairment review of intangible assets with a finite useful life see note 1(r).

Goodwill and intangible assets with an indefinite useful life

Goodwill and other Intangible assets with an indefinite useful life are recorded at cost less any impairment losses. These assets are tested annually for impairment when preparing the annual report or when there is an indication that the asset is impaired. Impairment testing is performed by calculating the recoverable amount of the assets, i.e. the higher of the value in use and the fair value less costs to sell. As long as the recoverable amount exceeds the carrying amount, no impairment loss needs to be recognised. Impairment losses are recognised directly in the income statement. Since it is not possible to differentiate between cash flows arising from goodwill and cash flows arising from other assets, impairment testing of goodwill takes place at the level of cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is assessed at HWAM as a whole. Material assessments and assumptions in the impairment testing of goodwill are described in note 1(r) and note 15. Previously recognised impairment losses on goodwill are not reversed.

Note 1 Basis for preparation and material accounting policy information continued

(l) Property and equipment

UK Group's tangible non-current assets consist of property and equipment, 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. Fixtures, fittings and equipment are depreciated over five years, Computer equipment is usually depreciated over three years and Branch fit-out costs 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 UK Group, 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 UK Group 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 UK Group 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 Svenska Handelsbanken upon the creation of Handelsbanken plc.

Retained earnings including profit for the year

Retained earnings comprise of the profits generated from the current and prior year(s).

(o) Income

Net interest income

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

Interest income and interest expense for financial instruments at amortised cost 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.

Net fee and commission income

Fee and commission 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.

Fee and commission income in the form of, for example, management fees in asset management, is usually recognised at the rate these services are performed.

Fee and commission income in the form of, for example, brokerage, card fees or payment commissions, is generally recognised when the service has been performed, i.e. at a specific point in time.

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.

Loan fees not included in the effective interest are recognised as fee and commission income.

Fee and commission expenses are transaction-based and directly related to transactions for which the income is recognised as Fee and commission income.

The Bank acts as an intermediary for Svenska Handelsbanken for the sale of certain Capital Markets products and services in the UK. This is an Agency model whereby the Bank acts in the capacity of agent and therefore only recognises Commission income in the income statement. The commission is recognised at a point in time when our performance obligation is satisfied which corresponds to the sale of products and services in the UK. The commission is disclosed as intercompany commission and presented net of related costs.

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 UK Group 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 UK Group 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 UK Group 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 UK Group's performance, on an annual basis.

Since 2020, Oktogonen allocations are primarily disbursed in the UK through a Share Incentive Plan (SIP) as described in the Directors' report.

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

During 2021 the UK Group established one share-based payment arrangement, a SIP. The UK Group 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 UK Group's share-based payment arrangement is settled in Svenska Handelsbanken shares and classified, in accordance with IFRS 2, as cash-settled by the UK Group.

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 them 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 UK Group 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 year 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:

- here 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 UK Group'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.

- The assumptions used in ECL provision calculations (see the Manual and expert-based calculation section at the end of note 1(r)

Information about other 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 22
- Impairment of goodwill note 1(r) and note 15
- 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 UK Group is both the lessee (IFRS 16) and the lessor (Asset Financing) see note 27
- Impairment of Property and equipment (see note 16) Right-of-use assets (see note 27) and Intangible Assets see notes 15 and 1(r), below

Impairment of intangibles with a finite useful life

Intangible assets with a finite 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.

Note 1 Basis for preparation and material accounting policy information continued

Impairment testing of goodwill and intangible assets with an indefinite useful life.

Recognised goodwill is derived from the Bank's investment in HWAM. Goodwill as with any intangible asset with an indefinite useful life is tested for impairment annually in connection with the closing of the annual accounts. Impairment testing of the goodwill involves significant judgements in determining both the value in use and fair value less costs to sell. Material assessments and assumptions in the impairment testing of goodwill are described in note 15. Previously recognised impairment losses on goodwill are not reversed.

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 has increased during 2022. This is mainly due to updated values for the forward-looking macroeconomic risk factors, whereby GDP has decreased, while inflation and interest rates have increased compared to the forecast at the previous year-end.

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 ten 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), 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% (2021: 60%), while an upturn in the economy is assigned a weighting of 5% (2021:15%) , a downturn in the economy is assigned a weighting of 20% (2021:15%) and the severe downturn in the economy scenario is assigned a weighting of 15% (2021: 10%).

The following table presents the Macro scenario forecasts for 2022 for some of the central risk factors and scenarios for the next three years. These have formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2022.

UK Group & Bank 2022	Severe downturn %			Downturn %			Neutral %			Upturn %		
Macro factors	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP Growth	-8.30	-3.20	4.40	-3.80	-0.20	3.90	-1.30	0.80	3.40	1.20	2.30	3.10
Unemployment rate	7.83	8.89	8.70	5.93	6.39	6.20	5.33	4.89	4.70	4.73	3.69	3.80
Policy Interest rate	0.75	0.25	0.50	3.25	3.25	3.25	4.00	4.00	3.75	4.50	4.75	4.50
Commercial property price growth	-26.49	-15.22	-1.94	-18.72	-5.11	3.34	-13.83	-1.23	2.11	-8.93	1.31	0.90
Residential property price growth	-22.76	1.62	1.12	-10.00	0.07	1.08	-3.20	1.20	2.35	5.00	2.41	2.74

The following table presents the Macro scenarios forecasts for 2021 for some of the central risk factors and scenarios for the next five years (as of 2021). These formed the basis for the calculation of expected credit losses in Stage 1 and Stage 2 as at 31 December 2021.

UK Group & Bank 2021	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 FY'22 economic drivers of each scenario, the assumed policy reactions, hence some differences in the timing of key outcomes

The table below shows the percentage increase/decrease in the provision for 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.

	2022		2021	
%	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
	7.49	-7.19	11.31	-6.30
Severe downturn	25.30		18.97	

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 2022, provisions include PMAs amounting to total £10.2 million (2021: £6.2 million). The level of PMAs is higher this year due to the updated values relating to forward looking macroeconomic risk factors. During the period 2020-2021, the Bank applied an expert-based provision for risks in relation to the COVID-19 pandemic. The provision was reversed during the year, as the potential remaining effects of the pandemic on the repayment capacity of the Bank's customers are now considered to be reflected in the individual provision amount according to the Bank's internal risk ratings. During 2022, the Bank applied an expert-based provision based on elevated credit risks relating to uncertainty factors which were not deemed to be fully considered in the Bank's risk models. These uncertainty factors are primarily associated with the instability of the operating environment, including the war in Ukraine, which created extensive supply chain disruptions, shortages of input goods and energy, and the availability of labour within certain sectors. In assessing how the uncertainty factors affect the credit risk, together with uncertainty surrounding how these factors will develop, the Bank has applied an expert-based stress to sectors at risk of extra sensitivity to supply and access disruptions. This stress has been applied in addition to the model-based calculations, and results in an additional provision requirement.

Note 2 Risk management

The UK Group's risk management is described in the risk and capital management report on pages 68–80. 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

UK Group and Bank 2022 £'000	Gross			Provisions			Loans after deduction of provisions
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Private individuals	5,361,929	366,678	39,228	(2,941)	(2,605)	(1,118)	**5,761,171**
of which other loans with property mortgages	*5,096,089*	*331,639*	*32,021*	*(2,561)*	*(2,358)*	*(200)*	*5,454,630*
of which other loans, private individuals	*265,840*	*35,039*	*7,207*	*(380)*	*(247)*	*(918)*	*306,541*
Property management	10,995,120	709,867	50,493	(4,148)	(4,841)	(2,517)	**11,743,974**
Manufacturing	90,819	33,408	363	(174)	(673)	(12)	**123,731**
Retail	213,459	3,442	350	(278)	(68)	(210)	**216,695**
Hotel and restaurant	170,268	114,286	229	(297)	(1,846)	–	**282,640**
Passenger and goods transport by sea	288	276	–	(1)	(8)	–	**555**
Other transport and communication	31,928	3,153	12	(116)	(98)	(12)	**34,867**
Construction	138,524	17,757	110	(460)	(766)	(46)	**155,119**
Electricity, gas and water	24,636	–	–	(36)	–	–	**24,600**
Agriculture, hunting and forestry	101,553	9,764	–	(301)	(356)	–	**110,660**
Other services	327,861	3,938	1,613	(427)	(142)	(61)	**332,782**
Holding, investment, insurance companies, mutual funds etc	182,698	3,948	126	(212)	(17)	–	**186,543**
Other corporate lending	49,255	4,263	1,926	(54)	(12)	–	**55,378**
Total	**17,688,338**	**1,270,780**	**94,450**	**(9,445)**	**(11,432)**	**(3,976)**	**19,028,715**

UK Group and Bank 2021 £'000	Gross Stage 1	Gross Stage 2	Gross Stage 3	Provisions Stage 1	Provisions Stage 2	Provisions Stage 3	Loans after deduction of provisions
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**

Credit risk exposures, breakdown by type of collateral

UK Group 2022 £'000	Residential property	Other property	Sovereigns, municipalities[1]	Financial collateral	Collateral in assets	Unsecured	Total
Cash and balances with central banks	–	–	7,944,713	–	–	–	**7,944,713**
Other loans to central banks	–	–	99,900	–	–	–	**99,900**
Loans to other credit institutions	–	–	–	–	–	5,523,785	**5,523,785**
Loans to the public	12,330,048	6,011,814	26,829	32,490	151,284	476,250	**19,028,715**
Total	**12,330,048**	**6,011,814**	**8,071,442**	**32,490**	**151,284**	**6,000,035**	**32,597,113**
Off-balance sheet items	703,615	785,344	96,709	4,875	–	2,316,388	**3,906,931**
of which guarantee commitments	*15,603*	*17,931*	*42*	*3,786*	–	*496,108*	*533,470*
of which obligations	*688,012*	*767,413*	*96,667*	*1,089*	–	*1,820,280*	*3,373,461*
Total	**703,615**	**785,344**	**96,709**	**4,875**	**–**	**2,316,388**	**3,906,931**
Total on and off-balance sheet items	**13,033,663**	**6,797,158**	**8,168,151**	**37,365**	**151,284**	**8,316,423**	**36,504,044**

1 Refers to direct sovereign exposures and government guarantees

Note 2 Risk management continued

UK Group 2021 £'000	Residential property	Other property	Sovereigns, municipalities[1]	Financial collateral	Collateral in assets	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	–	–	–	–	–	3,944,381	**3,944,381**
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**	**4,559,145**	**32,509,023**
Off-balance sheet items	759,840	815,895	96,709	5,798	–	2,575,682	**4,253,924**
of which guarantee commitments	*18,106*	*13,820*	*42*	*2,774*	–	*679,190*	*713,932*
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**	**–**	**2,575,682**	**4,253,924**
Total on and off-balance sheet items	**13,921,384**	**7,000,282**	**8,519,688**	**45,410**	**141,356**	**7,134,827**	**36,762,947**

1 Refers to direct sovereign exposures and government guarantees

Liquidity risk

Contractual maturity analysis

The following table summarises the contractual maturity profile of the Group'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.

UK Group 2022 £'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	7,944,713	–	–	–	–	–	99,900	**8,044,613**
To credit institutions	1,296,700	1,447,972	1,019,138	1,114,984	604,992	39,999	–	**5,523,785**
Loans to public	1,003,787	2,100,808	1,982,257	3,353,566	8,025,873	2,562,423	–	**19,028,714**
Other	–	–	–	–	–	–	167,513	**167,513**
of which goodwill	–	–	–	–	–	–	*14,293*	*14,293*
of which other	–	–	–	–	–	–	*153,220*	*153,220*
Total	**10,245,200**	**3,548,780**	**3,001,395**	**4,468,550**	**8,630,865**	**2,602,422**	**267,413**	**32,764,625**
Liabilities								
To credit institutions	892,994	498,761	1,120,549	1,139,485	2,351,980	1,235,665	–	**7,239,434**
Deposits from public	17,879,374	2,183,828	392,370	31,046	–	–	–	**20,486,618**
Issued securities	454,068	1,736,157	–	–	–	–	–	**2,190,225**
Of which CDs less than one year	*454,068*	*1,736,157*	–	–	–	–	–	*2,190,225*
Other	–	–	–	–	–	–	108,887	**108,887**
Total	**19,226,436**	**4,418,746**	**1,512,919**	**1,170,531**	**2,351,980**	**1,235,665**	**108,887**	**30,025,164**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,373,461	–	–	–	–	–	–	**3,373,461**

UK Group **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	3,944,381	–	–	–	–	–	–	**3,944,381**
Loans to public	972,558	2,299,091	2,070,090	3,864,927	8,010,254	2,960,586	–	**20,177,506**
Other	–	–	–	–	–	–	149,228	**149,228**
of which goodwill	–	–	–	–	–	–	*14,293*	*14,293*
of which other	–	–	–	–	–	–	*134,935*	*134,935*
Total	**13,201,296**	**2,299,091**	**2,070,090**	**3,864,927**	**8,010,254**	**2,960,586**	**252,007**	**32,658,251**
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	18,118,826	1,082,024	1,000	–	–	–	–	**19,201,850**
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	–	–	–	–	–	–	116,821	**116,821**
Total	**18,695,676**	**4,020,572**	**1,467,149**	**2,244,256**	**2,458,584**	**1,168,364**	**116,821**	**30,171,422**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,539,992	–	–	–	–	–	–	**3,539,992**

Maturity periods for financial liabilities

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

UK Group **2022** £'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	913,839	541,601	1,190,298	1,243,999	2,551,540	1,307,154	–	**7,748,431**
Deposits from public	17,871,132	2,199,220	406,172	32,906	–	–	–	**20,509,430**
Issued securities	454,068	1,746,491	–	–	–	–	–	**2,200,559**
of which CDs less than one year	*454,068*	*1,746,491*	–	–	–	–	–	*2,200,559*
Other	–	–	–	–	–	–	108,887	**108,887**
Total	**19,239,039**	**4,487,312**	**1,596,470**	**1,276,905**	**2,551,540**	**1,307,154**	**108,887**	**30,567,307**

UK Group **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	18,118,831	1,082,462	1,000	–	–	–	–	**19,202,293**
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	–	–	–	–	–	–	116,821	**116,821**
Total	**18,716,362**	**4,047,031**	**1,509,708**	**2,305,990**	**2,557,020**	**1,211,319**	**116,821**	**30,464,251**

Note 2 Risk management continued

Market risk

LIBOR replacement

The vast majority of LIBOR loans transitioned to alternative Risk Free Rates (RFRs) in the first quarter of 2022.

Further information of the LIBOR transition can be found on page 76.

The following table summarises all exposures impacted by interest rate benchmark reform as at 31 December 2022

UK Group and Bank 2022	Non derivative financial assets– carrying value[1] £m	Non derivative financial liabilities– carrying value £m
GBP LIBOR (1 Month)	–	–
GBP LIBOR (3 Months)	53	–
GBP LIBOR (6 Months)	–	–
GBP LIBOR (Other)	–	–
USD LIBOR (1 Month)	1	–
USD LIBOR (3 Months)	–	–
USD LIBOR (6 Months)	–	–
USD LIBOR (Other)	–	–
EUR LIBOR (1 Month)	6	–
EUR LIBOR (3 Months)	16	–
EUR LIBOR (6 Months)	–	–
Other (CHF)	–	–
Total	**76**	**–**

1 Gross carrying amounts excluding allowances for ECLs

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

UK Group and Bank 2021	Non derivative financial assets– carrying value[1,2] £m	Non derivative financial liabilities– carrying value £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 ECLs

Note 3 Net interest income

UK Group	2022 £'000	2021 £'000
Loans to the public	683,156	530,308
Loans to credit institutions and central banks	123,061	8,857
Loans to other Group undertakings	79,646	2,691
Other interest income	26,575	29,216
Total interest income	**912,438**	**571,072**
of which interest income according to the effective interest method	*912,438*	*571,072*
Deposits and borrowing from the public	(104,729)	(16,724)
Due to other Group undertakings	(129,801)	(107,013)
Issued securities	(34,609)	(2,088)
Lease liability	(1,328)	(1,556)
Other interest expense	(859)	(652)
Total interest expense	**(271,326)**	**(128,033)**
Net interest income	**641,112**	**443,039**

Note 4 Net fee and commission income

UK Group	2022 £'000	2021 £'000
Fund management commission	27,129	26,890
Payments	24,865	22,852
Loans and deposits	9,924	10,789
Advisory fees	3,830	3,943
Asset management commission	2,360	2,671
Intercompany commission	2,149	2,132
Guarantees	1,182	1,349
Other	918	1,025
Total fee and commission income	**72,357**	**71,651**
Payments	(3,567)	(3,263)
Loans and deposits	–	(3)
Intercompany commission	(48)	(30)
Other	(41)	(5)
Total fee and commission expense	**(3,656)**	**(3,301)**
Net fee and commission income	**68,701**	**68,350**

Fee and commission income refers to income from contracts with customers. Intercompany commissions, ad hoc advisory fees, payments and loans and deposits are generally recognised in conjunction with the rendering of the service, i.e. at a specific point in time. Payments also includes the issuing and acquisition of cards. Income from fund and asset management commission, guarantees and on-going advisory fees are generally recognised as the services are rendered, i.e. on a straight-line basis over time.

Note 4 Net fee and commission income continued

Fund management commission, advisory fees, asset management commission and other lines shown in the table above includes £34 million (2021: £34 million) revenue from contracts with customers recognised in the HWAM entity. The further breakdown of this revenue has been provided in the following table.

UK Group 2022	Investment management fees £'000	Other investment management revenue £'000	Rendering of wealth management services £'000	Insurance commission £'000	Total £'000
Type of service					
Investment management services	29,489	–	–	–	**29,489**
Other investment management revenue	–	414	–	–	**414**
Rendering of wealth management services	–	–	3,830	–	**3,830**
Insurance commission	–	–	–	10	**10**
Revenue from contracts with customers	**29,489**	**414**	**3,830**	**10**	**33,743**
Timing of revenue recognition					
Services transferred at a point in time		262	953	–	**1,255**
Services transferred over time	29,489	152	2,877		**32,518**
Revenue from contracts with customers	**29,489**	**414**	**3,830**	**10**	**33,743**

UK Group 2021	Investment management fees £'000	Other investment management revenue £'000	Rendering of wealth management services £'000	Insurance commission £'000	Total £'000
Investment management services	29,561	–	–	–	**29,561**
Other investment management revenue	–	594	–	–	**594**
Rendering of wealth management services	–	–	3,943	–	**3,943**
Insurance commission	–	–	–	15	**15**
Revenue from contracts with customers	**29,561**	**594**	**3,943**	**15**	**34,113**
Services transferred at a point in time	–	579	985	15	**1,579**
Services transferred over time	29,561	15	2,958	–	**32,534**
Revenue from contracts with customers	**29,561**	**594**	**3,943**	**15**	**34,113**

Note 5 Net gains on financial transactions and other income

UK Group and Bank	2022 £'000	2021 £'000
Foreign exchange spot instruments	11,712	10,908
Financial instruments at amortised cost	11,234	10,552
of which loans	*11,234*	*10,552*
Other	1,135	4
Total	**24,081**	**21,464**

Foreign exchange spot instruments is income derived from the monthly clear-outs of internal foreign exchange balances.

Financial instruments at amortised cost is mainly redemption & breakage fees together with any remaining non-amortised fees that are part of the carrying value of a loan terminated prematurely.

The Other line in the current year mainly includes the research & development expenditure credit (RDEC) related income recognised in the year.

Note 6 Personnel costs

The average number of persons employed (including directors) during the year was:

Average number of employees UK Group	2022 £'000	2021 £'000
Head office and support	1,017	927
Branch operations	1,567	1,703
Wealth management	152	145
Total	**2,736**	**2,775**

Personnel costs for the above persons were:

UK Group	2022 £'000	2021 £'000
Wages and salaries	172,754	165,553
Pension costs	24,801	24,425
Social security costs	23,781	20,913
Staff benefits and other	11,967	19,535
Share-based payment arrangement	6,628	1,465
Variable pay	349	440
Total	**240,280**	**232,331**

Wages and salaries include a gross redundancy provision of £5.8 million (2021: £6.0 million) as of year-end as a result of the restructuring. Total costs of approximately £5.3 million have been incurred, of which £2.1 million in the current year (2021: £3.2 million), against the provision therefore the net redundancy provision at 31 December 2022 is £0.5 million (2021: £2.8 million). For further detail on the Share-based payment arrangement, please see note 9.

Note 7 Other operating expenses

UK Group	2022 £'000	2021 £'000
Professional and legal fees	24,438	50,573
Intercompany recharges	42,512	40,085
Rent and premises costs	14,684	14,146
IT and communication costs	12,351	10,335
Unrecoverable VAT on intercompany invoices	8,576	8,110
Travel, marketing, membership & supplies	9,963	7,162
Consultancy fees	3,969	5,263
Restructuring cost	313	2,668
Auditors' remuneration	1,385	859
Other operating expenses	4,490	1,860
Total operating expenses	**122,681**	**141,061**

Professional and legal fees have decreased due to lower level of KYC remediation activities and other business-wide projects in 2022.

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

Auditors' remuneration relating to EY is nil in 2022 (2021: £0.8 million).

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

Note 7 Other operating expenses continued

Auditors' remuneration

UK Group	2022 £'000	2021 £'000
Fees payable to the company's auditor for the audit of the Group accounts	1,105	737
Fees payable to the company's auditor for other services:		
Audit related assurance services		
Handelsbanken plc CASS	30	30
HWAM CASS	130	55
HACD CASS	120	–
Audit services for the purpose of reporting to the company's parent	–	37
Total audit and non-audit fees	**1,385**	**859**

Note 8 Directors' remuneration

Handelsbanken plc considers its key management personnel to be the executive and non-executive directors of the Bank.

Directors' remuneration for the year, including non-executive directors (NEDs)

Bank	2022 £'000	2021 £'000
Short-term employment benefits	2,248	1,889
Post employment benefits	–	55
Share-based payment	2	3
Total remuneration	**2,250**	**1,947**

Total contributions to the Handelsbanken DC pension scheme made by the Bank on behalf of the directors in 2022 was nil (2021: nil).

Expatriates assigned to the UK from other locations within the Handelsbanken Group do not participate in this pension scheme. Handelsbanken plc is not charged for the continuation of home based Defined Benefit pension scheme, however, the cost of continuing this is included in the disclosures for completeness.

During the year to 31 December 2022, one (2021: one) director was remunerated via Svenska Handelsbanken Sweden, all other directors were remunerated via Handelsbanken Group UK.

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

Bank	2022 £'000	2021 £'000
Director's emoluments and fees	1,026	988

Note 9 Share based payment arrangement

As described in the Directors' report, Oktogonen allocations are primarily disbursed in the UK through a UK approved HMRC SIP.

Following the approval of an Oktogonen award for the 2021 performance year this was disbursed via the SIP during 2022.

UK Group 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 UK Group, in which case they can sell their shares but they may have tax implications.

Awards made during 2022 to the UK Group's personnel are shown in the table below.

	2022		2021	
Bank	No. of shares	Average cost of shares £	No. of shares	Average cost of shares £
Annual free share awards	282,108	7.17	395,865	8.33

UK Group	2022 £'000	2021 £'000
Expenses arising from share based payment transactions	6,628	1,465
2020 Oktogonen allocation	–	*(64)*
2021 Oktogonen allocation	*721*	*1,529*
2022 Oktogonen allocation	*5,907*	–
Share-based payment liability	177	57
Oktogonen allocation provision	5,860	1,573

Note 10 Credit losses

The majority of the disclosures and calculations within this note are based on the activities of Handelsbanken plc. Due to its nature, HWAM has minimal balances that are within scope of IFRS 9, and none of these balances have provisions.

Reconciliation of expected credit loss provision gains and losses

UK Group and Bank	2022 £'000	2021 £'000
Expected credit (losses)/gains on balance sheet items		
Stage 3 provision	(1,919)	(2,523)
Reversal of Stage 3 provision	5,482	2,478
Costs related to provision Stage 3	–	(4)
Total expected credit gains/(losses) in Stage 3	**3,563**	**(49)**
The year's net (provision)/reversal Stage 1	(4,727)	520
The year's net (provision)/reversal Stage 2	(1,898)	6,839
Total expected credit (losses)/gains in Stage 1 and Stage 2	**(6,625)**	**7,359**
Total expected credit (losses)/gains on balance sheet items	(3,062)	7,310
Expected credit (losses)/gains on off-balance-sheet items		
The year's net provision Stage 3	–	–
The year's net (provision)/reversal Stage 2	(1,044)	597
The year's net (provision)/reversal Stage 1	(525)	85
Total expected credit (losses)/gains on off-balance-sheet items	**(1,569)**	**682**
Write-offs		
Actual credit losses for the year[1]	(237)	(5,433)
Utilised share of previous provisions in Stage 3	230	5,115
Total write-offs	**(7)**	**(318)**
Recoveries	223	271
Net credit (losses)/gains	**(4,415)**	**7,945**
of which loans to the public	*(2,828)*	*7,277*

1 Of the year's actual credit losses, no amount (2021: £0.05 million) is subject to enforcement activities.

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

2022 UK Group £'000	Gross			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balance sheet items						
Cash and balances with central banks	7,944,713	–	–	–	–	–
Other loans to central banks	99,900	–	–	–	–	–
Loans to other credit institutions	5,523,862	–	–	(77)	–	–
Loans to the public	17,688,338	1,270,780	94,450	(9,445)	(11,432)	(3,976)
Total	**31,256,813**	**1,270,780**	**94,450**	**(9,522)**	**(11,432)**	**(3,976)**
Off-balance sheet items						
Total off-balance sheet	1,985,041	64,412	1,640	(1,121)	(2,043)	–
of which contingent liabilities	*522,476*	*10,398*	*446*	*(185)*	*(1,044)*	–
of which commitments	*1,462,565*	*54,014*	*1,194*	*(936)*	*(999)*	–
Total	**33,241,854**	**1,335,192**	**96,090**	**(10,643)**	**(13,475)**	**(3,976)**

Note 10 Credit losses continued

2021 UK Group £'000	Gross			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	3,944,440	–	–	(59)	–	–
Loans to the public	19,059,761	1,037,782	102,175	(4,737)	(9,534)	(7,941)
Total	**31,391,337**	**1,037,782**	**102,175**	**(4,796)**	**(9,534)**	**(7,941)**
Off-balance sheet items						
Total off-balance sheet	4,084,984	167,295	1,232	(596)	(1,000)	–
of which contingent liabilities	*705,573*	*7,520*	*426*	*(143)*	*(492)*	–
of which commitments	*3,379,411*	*159,775*	*806*	*(453)*	*(508)*	–
Total	**35,476,321**	**1,205,077**	**103,407**	**(5,392)**	**(10,534)**	**(7,941)**

Key figures, credit losses
Loans to the public

UK Group and Bank	2022	2021
Credit loss/(gain) ratio, % of loans to the public acc[2]	0.01%	-0.04%
Total credit loss reserve ratio, %	0.13%	0.11%
Credit loss reserve ratio Stage 1, %	0.05%	0.02%
Credit loss reserve ratio Stage 2, %	0.90%	0.92%
Credit loss reserve ratio Stage 3, %	4.21%	7.77%
Proportion of loans in Stage 3, %	0.47%	0.47%

2 The calculation is based on the net credit (loss)/gain for the year and the Loans to public balance at the beginning of the year. Last 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

2022 UK Group and Bank £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(4,796)	(9,534)	(7,941)	**(22,271)**
Derecognised assets	475	1,307	3,881	**5,663**
Write-offs	–	–	230	**230**
Remeasurements due to changes in credit risk	(6,754)	2,306	(94)	**(4,542)**
Foreign exchange effect, etc	(181)	47	5	**(129)**
Originated assets	(638)	(520)	–	**(1,158)**
Transfer to Stage 1	(927)	828	–	**(99)**
Transfer to Stage 2	926	(8,435)	–	**(7,509)**
Transfer to Stage 3	2,373	2,569	(57)	**4,885**
Provision at end of year	**(9,522)**	**(11,432)**	**(3,976)**	**(24,930)**

2021 UK Group and Bank £'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)**

Loans to public

2022 UK Group and Bank £'000	Stage 1	Stage 2	Stage 3	Total
Provision at beginning of year	(4,737)	(9,534)	(7,941)	**(22,212)**
Derecognised assets	416	1,307	3,881	**5,604**
Write-offs	–	–	230	**230**
Remeasurements due to changes in credit risk	(6,737)	2,306	(94)	**(4,525)**
Foreign exchange effect, etc	(181)	47	5	**(129)**
Originated assets	(578)	(520)	–	**(1,098)**
Transfer to Stage 1	(927)	828	–	**(99)**
Transfer to Stage 2	926	(8,435)	–	**(7,509)**
Transfer to Stage 3	2,373	2,569	(57)	**4,885**
Provision at end of year	**(9,445)**	**(11,432)**	**(3,976)**	**(24,853)**

2021 UK Group and Bank £'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)**

Note 10 Credit losses continued

Off-balance sheet items that are subject to impairment testing

2022 **UK Group and Bank** £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provision at beginning of year	(596)	(1,000)	–	**(1,596)**
Derecognised assets	59	126	–	**185**
Remeasurements due to changes in credit risk	(475)	122	–	**(353)**
Foreign exchange effect, etc	(12)	2	–	**(10)**
Originated assets	(207)	(72)	–	**(279)**
Transfer to Stage 1	(53)	80	–	**27**
Transfer to Stage 2	94	(1,302)	–	**(1,208)**
Transfer to Stage 3	69	1	–	**70**
Provision at end of year	**(1,121)**	**(2,043)**	**–**	**(3,164)**

2021 **UK Group and Bank** £'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)**

The change analysis shows the net effect on the provision for the Stage in question for each explanatory item during the year. 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.

Change in gross exposure, and the maximum exposure to loss at the beginning and end of the year

Balance sheet items that are subject to impairment testing

2022 **UK Group** £'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Exposure at beginning of year	31,391,337	1,037,782	102,175	**32,531,294**
Derecognised assets	(1,420,139)	(172,533)	(24,567)	**(1,617,239)**
Write-offs	–	–	(237)	**(237)**
Remeasurements due to changes in credit risk	1,022,169	(423,897)	(26,727)	**571,545**
Foreign exchange effect, etc	(27,584)	(2,052)	(719)	**(30,355)**
Originated assets	1,112,407	53,593	1,035	**1,167,035**
Transfer to Stage 1	528,266	(525,095)	(3,171)	**–**
Transfer to Stage 2	(1,322,657)	1,332,173	(9,516)	**–**
Transfer to Stage 3	(26,986)	(29,191)	56,177	**–**
Exposure at end of year	**31,256,813**	**1,270,780**	**94,450**	**32,622,043**

2021
UK Group
£'000

	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	31,968,102	1,616,230	81,300	**33,665,632**
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	(805,700)	155,670	(12,877)	**(662,907)**
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	**31,391,337**	**1,037,782**	**102,175**	**32,531,294**

Loans to the public

2022
UK Group and Bank
£'000

	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	19,059,761	1,037,782	102,175	**20,199,718**
Derecognised assets	(1,335,745)	(172,533)	(24,567)	**(1,532,845)**
Write-offs	–	–	(237)	**(237)**
Remeasurements due to changes in credit risk	(246,001)	(423,897)	(26,727)	**(696,625)**
Foreign exchange effect, etc	(18,074)	(2,052)	(719)	**(20,845)**
Originated assets	1,049,774	53,593	1,035	**1,104,402**
Transfer to Stage 1	528,266	(525,095)	(3,171)	**–**
Transfer to Stage 2	(1,322,657)	1,332,173	(9,516)	**–**
Transfer to Stage 3	(26,986)	(29,191)	56,177	**–**
Exposure at end of year	**17,688,338**	**1,270,780**	**94,450**	**19,053,568**

2021
UK Group and Bank
£'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**

Note 10 Credit losses continued

Off-balance sheet items that are subject to impairment testing

2022 UK Group £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	4,084,984	167,295	1,232	**4,253,511**
Derecognised assets	(311,286)	(5,103)	(91)	**(316,480)**
Remeasurements due to changes in credit risk	(2,041,102)	(160,877)	(250)	**(2,202,229)**
Foreign exchange effect, etc	(8,587)	(171)	(7)	**(8,765)**
Originated assets	321,603	2,908	545	**325,056**
Transfer to Stage 1	113,747	(113,697)	(50)	**–**
Transfer to Stage 2	(173,838)	174,071	(233)	**–**
Transfer to Stage 3	(480)	(14)	494	**–**
Exposure at end of year	**1,985,041**	**64,412**	**1,640**	**2,051,093**

2021 UK Group £'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	(225,465)	51,222	(192)	**(174,435)**
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	**4,084,984**	**167,295**	**1,232**	**4,253,511**

Balance sheet items, by PD range

2022 UK Group PD value[3]	Gross volume £'000			
	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	24,690,151	125,082	–	**24,815,233**
0.15 to <0.25	3,473,211	323,987	–	**3,797,198**
0.25 to <0.50	757,081	85,560	–	**842,641**
0.50 to <0.75	1,425,913	263,835	–	**1,689,748**
0.75 to <2.50	852,201	377,263	–	**1,229,464**
2.50 to <10.00	58,047	82,750	–	**140,797**
10.00 to <100	209	12,303	–	**12,512**
100 (default)	–	–	94,450	**94,450**
Total	**31,256,813**	**1,270,780**	**94,450**	**32,622,043**

2021 UK Group PD value[3]	Gross volume £'000			
	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	25,906,466	63,040	–	**25,969,506**
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	**31,391,337**	**1,037,782**	**102,175**	**32,531,294**

3 refers to 12 month PD value as at the reporting date

Loans to the public, by PD range

2022 UK Group and Bank PD value[3]	Gross volume £'000			
	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	11,128,533	125,082	–	**11,253,615**
0.15 to <0.25	3,471,934	323,987	–	**3,795,921**
0.25 to <0.50	756,770	85,560	–	**842,330**
0.50 to <0.75	1,422,150	263,835	–	**1,685,985**
0.75 to <2.50	850,717	377,263	–	**1,227,980**
2.50 to <10.00	58,025	82,750	–	**140,775**
10.00 to <100	209	12,303	–	**12,512**
100 (default)	–	–	94,450	**94,450**
Total	**17,688,338**	**1,270,780**	**94,450**	**19,053,568**

2021 UK Group and Bank 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**

Off-balance sheet items, by PD range

2022 UK Group PD value[3]	Gross volume £'000			
	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	1,410,193	2,489	–	**1,412,682**
0.15 to <0.25	259,056	4,492	–	**263,548**
0.25 to <0.50	168,337	10,581	–	**178,918**
0.50 to <0.75	46,584	10,495	–	**57,079**
0.75 to <2.50	99,883	33,091	–	**132,974**
2.50 to <10.00	988	2,727	–	**3,715**
10.00 to <100	–	537	–	**537**
100 (default)	–	–	1,640	**1,640**
Total	**1,985,041**	**64,412**	**1,640**	**2,051,093**

2021 UK Group PD value[3]	Gross volume £'000			
	Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	3,650,796	123,657	–	**3,774,453**
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	**4,084,984**	**167,295**	**1,232**	**4,253,511**

3 refers to 12 month PD value as at the reporting date

Note 11 Taxes

Income tax expense for the year

UK Group	2022 £'000	2021 £'000
Corporation tax:		
UK corporation tax	92,078	36,026
Adjustments in respect of previous years	624	777
Total current tax charge	**92,702**	**36,803**
Deferred tax:		
Current year	(1,010)	(1,918)
Adjustments in respect of previous years	(408)	1,368
Total deferred tax (credit)	**(1,418)**	**(550)**
Tax charge on profit on ordinary activities	**91,284**	**36,253**

The tax assessed for the year is higher (2021: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Tax reconciliation

UK Group	2022 £'000	2021 £'000
Profit on ordinary activities before taxation	343,916	135,367
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	**65,344**	**25,720**
Tax effects of:		
Expenses not deductible for tax purposes	441	456
Bank corporation tax surcharge	25,682	8,907
Adjustment in respect of deferred tax on acquisition of subsidiaries	301	(238)
Adjustment to tax charge in respect of prior years current tax	624	777
Impact of bank surcharge on deferred tax	(158)	(378)
Adjustment to tax charge in respect of prior year deferred tax	(408)	1,367
Remeasurement of deferred tax due to rate changes	(131)	(358)
Tax effects from Research and Development Expenditure Credit	(411)	–
Total tax charge	**91,284**	**36,253**

The main rate of corporation tax for the year was 19% (2021:19%). It will increase to 25% on 1 April 2023 in accordance with the Finance Act 2020. The corporation tax banking surcharge rate for the year was 8% on banking profits (less a £25 million allowance). The charge arising for the period ended 31 December 2022 was £25.7 million (2021: £8.9 million)

The Finance Act 2022 reduces the banking surcharge rate to 3%, and increases the threshold to £100 million from 1 April 2023. The reduced rate has been used to calculate deferred tax position for the year.

Deferred tax assets of £3.9 million have been recognised at 28% (corporation tax 25% and banking surcharge 3%).

Deferred tax balance

UK Group	2022 £'000	2021 £'000
Short term timing differences	2,349	1,172
Fixed asset timing differences	1,520	978
Deferred tax assets	**3,869**	**2,150**

Deferred tax movement

UK Group	2022 £'000	2021 £'000
Deferred tax asset at beginning of year	2,150	1,838
Income statement (charge)/credit:		
Fixed asset timing differences	624	1,686
Holiday accrual	(315)	(83)
Short term temporary differences	1,181	(28)
Prior year adjustment	408	(1,368)
Movement in tax rate	(179)	105
Deferred tax asset at end of year	**3,869**	**2,150**

Note 12 Cash and balances with central banks

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.

UK Group	2022 £'000	2021 £'000
Cash held at central banks	7,944,713	8,284,357
Due from other banks	64,341	85,402
Of which on demand	*64,341*	*85,402*
Balance at end of year	**8,009,054**	**8,369,759**
Of which accrued interest income	*12,509*	*863*
Of which provision for expected credit losses reported as provisions, see note 22	*(77)*	*(59)*
Loans to intercompany, on demand	5,459,444	3,858,978
Total	**13,468,498**	**12,228,737**
of which accrued interest income	*32,311*	*25*

Reconciliation of cash and balances on Balance sheet and Cash flow

UK Group	2022 £'000	2021 £'000
Cash and balances with central banks (Balance sheet)	7,944,713	8,284,357
External nostro	64,418	85,462
Less accrued interest	(12,509)	(864)
Cash balance at the end of the year (cash flow)	**7,996,622**	**8,368,955**

Note 13 Other loans to central banks

UK Group and Bank	2022 £'000	2021 £'000
Cash held at central banks	99,900	102,779
of which term deposits	*99,900*	*102,779*

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 14 Due to/from other credit institutions

UK Group	2022 £'000	2021 £'000
Due from other banks	64,418	85,462
Intercompany lending	5,459,444	3,858,978
Total	**5,523,862**	**3,944,440**
Provision for expected credit loss	(77)	(59)
Total asset	**5,523,785**	**3,944,381**
of which accrued interest income	*32,311*	*25*
Loans from other credit institutions		
Due to other banks	3,119	110
Intercompany borrowing	7,236,315	7,875,660
Total liability	**7,239,434**	**7,875,770**
of which accrued interest expense	*16,299*	*10,946*

Note 15 Intangible assets

UK Group 2022	Acquisition customer lists £'000	Purchased software and licences £'000	Internally developed software £'000	Goodwill £'000	Total £'000
Cost					
At 1 January 2022	20,709	1,960	40,225	14,293	**77,187**
Additions	–	–	6,635	–	**6,635**
Disposals	–	–	(7,928)	–	**(7,928)**
At 31 December 2022	**20,709**	**1,960**	**38,932**	**14,293**	**75,894**
Accumulated amortisation and impairment					
At 1 January 2022	(8,887)	(1,268)	(17,612)	–	**(27,767)**
Amortisation	(1,035)	(392)	(5,377)	–	**(6,804)**
Impairment	–	–	(1,407)	–	**(1,407)**
Disposals	–	–	7,928	–	**7,928**
At 31 December 2022	**(9,922)**	**(1,660)**	**(16,468)**	**–**	**(28,050)**
Balance at 1 January 2022	11,822	692	22,613	14,293	49,420
Balance at 31 December 2022	**10,787**	**300**	**22,464**	**14,293**	**47,844**

UK Group 2021	Acquisition customer lists £'000	Purchased software and licences £'000	Internally developed software £'000	Goodwill £'000	Total £'000
Cost					
At 1 January 2021	20,709	1,960	37,056	14,293	**74,018**
Additions	–	–	3,463	–	**3,463**
Disposals	–	–	(294)	–	**(294)**
At 31 December 2021	**20,709**	**1,960**	**40,225**	**14,293**	**77,187**
Accumulated amortisation and impairment					
At 1 January 2021	(7,852)	(876)	(11,014)	–	**(19,742)**
Amortisation	(1,035)	(392)	(4,933)	–	**(6,360)**
Impairment	–	–	(1,959)	–	**(1,959)**
Disposals	–	–	294	–	**294**
At 31 December 2021	**(8,887)**	**(1,268)**	**(17,612)**	**–**	**(27,767)**
Balance at 1 January 2021	12,857	1,084	26,042	14,293	54,276
Balance at 31 December 2021	**11,822**	**692**	**22,613**	**14,293**	**49,420**

Acquisition customer lists was initially recognised upon acquisition of HWAM. It is amortised over 20 years from recognition in 2013. There was no indicators of impairment upon assessment at 31 December 2022.

Purchased software and licences relate to internal projects and include the cost of IT consultancy in HWAM, there were no indicators of impairment upon assessment at 31 December 2022.

Internally developed software consists of internal development projects undertaken that meet the criteria to be capitalised. As at 31 December 2022 there was £3.1 million (2021: £1.5 million) of capitalised work in progress included within intangible assets that is currently not being amortised, including £1.4 million (2021: £0.6 million) of impairment during the year relating to these projects. Amortisation was calculated on a straight-line basis over the useful life of five years. The remaining amortisation period for internally developed software are between 14-40 months.

Capitalised work in progress relates to projects that have not yet been completed or have not yet met the criteria to commence amortisation.

Research and development costs incurred and recognised in the income statement and not capitalised amount to £14 million (2021: £12.3 million).

Goodwill has an indefinite useful life and therefore not amortised. It is recognised on the balance sheet at cost less any impairment losses.

Impairment testing of goodwill and intangible assets with an indefinites useful life:
Recognised goodwill is derived from the Bank's investment in HWAM. Goodwill as with any indefinite useful life intangible asset is tested for impairment annually in connection with the closing of the annual accounts. Impairment testing of the goodwill involves determining both the value in use and fair value less costs to sell. When performing impairment testing, the value in use of the unit to which goodwill has been allocated is calculated by discounting estimated future cash flows. For the first five years, estimated future cash flows are based on financial forecasts utilising historical trends. The forecasts are mainly based on an internal assessment of the future income and cost development, economic climate, expected interest rates, historical market trends and customer pipeline. After the first five-year period, a forecast is made based on the assumption of a long-term growth rate. The estimated cash flows are based on historical real GDP growth as well as the Bank of England long-term inflation target. The year's impairment test is based on an assumption of a long-term growth rate of 2%. The value is determined by performing a benchmark analysis of the fair values of similar UK asset management firms against AUMA. Estimated cash flows have been discounted at a rate based on a risk-free interest rate and a risk adjustment corresponding to the market's return requirement. In the annual impairment test, the discount rate was 9.04% (2021: 5.3%). The difference between the recoverable amounts and the carrying amounts in the annual impairment test of goodwill was deemed to be satisfactory. The calculated value in use of goodwill includes a number of different variables, which are used to derive the expected cash flows and the discount rate. The variables used in the calculation are the assumptions for AUMA, fee rates, cost estimates, and discount rate. Reasonable changes in underlying assumptions do not indicate that any of the assumptions are key and would not result in any impairment.

Note 16 Property and equipment

UK Group 2022	**Branch fit out** £'000	**Fixtures, fittings and equipment** £'000	**Computer equipment** £'000	**Total** £'000
Cost				
At 1 January 2022	36,460	9,499	11,927	57,886
Additions	2,113	331	2,270	4,714
Disposals	(5,084)	(390)	(917)	(6,391)
At 31 December 2022	**33,489**	**9,440**	**13,280**	**56,209**
Accumulated depreciation and impairment				
At 1 January 2022	(21,579)	(7,773)	(9,618)	(38,970)
Charge	(2,774)	(628)	(1,719)	(5,121)
Reversal of Impairment	1,141	–	–	1,141
Disposals	3,888	381	907	5,176
At 31 December 2022	**(19,324)**	**(8,020)**	**(10,430)**	**(37,774)**
Balance at 1 January 2022	14,881	1,726	2,309	18,916
Balance at 31 December 2022	**14,165**	**1,420**	**2,850**	**18,435**

Note 16 Property and equipment continued

UK Group 2021	Branch fit out £'000	Fixtures, fittings and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2021	35,721	9,333	11,075	56,129
Additions	1,921	366	1,036	3,323
Disposals	(1,181)	(200)	(184)	(1,565)
At 31 December 2021	**36,461**	**9,499**	**11,927**	**57,887**
Accumulated depreciation and impairment				
At 1 January 2021	(18,039)	(7,195)	(7,818)	(33,052)
Charge	(3,317)	(774)	(1,976)	(6,067)
Impairment	(1,195)	–	–	(1,195)
Disposals	972	196	176	1,344
At 31 December 2021	**(21,579)**	**(7,773)**	**(9,618)**	**(38,970)**
Balance at 1 January 2021	17,682	2,138	3,257	23,077
Balance at 31 December 2021	**14,882**	**1,726**	**2,309**	**18,917**

In 2021, Handelsbanken plc impaired £1.2 million of fit out costs relating to premises the Bank was to exit due to the reorganisation. In 2022, the Bank has exited the majority of the premises and therefore fit out cost was settled.

Note 17 Assets held for sale

UK Group and Bank	2022 £'000	2021 £'000
Property	–	145

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 18 Prepaid expenses and accrued income

UK Group	2022 £'000	2021 £'000
Prepayments	7,855	6,663
Other accrued income	4,994	6,116
Accrued commission income	1,338	1,333
Total	**14,187**	**14,112**

Note 19 Other assets

UK Group	2022 £'000	2021 £'000
Sundry debtors	29,314	4,004
Other intercompany assets	148	322
Trade debtors	2,261	2,105
Total	**31,723**	**6,431**

Note 20 Deposits from the public

UK Group	2022 £'000	2021 £'000
Corporate	14,568,012	13,413,305
Private	5,918,606	5,788,545
Total	**20,486,618**	**19,201,850**
of which accrued interest expenses	*10,041*	*224*

Note 21 Issued securities

Issued securities consist of CDs issued in the UK money market. The CDs are used to fund the balance sheet in the short term.

UK Group and Bank £'000	2022 Carrying	2022 Nominal	2021 Carrying	2021 Nominal
Issued securities at beginning of year	2,976,296	2,976,296	2,979,300	2,979,300
Issued	7,729,484	7,729,484	7,814,596	7,814,596
Matured	(8,530,405)	(8,530,405)	(7,817,600)	(7,817,600)
Balance at 31 December	**2,175,375**	**2,175,375**	**2,976,296**	**2,976,296**
Accrued interest expenses	14,850	–	685	–
Issued securities at end of period	**2,190,225**	**2,175,375**	**2,976,981**	**2,976,296**

Maturity analysis of securities

UK Group and Bank 2022 £'000	Up to 30 days	31 days–6 months	6 months – 1 year	Total
Certificate of Deposits	454,068	1,736,157	–	2,190,225

UK Group and Bank 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

Note 22 Provisions

UK Group £'000	Provisions for off-balance sheet items	Restructuring provision	Other provisions	2022 Total	2021 Total
Provision at beginning of year	1,596	5,259	11,333	18,188	14,662
Additional provision	–	–	8,611	8,611	16,853
Reduction in provision	–	(3,574)	(1,950)	(5,524)	(12,644)
Change in expected credit losses	1,568	–	–	1,568	(682)
Provision at end of year	**3,164**	**1,685**	**17,994**	**22,843**	**18,189**

Restructuring provision can be further broken down as below:

UK Group and Bank £'000	2022 Total	2021 Total
Personnel	455	2,845
Premises	1,230	2,414
Total	**1,685**	**5,259**

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

The restructuring provision includes £1.2 million 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 2022, incurred year to date employee and premises costs in relation to restructuring were £2.1 million (2021: £3.2 million) and approximately £3.4 million (2021: £0.2 million), respectively.

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.

Note 23 Accrued expenses and deferred income

UK Group	2022 £'000	2021 £'000
Other accrued expenses	7,587	9,507
Deferred income	1,016	2,232
Bonus and accrued commission expense	1,600	1,697
Total	**10,203**	**13,436**

Other accrued expenses consist of various operational accruals.

Deferred income consists mainly of fees taken in advance, that are subsequently amortised as part of EIR and fees relating to unutilised commitment facilities charged in arrears.

Note 24 Other liabilities

UK Group	2022 £'000	2021 £'000
Sundry creditors and other liabilities	12,272	11,446
VAT	1,463	2,191
Trade creditors	2,558	5,337
Other intercompany liabilities	1	356
Total	**16,294**	**19,330**

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

Note 25 Share capital and share premium

UK Group and Bank	Number of ordinary shares of 100p each*	Ordinary shares £'000	Share premium £'000	Total £'000
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**
Shares issued during year	–	–	–	–
At 31 December 2022	**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.

Dividends on ordinary shares

	2022		2021	
UK Group and Bank	Per share £	Total £'000	Per share £	Total £'000
Dividends payable on ordinary shares				
Final dividend	52.57	265,516	–	–

On 14 March 2023, the Directors recommended a dividend for 2022 of £52.57 per ordinary share. The total dividend will be paid, subject to approval at the AGM, on 25 April 2023. For further information refer to the Directors' Report and Subsequent Events, note 31.

Note 26 Contingent liabilities

UK Group	2022 £'000	2021 £'000
Contingent liabilities		
Credit guarantees	354,574	346,678
Other guarantees	155,425	172,752
Of which, intercompany	*42,988*	*88,066*
Of which, other	*112,437*	*84,686*
Irrevocable letters of credit	23,321	194,089
Of which, intercompany	*4,900*	*160,900*
Of which, other	*18,421*	*33,189*
Other	150	413
Total contingent liabilities	**533,470**	**713,932**
of which subject to impairment testing according to IFRS 9	533,320	716,932
Commitments		
Loan commitments	2,769,938	2,859,369
Unutilised part of granted overdraft facilities	542,596	606,303
Other	60,927	74,320
Total commitments	**3,373,461**	**3,539,992**
of which subject to impairment testing according to IFRS 9	*1,517,773*	*3,539,992*
Provision for expected credit losses reported as provisions, see note 22	*3,164*	*1,596*

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.

Certain legal 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 27 Leasing

Leasing as a lessor

Disclosures on gross and net investments

UK Group and Bank	2022 £'000	2021 £'000
Gross investment	1,547	4,636
Unearned finance income	(17)	(53)
Net investment	**1,530**	**4,583**

Distribution by maturity

UK Group and Bank £'000	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2022				
Distribution of gross investment	430	1,117	–	1,547
Distribution of net investment	428	1,102	–	1,530
At 31 December 2021				
Distribution of gross investment	2,351	2,285	–	4,636
Distribution of net investment	2,324	2,259	–	4,583

All leases where the Bank is the lessor have been defined as finance leases. Lease agreements of this kind are accounted for as loans on the balance sheet, initially for an amount corresponding to the net investment. Lease assets mainly consist of vehicles and equipment.

Note 27 Leasing continued

Leasing as a lessee

The UK Group 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 UK Group is the lessee is presented below.

Right-of-use assets

UK Group	£'000
Balance at 1 January 2021	**71,496**
Additions	3,100
Depreciation	(12,713)
Impairment	(4,521)
Right-of-use remeasurements	691
Balance at 31 December 2021 and 1 January 2022	**58,053**
Additions	7,388
Depreciation	(11,982)
Reversal of Impairment	753
Right-of-use remeasurements	(2,758)
Balance at 31 December 2022	**51,454**

In 2021, the Bank impaired £4.5 million of assets relating to the reorganisation project. In 2022, the Bank exited the majority of the premises and therefore the impairment cost was settled. In addition, some of the provision was released as a result of change in the plan such as use of some premises slightly longer than the original plan.

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

UK Group	2022 £'000	2021 £'000
Less than one year	11,857	11,969
More than one year, less than five years	34,756	35,697
More than five years	13,262	16,101
Total undiscounted lease liabilities	**59,875**	**63,767**

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 reasonably certain that these options will be exercised.

HWAM's contracts for the rental premises do not include an option to extend the term of the agreement, so it is not possible to extend these contracts beyond the termination date of the lease or to terminate the agreement before expiry.

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

UK Group	2022 £'000	2021 £'000
Depreciation expenses	11,982	12,713
Variable lease expenses	3,899	3,659
Lease liability, interest expenses	1,328	1,555
Short-term, low-value lease expenses	576	506

Variable lease expenses largely relate to service charges attached to the right-of-use asset.

The UK Group also leases IT equipment and machinery with contract terms between one and three years. These leases are short term, or of low-value. The UK Group 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 and interest expenses recognised in the income statement amounted to £5.8 million (2021: £5.7 million).

Amounts recognised in cash flow statement

UK Group	2022 £'000	2021 £'000
Total cash outflow for leases	12,141	13,551

Note 28 Classification of financial assets and liabilities

Information about the fair values of financial instruments which are carried at amortised cost is given in note 29 and in the tables below.

2022 UK Group £'000	Amortised cost	Total carrying amount	Fair value
Assets			
Cash and balances with central banks	7,944,713	7,944,713	7,944,713
Other loans to central banks	99,900	99,900	99,900
Loans to other credit institutions	5,523,785	5,523,785	5,553,595
Loans to the public	19,028,715	19,028,715	18,536,600
Other assets	31,723	31,723	31,723
Total	**32,628,836**	**32,628,836**	**32,166,531**
Goodwill and Intangible assets		47,844	
Other non-financial assets		87,945	
Total assets		**32,764,625**	
Liabilities			
Due to credit institutions	7,239,434	7,239,435	6,961,149
Deposits from the public	20,486,618	20,486,618	20,466,202
Issued securities	2,190,225	2,190,225	2,190,225
Other liabilities	16,294	16,294	16,294
Total	**29,932,571**	**29,932,572**	**29,633,870**
Non-financial liabilities		92,592	
Total liabilities		**30,025,164**	

2021 UK Group £'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	3,944,381	3,944,381	3,944,383
Loans to the public	20,177,506	20,177,506	20,152,868
Other assets	6,431	6,431	6,431
Total	**32,515,454**	**32,515,454**	**32,490,818**
Goodwill and Intangible assets		49,420	
Other non-financial assets		93,377	
Total assets		**32,658,251**	
Liabilities			
Due to credit institutions	7,875,770	7,875,770	7,867,389
Deposits from the public	19,201,850	19,201,850	19,200,067
Issued securities	2,976,981	2,976,981	2,976,323
Other liabilities	19,330	19,330	19,330
Total	**30,073,931**	**30,073,931**	**30,063,109**
Non-financial liabilities		97,491	
Total liabilities		**30,171,422**	

Note 28 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 and lending balances and issued securities are also based on a discounted cash flow model and are all categorised as level 2.

Note 29 Fair value measurement of financial instruments

Fair value of financial instruments at amortised cost

2022 UK Group £'000	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	7,944,713	–	–	7,944,713
Other loans to central banks	–	99,900	–	99,900
Loans to other credit institutions	–	5,553,595	–	5,553,595
Loans to the public	–	–	18,536,600	18,536,600
Total financial assets	**7,944,713**	**5,653,495**	**18,536,600**	**32,134,808**
Liabilities				
Due to credit institutions	–	6,961,149	–	6,961,149
Deposits from the public	–	20,466,202	–	20,466,202
Issued securities	–	2,190,225	–	2,190,225
Total financial liabilities	**–**	**29,617,576**	**–**	**29,617,576**

2021 UK Group £'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	–	3,944,383	–	3,944,383
Loans to the public	–	–	20,152,868	20,152,868
Total financial assets	**8,284,357**	**4,047,162**	**20,152,868**	**32,484,387**
Liabilities				
Due to credit institutions	–	7,867,389	–	7,867,389
Deposits from the public	–	19,200,067	–	19,200,067
Issued securities	–	2,976,323	–	2,976,323
Total financial liabilities	**–**	**30,043,779**	**–**	**30,043,779**

Note 30 Related party transactions

The related parties of the UK Group includes all entities within the Handelsbanken Group 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 UK Group considers the members of Handelsbanken plc's Board of Directors to be key management personnel.

A full list of the directors of the Bank can be found in the Directors' report, the remuneration of the directors is disclosed in note 8 to the financial statements.

Transactions with the directors of the UK Group

The following table provides the total amount of transactions, which Handelsbanken Group has entered into with the directors for the year ended 31 December 2022:

UK Group 2022 £'000	**Balances at 31 December 2022**	**Interest (income)/expense**
Residential mortgages	2,778	41
Credit cards and other loans	10	–
Deposits	1,839	3
Other	4,763	21

UK Group 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	–

Credit cards and other loans include loans given to directors from Handelsbanken plc and other Handelsbanken 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 year and outstanding balances at the end of the reporting period.

During the year ended 31 December 2022, the UK Group received income and expenses from related parties as follows:

Other intercompany expenses and income mainly relate to costs recharged and services charged between members of the Handelsbanken Group.

UK Group £'000	**2022 Parent**	**2021 Parent**
Intercompany interest income	79,646	2,691
Intercompany interest expense	(129,801)	(107,013)
Net intercompany interest expense	**(50,155)**	**(104,322)**
Intercompany commission income	2,149	2,132
Intercompany commission expense	(48)	(30)
Net intercompany commission income	**2,101**	**2,102**
Other intercompany income	960	1,225
Other intercompany expense	(43,473)	(41,310)
Total other intercompany income/(expense)	**(42,513)**	**(40,085)**
Total	**(90,567)**	**(142,305)**

Note 30 Related party transactions continued

Amounts with Parent company, as at 31 December 2022 were as follows:

UK Group £'000	2022 Parent	2021 Parent
Included within assets		
Intercompany lending*	5,459,444	3,858,978
Other intercompany assets	148	322
Total	**5,459,592**	**3,859,300**
Included within liabilities		
Intercompany borrowings	7,236,315	7,875,660
Of which deposits	*6,621,440*	*7,188,117*
Of which subordinated loans	*401,732*	*400,633*
Of which senior non preferred debt	*150,323*	*200,092*
Of which other	*62,820*	*86,818*
Other intercompany liabilities	1	356
Total	**7,236,316**	**7,876,016**
Of which, accrued interest	*48,821*	*10,971*

* Subject to impairment testing

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

Note 31 Subsequent events

The UK Group has reviewed events from 31 December 2022 up until the authorisation of the financial statements for issue.

On 14 March 2023, the Directors recommended a dividend for 2022 of £52.57 per ordinary share. The total dividend will be paid, subject to approval at the AGM, on 25 April 2023. As the dividend was recommended after 31 December 2022, it is classified as a non-adjusting event and is therefore not recognised in the financial statements for the year ended 31 December 2022.

There have been no significant events between 31 December 2022 and the date of approval of the annual report and consolidated financial statements which would require a change to or additional disclosure in the financial statements.

Note 32 Ultimate parent undertaking

The UK Group, including Handelsbanken plc is a wholly-owned subsidiary of Svenska Handelsbanken, incorporated in Sweden, which is the ultimate Parent undertaking.

Svenska Handelsbanken heads the largest group in which the results of the UK Group and the Bank are consolidated. Handelsbanken Group's financial statements are available upon request at: Central Head Office, Kungsträdgårdsgatan 2 SE-106 70 Stockholm. They are also available online.

Handelsbanken plc, financial statements for the Bank

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME, BANK

FOR THE YEAR ENDED 31 DECEMBER 2022

Bank	Note	2022 £'000	2021 £'000
Interest income		912,436	571,058
of which interest income according to the effective interest method		*912,436*	*571,058*
Interest expense		(271,234)	(127,916)
Net interest income	3.2	**641,202**	**443,142**
Fee and commission income		38,615	37,552
Fee and commission expense		(3,655)	(3,300)
Net fee and commission income	4.2	**34,960**	**34,252**
Net gains on financial transactions	5	24,081	21,464
Total income		**700,243**	**498,858**
Personnel costs	5.2	(220,945)	(214,077)
Depreciation, amortisation and impairment of property, equipment, right-of-use and intangible assets	13.2, 14.2,22.2	(20,788)	(30,114)
Other operating expenses	6.2	(114,634)	(133,406)
Total expenses		**(356,367)**	**(377,597)**
Profit before credit (losses)/gains and net gains from disposal		**343,876**	**121,261**
Net credit (losses)/gains	10	(4,415)	7,945
Net gains on disposal of property, equipment and intangible assets		818	775
Profit before tax		**340,279**	**129,981**
Taxes	9.2	(90,121)	(35,363)
Profit for the year		**250,158**	**94,618**
Other comprehensive income, net of tax		–	–
Profit and total comprehensive income for the year		**250,158**	**94,618**

There is no other comprehensive income for the year ended 31 December 2022.

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

The notes on pages 135–152 form part of these financial statements.

BALANCE SHEET, BANK

AS AT 31 DECEMBER 2022

Bank	Note	31 December 2022 £'000	31 December 2021 £'000
ASSETS			
Cash and balances with central banks	10.2	7,944,713	8,284,357
Other loans to central banks	13	99,900	102,779
Loans to other credit institutions	11.2	5,522,526	3,943,698
Loans to the public	2	19,028,715	20,177,506
Investments in subsidiaries	12.2	44,119	44,119
Intangible assets	13.2	22,465	22,613
Property and equipment	14.2	17,834	18,219
Right-of-use assets	22.2	47,842	53,717
Deferred tax assets	9.2	3,380	1,768
Assets held for sale	17	–	145
Prepaid expenses and accrued income	15.2	9,787	9,133
Other assets	16.2	32,224	6,845
Total assets		**32,773,505**	**32,664,899**
LIABILITIES			
Due to credit institutions	11.2	7,239,434	7,875,770
Deposits from the public	17.2	20,506,731	19,218,027
Issued securities	21	2,190,225	2,976,981
Current tax liabilities		4,051	899
Provisions	18.2	22,272	18,078
Lease liabilities		49,090	57,305
Accrued expenses and deferred income	19.2	8,270	11,501
Other liabilities	20.2	16,203	19,267
Total liabilities		**30,036,276**	**30,177,828**
EQUITY			
Share capital	25	5,050	5,050
Share premium	25	2,070,619	2,070,619
Retained earnings		411,402	316,784
Profit for the year		250,158	94,618
Total equity		**2,737,229**	**2,487,071**
Total liabilities and equity		**32,773,505**	**32,664,899**

These financial statements were approved by the Board of directors and authorised for issue on 20 March 2023.

The notes on pages 135–152 form part of these financial statements.

MARTIN BJÖRNBERG
Director

STATEMENT OF CHANGES IN EQUITY, BANK

FOR THE YEAR ENDED 31 DECEMBER 2022

Bank 2022	Note	Share capital £'000	Share premium £'000	Retained earnings including profit for the year £'000	Total £'000
At 1 January 2022	25	5,050	2,070,619	411,402	**2,487,071**
Total comprehensive income		–	–	250,158	**250,158**
At 31 December 2022		**5,050**	**2,070,619**	**661,560**	**2,737,229**

2021	Note	Share capital £'000	Share premium £'000	Retained earnings including profit for the year £'000	Total £'000
At 1 January 2021	25	5,050	2,070,619	316,784	**2,392,453**
Total comprehensive income		–	–	94,618	**94,618**
At 31 December 2021		**5,050**	**2,070,619**	**411,402**	**2,487,071**

CASH FLOW STATEMENT, BANK
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000 Restated*
OPERATING ACTIVITIES			
Operating profit		340,280	129,981
of which paid in interest		*828,297*	*572,690*
of which paid out interest		*(243,705)*	*(131,475)*
Adjustment for non-cash items in profit:			
Net credit losses/(gains)	8	4,415	(7,945)
(Gains) on financial transactions		(2,230)	(2,905)
Net (gains) on disposal of property, equipment and intangible assets		(818)	(775)
Depreciation, amortisation and impairment of property, equipment, right of use and intangible assets"	13.2,14.2 & 22.2	20,788	30,114
Lease liability interest expense	22.2	1,236	1,439
Acquisition of right of use asset	22.2	(7,388)	(3,100)
Changes in the assets and liabilities of operating activities:			
Other loans to central banks	13	2,879	(4,386)
Loans to other credit institutions		(1,598,198)	(241,069)
Loans to the public		1,144,359	688,530
Due to credit institutions	11.2	(636,336)	(1,358,541)
Deposits from the public	17.2	1,288,704	127,303
Issued securities	21	(786,756)	(3,147)
Provisions	18.2	4,194	3,440
Lease liabilities		4,779	2,589
Income tax (payment)		(88,581)	(31,739)
Other assets	16.2	(25,379)	5,469
Prepaid expenses and accrued income	15.2	(654)	(1,257)
Other liabilities	20.2	(3,064)	659
of which payments made for variable lease expenses	*22.2*	*(3,899)*	*(3,659)*
of which payments made for short-term and low value leases	*22.2*	*(971)*	*(900)*
of which other		*1,806*	*5,218*
Accrued expenses and deferred income	19.2	(3,231)	(6,549)
Other		(11,973)	(371)
Cash outflow from operating activities		**(352,974)**	**(672,260)**
INVESTING ACTIVITIES			
Assets held for sale		963	65
Acquisitions of property and equipment	14.2	(4,561)	(3,270)
Disposal of property and equipment		1,215	997
Acquisitions of intangible assets	13.2	(6,635)	(3,464)
Cash outflow from investing activities		**(9,018)**	**(5,672)**
FINANCING ACTIVITIES			
Payments made for lease liabilities	22.2	(11,240)	(12,429)
Cash outflow from financing activities		**(11,240)**	**(12,429)**
Cash outflow for the year		**(373,232)**	**(690,361)**
Cash balance at beginning of year	10.2	8,368,272	9,058,781
Net foreign exchange differences		325	(148)
Cash balance at end of year	10.2	**7,995,365**	**8,368,272**

* See note 1.2 (c) Restatement made in the year for the explanation.

NOTES TO THE FINANCIAL STATEMENTS, BANK

Note 1.2 Basis for preparation and material accounting policy information

(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. 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 in conformity with the requirements of the Companies Act 2006. They have been prepared on a historical cost basis unless otherwise stated.

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

The relationship between the Bank's and the UK Group's accounting policies

Handelsbanken plc's accounting policies correspond largely to those of the UK Group. The following reports only on those areas where the Bank's policies differ from those of the UK Group. In all other respects, reference is made to the accounting policies in note 1, starting on page 91.

(b) 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 reviewed for impairment at each balance sheet date in order to assess whether they require impairment. If a value has decreased, impairment is recognised to adjust the value to the consolidated value. Any impairment costs are classified as impairment loss on financial assets in the income statement. Information on the Bank's subsidiaries can be found in note 12.2.

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 2022 Annual Report is available from its head office at Kungsträdgårdsgatan 2, SE-106 70, Stockholm, Sweden.

(c) Restatement made in the year

The Bank has retrospectively adjusted the Cash flow statement for 2021 to conform to the disclosure requirements of IAS 7. The restatement reclassifies acquisition of right-of-use assets amounting to £3.1 million from cash flow from investing activities to adjustment for non-cash items in profit, to better reflect the requirements of the accounting standard.

Note 2.2 Risk management

Credit risk exposures, breakdown by type of collateral

2022 £'000	**Residential property**	**Other property**	**Sovereigns, municipalities**[1]	**Financial collateral**	**Collateral in assets**	**Unsecured**	**Total**
Cash and balances with central banks	–	–	7,944,713	–	–	–	7,944,713
Other loans to central banks	–	–	99,900	–	–	–	99,900
Loans to other credit institutions	–	–	–	–	–	5,522,526	5,522,526
Loans to the public	12,330,048	6,011,814	26,829	32,490	151,284	476,250	19,028,715
Total	**12,330,048**	**6,011,814**	**8,071,442**	**32,490**	**151,284**	**5,998,776**	**32,595,854**
Off-balance sheet items	703,615	785,344	96,709	4,875	–	2,319,388	**3,909,931**
of which guarantee commitments	*15,603*	*17,931*	*42*	*3,786*	–	*499,108*	*536,470*
of which obligations	*688,012*	*767,413*	*96,667*	*1,089*	–	*1,820,280*	*3,373,461*
Total	**703,615**	**785,344**	**96,709**	**4,875**	**–**	**2,319,388**	**3,909,931**
Total on and off-balance sheet items	**13,033,663**	**6,797,158**	**8,168,151**	**37,365**	**151,284**	**8,318,164**	**36,505,785**

1 Refers to direct sovereign exposures and government guarantees.

Note 2.2 Risk management continued

2021 £'000	Residential property	Other property	Sovereigns, municipalities[1]	Financial collateral	Collateral in assets	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	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.

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.

Bank 2022 £'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	7,944,713	–	–	–	–	–	99,900	**8,044,613**
To credit institutions	1,295,441	1,447,972	1,019,138	1,114,984	604,992	39,999	–	**5,522,526**
Loans to public	1,003,787	2,100,808	1,982,257	3,353,566	8,025,873	2,562,423	–	**19,028,714**
Other	–	–	–	–	–	–	177,652	**177,652**
of which shares and participating interests	–	–	–	–	–	–	*44,119*	*44,119*
of which other	–	–	–	–	–	–	*133,533*	*133,533*
Total	**10,243,941**	**3,548,780**	**3,001,395**	**4,468,550**	**8,630,865**	**2,602,422**	**277,552**	**32,773,505**
Liabilities								
To credit institutions	892,994	498,761	1,120,549	1,139,485	2,351,980	1,235,665	–	**7,239,434**
Deposits from public	17,899,487	2,183,828	392,370	31,046	–	–	–	**20,506,731**
Issued securities	454,068	1,736,157	–	–	–	–	–	**2,190,225**
of which CDs less than one year	*454,068*	*1,736,157*	–	–	–	–	–	*2,190,225*
Other	–	–	–	–	–	–	99,886	**99,886**
Total	**19,246,549**	**4,418,746**	**1,512,919**	**1,170,531**	**2,351,980**	**1,235,665**	**99,886**	**30,036,276**
Off-balance sheet items								
Unutilised guarantees and loan commitments	3,373,461	–	–	–	–	–	–	**3,373,461**

Bank 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**

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 basis, related to both principal and future interest flows for the UK Group's financial liabilities.

Bank 2022 £'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	913,839	541,601	1,190,298	1,243,999	2,551,540	1,307,154	–	**7,748,431**
Deposits from public	17,891,245	2,199,220	406,172	32,906	–	–	–	**20,529,543**
Issued securities	454,068	1,746,491	–	–	–	–	–	**2,200,559**
of which CDs less than one year	*454,068*	*1,746,491*	–	–	–	–	–	*2,200,559*
Other	–	–	–	–	–	–	99,886	**99,886**
Total	**19,259,152**	**4,487,312**	**1,596,470**	**1,276,905**	**2,551,540**	**1,307,154**	**99,886**	**30,578,419**

Bank 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**

Note 3.2 Net interest income

Bank	2022 £'000	2021 £'000
Loans to the public	683,156	530,308
Loans to credit institutions and central banks	123,059	8,843
Loans to other Group undertakings	79,646	2,691
Other interest income	26,575	29,216
Total interest income	**912,436**	**571,058**
of which interest income according to the effective interest method	*912,436*	*571,058*
Deposits and borrowing from the public	(104,729)	(16,724)
Due to other Group undertakings	(129,801)	(107,013)
Issued securities	(34,609)	(2,088)
Lease liability	(1,236)	(1,439)
Other interest expense	(859)	(652)
Total interest expense	**(271,234)**	**(127,916)**
Net interest income	**641,202**	**443,142**

Note 4.2 Net fee and commission income

Bank	2022 £'000	2021 £'000
Payments	24,865	22,852
Loans and deposits	9,924	10,789
Intercompany commission	2,149	2,132
Guarantees	1,182	1,349
Other	495	430
Total fee and commission income	**38,615**	**37,552**
Payments	(3,567)	(3,262)
Loans and deposits	–	(3)
Intercompany commission	(47)	(30)
Other	(41)	(5)
Total fee and commission expense	**(3,655)**	**(3,300)**
Net fee and commission income	**34,960**	**34,252**

Note 5.2 Personnel costs

The average number of persons employed (including directors) during the year was:

Average number of employees Bank	2022	2021
Head office and support	1,017	927
Branch operations	1,567	1,703
Total	**2,584**	**2,630**

Personnel costs for the above persons were:

Bank	2022 £'000	2021 £'000
Wages and salaries	158,490	151,737
Pension costs	23,039	22,762
Social security costs	21,865	19,165
Staff benefits and other	11,263	19,018
Share-based payment arrangement	6,288	1,395
Total	**220,945**	**214,077**

Note 6.2 Other operating expenses

Bank	2022 £'000	2021 £'000
Professional and legal fees	24,261	50,140
Intercompany recharges	39,106	36,989
Rent and premises costs	14,108	13,573
IT and communication costs	11,373	9,233
Unrecoverable VAT on intercompany invoices	8,576	8,110
Travel, marketing, membership & supplies	8,365	5,818
Consultancy fees	3,845	5,263
Restructuring cost	313	2,668
Auditors' remuneration	975	721
Other operating expenses	3,712	891
Total operating expenses	**114,634**	**133,406**

Auditors' remuneration

Bank	2022 £'000	2021 £'000
Fees payable to the company's auditor for the audit of the company accounts	945	654
Fees payable to the company's auditor for other services:		
Audit related assurance services	30	30
Audit services for the purpose of reporting to the company's parent	–	37
Total audit and non-audit fees	**975**	**721**

Note 7.2 Share based payment arrangement

As described in the Directors' report, Oktogonen allocations are primarily disbursed in the UK through a UK approved HMRC SIP.

Following the approval of an Oktogonen award for the 2021 performance year this was disbursed via the SIP during 2022.

UK Group 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 2022 to the Bank's personnel are shown in the table below.

	2022		2021	
Bank	No. of shares	Average cost of shares £	No. of shares	Average cost of shares £
Annual free share awards	266,712	7.17	374,442	8.33

Bank	2022 £'000	2021 £'000
Expenses arising from share based payment transactions	6,288	1,395
2020 Oktogonen allocation	–	*(49)*
2021 Oktogonen allocation	*695*	*1,444*
2022 Oktogonen allocation	*5,593*	–
Share-based payment liability	177	57
Oktogonen allocation provision	5,545	1,488

Note 8.2 Credit losses

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

2022 Bank £'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	7,944,713	–	–	–	–	–
Other loans to central banks	99,900	–	–	–	–	–
Loans to other credit institutions	5,522,603	–	–	(77)	–	–
Loans to the public	17,688,338	1,270,780	94,450	(9,445)	(11,432)	(3,976)
Total	**31,255,554**	**1,270,780**	**94,450**	**(9,522)**	**(11,432)**	**(3,976)**
Off-balance sheet items						
Total off-balance sheet	1,988,041	64,412	1,640	(1,121)	(2,043)	–
of which contingent liabilities	*525,476*	*10,398*	*446*	*(185)*	*(1,044)*	–
of which commitments	*1,462,565*	*54,014*	*1,194*	*(936)*	*(999)*	–
Total	**33,243,595**	**1,335,192**	**96,090**	**(10,643)**	**(13,475)**	**(3,976)**

2021 Bank £'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)**

Change analysis

Change in gross exposure, and the maximum exposure to loss at the beginning and end of the year

Balance sheet items that are subject to impairment testing

2022 Bank £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	31,390,654	1,037,782	102,175	**32,530,611**
Derecognised assets	(1,420,139)	(172,533)	(24,567)	**(1,617,239)**
Write-offs	–	–	(237)	**(237)**
Remeasurements due to changes in credit risk	1,021,593	(423,897)	(26,727)	**570,969**
Foreign exchange effect, etc	(27,584)	(2,052)	(719)	**(30,355)**
Originated assets	1,112,407	53,593	1,035	**1,167,035**
Transfer to Stage 1	528,266	(525,095)	(3,171)	**–**
Transfer to Stage 2	(1,322,657)	1,332,173	(9,516)	**–**
Transfer to Stage 3	(26,986)	(29,191)	56,177	**–**
Exposure at end of year	**31,255,554**	**1,270,780**	**94,450**	**32,620,784**

2021 Bank £'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**

Off-balance sheet items that are subject to impairment testing

2022 Bank £'000	Stage 1	Stage 2	Stage 3	Total
Exposure at beginning of year	4,087,984	167,295	1,232	**4,256,511**
Derecognised assets	(311,286)	(5,103)	(91)	**(316,480)**
Remeasurements due to changes in credit risk	(2,041,102)	(160,877)	(250)	**(2,202,229)**
Foreign exchange effect, etc	(8,587)	(171)	(7)	**(8,765)**
Originated assets	321,603	2,908	545	**325,056**
Transfer to Stage 1	113,747	(113,697)	(50)	**–**
Transfer to Stage 2	(173,838)	174,071	(233)	**–**
Transfer to Stage 3	(480)	(14)	494	**–**
Exposure at end of year	**1,988,041**	**64,412**	**1,640**	**2,054,093**

2021 Bank £'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**

Note 8.2 Credit losses continued

Balance sheet items, by PD range

2022 Bank PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	24,688,892	125,082	–	**24,813,974**
0.15 to <0.25	3,473,211	323,987	–	**3,797,198**
0.25 to <0.50	757,081	85,560	–	**842,641**
0.50 to <0.75	1,425,913	263,835	–	**1,689,748**
0.75 to <2.50	852,201	377,263	–	**1,229,464**
2.50 to <10.00	58,047	82,750	–	**140,797**
10.00 to <100	209	12,303	–	**12,512**
100 (default)	–	–	94,450	**94,450**
Total	**31,255,554**	**1,270,780**	**94,450**	**32,620,784**

2021 Bank PD value[3]	Gross volume £'000 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**

Off-balance sheet items, by PD range

2022 Bank PD value[3]	Gross volume £'000 Stage 1	Stage 2	Stage 3	Total
0.00 to <0.15	1,413,193	2,489	–	**1,415,682**
0.15 to <0.25	259,056	4,492	–	**263,548**
0.25 to <0.50	168,337	10,581	–	**178,918**
0.50 to <0.75	46,584	10,495	–	**57,079**
0.75 to <2.50	99,883	33,091	–	**132,974**
2.50 to <10.00	988	2,727	–	**3,715**
10.00 to <100	–	537	–	**537**
100 (default)	–	–	1,640	**1,640**
Total	**1,988,041**	**64,412**	**1,640**	**2,054,093**

2021 Bank 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**

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

Note 9.2 Taxes

Income tax expense for the year

Bank	2022 £'000	2021 £'000
Corporation tax:		
UK corporation tax	91,096	34,815
Adjustments in respect of previous years	637	767
Total current tax charge	**91,733**	**35,582**
Deferred tax:		
Current year	(1,133)	(1,628)
Adjustments in respect of previous years	(479)	1,409
Total deferred tax (credit)	**(1,612)**	**(219)**
Tax charge on profit on ordinary activities	**90,121**	**35,363**

The tax assessed for the year is higher (2021: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Tax reconciliation

Bank	2022 £'000	2021 £'000
Profit on ordinary activities before taxation	**340,280**	**129,981**
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19%	**64,653**	**24,697**
Tax effects of:		
Expenses not deductible for tax purposes	171	291
Bank corporation tax surcharge	25,683	8,908
Adjustments to tax charge in respect of prior years	637	767
Impact of bank surcharge on deferred tax	(158)	–
Adjustments to tax charge in respect of prior years deferred tax	(479)	1,409
Remeasurement of deferred tax due to rate changes	25	–
Tax effects from Research and Development Expenditure Credit	(411)	–
Adjustment of deferred tax for rate change (revalued to 19%)	–	(709)
Total tax charge	**90,121**	**35,363**

The main rate of corporation tax for the year was 19% (2021:19%). It will increase to 25% on 1 April 2023 in accordance with the Finance Act 2020.

The corporation tax banking surcharge rate for the year was 8% on banking profits (less a £25 million allowance). The charge arising for the period ended 31 December 2022 was £25.7 million (2021: £8.9 million)

The Finance Act 2022 reduces the banking surcharge rate to 3%, and increases the threshold to £100 million from 1 April 2023. The reduced rate has been used to calculate deferred tax position for the year.

Deferred tax assets of £3.4 million have been recognised at 28% (corporation tax 25% and banking surcharge 3%).

Deferred tax balance

Bank	2022 £'000	2021 £'000
Holiday accrual	484	941
Short term timing differences	1,565	–
Fixed asset temporary differences	1,331	827
Deferred tax assets	**3,380**	**1,768**

Note 9.2 Taxes continued

Deferred tax movement

Bank	2022 £'000	2021 £'000
Deferred tax asset at beginning of year	1,768	1,549
Fixed asset temporary differences	627	1,002
Holiday accrual	(315)	(83)
Short term timing differences	1,162	–
Prior year adjustment	479	(1,409)
Movement in tax rate	(341)	709
Deferred tax asset at end of year	**3,380**	**1,768**

Note 10.2 Cash and balances with central banks

Bank	2022 £'000	2021 £'000
Cash held at central banks	7,944,713	8,284,357
Due from other banks	63,082	84,719
Of which on demand	*63,082*	*84,719*
Of which term deposits	–	–
Balance at end of year	**8,007,795**	**8,369,076**
Of which accrued interest income	*12,509*	*863*
Of which provision for expected credit losses reported as provisions, see note 18.2	*(77)*	*(59)*
Loans to intercompany, on demand	5,459,444	3,858,978
Total	**13,467,239**	**12,228,054**
of which accrued interest income	*32,311*	*25*

Reconciliation of cash and balances on Balance sheet and Cash flow

Bank	2022 £'000	2021 £'000
Cash and balances with central banks (Balance sheet)	7,944,713	8,284,357
External nostro	63,161	84,778
Less accrued interest	(12,509)	(863)
Cash balance at the end of the year (cash flow)	**7,995,365**	**8,368,272**

Note 11.2 Due to/from other credit institutions

Bank	2022 £'000	2021 £'000
Due from other banks	63,159	84,779
Intercompany lending	5,459,444	3,858,978
Total	**5,522,603**	**3,943,757**
Provision for expected credit loss	(77)	(59)
Total asset	**5,522,526**	**3,943,698**
of which accrued interest income	*32,311*	*25*
Loans from other credit institutions		
Due to other banks	3,118	110
Intercompany borrowing	7,236,316	7,875,660
Total liability	**7,239,434**	**7,875,770**
of which accrued interest expense	*16,299*	*10,946*

Note 12.2 Investments in subsidiary undertakings

Bank	Total £'000
Cost	
At 1 January 2021 and 1 January 2022	44,119
Impairment	
At 31 December 2021 and 31 December 2022	–
Balance	
At 31 December 2021 and 31 December 2022	44,119

Investments in subsidiaries held by the Bank during 2022 have been regularly reviewed for impairment indicators. An annual impairment review was undertaken at 31 December 2022, taking into account the current economic conditions. No impairment was needed as a result of the reviews during the year ended 31 December 2022.

Handelsbanken plc holds the following investments:

Name of company	UK company number	Place of business/ country of incorporation	Nature of Business	Percentage owned %	Registered office
Direct subsidiaries:					
Svenska Property Nominees Limited (inactive)	2308524	UK	Financial intermediation	100	3 Thomas More Square, London, E1W 1WY
Handelsbanken Wealth & Asset Management Limited	4132340	UK	Fund management	100	No.1 Kingsway, London, England, WC2B 6AN
Indirect subsidiaries:					
Handelsbanken Nominees Limited (inactive)	2299877	UK	Administration of financial markets	100	77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS
Handelsbanken Second Nominees Limited (inactive)	3193458	UK	Administration of financial markets	100	77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS
Handelsbanken ACD Limited	4332528	UK	Financial intermediation	100	77 Mount Ephraim, Tunbridge Wells, Kent, TN4 8BS

Note 13.2 Intangible assets

Bank 2022	Internally developed software £'000
Cost	
At 1 January 2022	40,226
Additions	6,635
Disposals	(7,928)
At 31 December 2022	**38,933**
Accumulated amortisation and impairment	
At 1 January 2022	(17,613)
Amortisation	(5,376)
Impairment	(1,407)
Disposals	7,928
At 31 December 2022	**(16,468)**
At 1 January 2022	22,613
At 31 December 2022	**22,465**

Note 13.2 Intangible assets continued

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 2021	26,042
Balance at 31 December 2021	**22,613**

Research and development costs incurred and recognised in the income statement and not capitalised amount to £13.9 million (2021: £12.3 million), these costs relate entirely to internally developed software.

Note 14.2 Property and equipment

Bank 2022	Branch fit out £'000	Fixtures, fittings and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2022	36,460	6,929	9,527	52,916
Additions	2,113	302	2,146	4,561
Disposals	(5,084)	(390)	(917)	(6,391)
At 31 December 2022	**33,489**	**6,841**	**10,756**	**51,086**
Accumulated depreciation and impairment				
At 1 January 2022	(21,578)	(5,804)	(7,315)	(34,697)
Charge	(2,775)	(464)	(1,633)	(4,872)
Impairment	1,141	–	–	1,141
Disposals	3,888	381	907	5,176
At 31 December 2022	**(19,324)**	**(5,887)**	**(8,041)**	**(33,252)**
Balance at 1 January 2022	14,882	1,125	2,212	18,219
Balance at 31 December 2022	**14,165**	**954**	**2,715**	**17,834**

Bank 2021	Branch fit out £'000	Fixtures, fittings and equipment £'000	Computer equipment £'000	Total £'000
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**
Accumulated depreciation and impairment				
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 15.2 Prepaid expenses and accrued income

Bank	2022 £'000	2021 £'000
Prepayments	7,090	5,835
Other accrued income	1,374	1,979
Accrued commission income	1,323	1,319
Total	**9,787**	**9,133**

Note 16.2 Other assets

Bank	2022 £'000	2021 £'000
Sundry debtors	30,040	2,937
Other intercompany assets	148	2,004
Trade debtors	2,036	1,904
Total	**32,224**	**6,845**

Note 17.2 Deposits from the public

Bank	2022 £'000	2021 £'000
Corporate	14,568,012	13,413,305
Private	5,918,606	5,788,545
Intercompany borrowing	20,113	16,177
Total	**20,506,731**	**19,218,027**
of which accrued interest expenses	*10,041*	*224*

Note 18.2 Provisions

Bank £'000	Provisions for off-balance sheet items	Restructuring provision	Other provisions	2022 Total	2021 Total
Provision at beginning of year	1,596	5,259	11,223	18,078	14,638
Additional provision	–	–	7,974	7,974	16,767
Reduction in provision	–	(3,574)	(1,774)	(5,348)	(12,645)
Change in expected credit losses	1,568	–	–	1,568	(682)
Provision at end of year	**3,164**	**1,685**	**17,423**	**22,272**	**18,078**

Note 19.2 Accrued expenses and deferred income

Bank	2022 £'000	2021 £'000
Other accrued expenses	6,919	8,928
Deferred income	1,016	2,232
Accrued commission expense	335	340
Total	**8,270**	**11,501**

Note 20.2 Other liabilities

Bank	2022 £'000	2021 £'000
Sundry creditors and other liabilities	12,230	11,444
VAT	1,463	2,191
Trade creditors	2,509	5,276
Other intercompany liabilities	1	356
Total	**16,203**	**19,267**

Note 21.2 Contingent liabilities

Commitments include loans and overdraft commitments provided to customers.

Bank	2022 £'000	2021 £'000
Contingent liabilities		
Credit guarantees	354,574	346,678
Other guarantees	158,425	175,752
Of which, intercompany	*45,988*	*91,066*
Of which, other	*112,437*	*84,686*
Irrevocable letters of credit	23,321	194,089
Of which, intercompany	*4,900*	*160,900*
Of which, other	*18,421*	*33,189*
Other	150	413
Total contingent liabilities	**536,470**	**716,932**
of which subject to impairment testing according to IFRS 9	*536,320*	*716,519*
Commitments		
Loan commitments	2,769,938	2,859,369
Unutilised part of granted overdraft facilities	542,596	606,303
Other	60,927	74,320
Total commitments	**3,373,461**	**3,539,992**
of which subject to impairment testing according to IFRS 9	*1,517,773*	*3,539,992*
Provision for expected credit losses reported as provisions, see note 18.2	*3,164*	*1,596*

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.

Certain legal 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.

Note 22.2 Leasing

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

Bank	£'000
Balance at 1 January 2021	**66,212**
Additions	3,100
Depreciation	(11,767)
Impairment	(4,521)
Right-of-use remeasurements	693
Balance at 31 December 2021 and 1 January 2022	**53,717**
Additions	7,388
Depreciation	(11,027)
Reversal of Impairment	753
Right-of-use remeasurements	(2,989)
Balance at 31 December 2022	**47,842**

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

Bank	2022 £'000	2021 £'000
Less than one year	10,510	10,847
More than one year, less than five years	32,441	31,978
More than five years	13,262	16,101
Total undiscounted lease liabilities	**56,213**	**58,926**

Amounts recognised in income statement

Bank	2022 £'000	2021 £'000
Depreciation expenses	11,027	11,767
Variable lease expenses	3,899	3,659
Lease liability, interest expenses	1,236	1,439
Short-term, low-value lease expenses	971	900

Amounts recognised in cash flow statement

Bank	2022 £'000	2021 £'000
Total cash outflow for leases	11,240	12,429

Note 23.2 Classification of financial assets and liabilities

Information about the fair values of financial instruments which are carried at amortised cost is given in note 24.2 and in the tables below.

2022 Bank £'000	Amortised cost	Total carrying amount	Fair value
Assets			
Cash and balances with central banks	7,944,713	7,944,713	7,944,713
Other loans to central banks	99,900	99,900	99,900
Loans to other credit institutions	5,522,526	5,522,526	5,552,337
Loans to the public	19,028,715	19,028,715	18,536,600
Other assets	32,224	32,224	32,224
Total	**32,628,078**	**32,628,078**	**32,165,774**
Investments in subsidiary		44,119	
Other non-financial assets		101,308	
Total assets		**32,773,505**	
Liabilities			
Due to credit institutions	7,239,435	7,239,435	6,961,149
Deposits from the public	20,506,731	20,506,731	20,486,314
Issued securities	2,190,225	2,190,225	2,190,225
Other liabilities	16,202	16,202	16,202
Total	**29,952,593**	**29,952,593**	**29,653,890**
Non-financial liabilities		83,683	
Total liabilities		**30,036,276**	

2021 Bank £'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**	

Note 24.2 Fair value measurement of financial instruments

Fair value of financial instruments at amortised cost

2022 Bank £'000	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	7,944,713	–	–	7,944,713
Other loans to central banks	–	99,900	–	99,900
Loans to other credit institutions	–	5,552,337	–	5,552,337
Loans to the public	–	–	18,536,600	18,536,600
Total financial assets	**7,944,713**	**5,652,237**	**18,536,600**	**32,133,550**
Liabilities				
Due to credit institutions	–	6,961,149	–	6,961,149
Deposits from the public	–	20,486,314	–	20,486,314
Issued securities	–	2,190,225	–	2,190,225
Total financial liabilities	**–**	**29,637,688**	**–**	**29,637,688**

2021 Bank £'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**

Note 25.2 Related party transactions

The related parties of the Bank 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 the Bank can be found in note 12.2 to the financial statements.

A full list of the directors of the Bank can be found in the Directors' report, the remuneration of the directors is disclosed in note 8 of the UK Group's consolidated financial statements.

Transactions with the directors of the Bank

The following table provides the total amount of transactions, which Handelsbanken Group has entered into with the directors for the year ended 31 December 2022:

Bank 2022 £'000	Balances at 31 December 2022	Interest expense
Residential mortgages	**2,460**	**37**
Credit cards and other loans	**8**	**–**
Deposits	**1,482**	**3**
Other	**1,524**	**–**

Bank 2021 £'000	Balances at 31 December 2021	Interest expense
Residential mortgages	2,477	42
Credit cards and other loans	69	–
Deposits	1,270	1
Other	1,537	–

Note 25.2 Related party transactions continued

Transactions with other related parties

In addition to transactions with key management personnel, the Bank enters into transactions with entities that have significant influence over it. The following tables show transactions during the year and outstanding balances at the end of the reporting period.

During the year ended 31 December 2022, the UK Group received income and expenses from related parties as follows:
Other intercompany expenses and income mainly relate to costs recharged and services charged between members of the Handelsbanken Group.

Bank £'000	2022 Parent	2022 Wholly-owned subsidiary	2021 Parent	2021 Wholly-owned subsidiary
Intercompany interest income	79,646	–	2,691	–
Intercompany interest expense	(129,801)	–	(107,013)	–
Net intercompany interest expense	**(50,155)**	**–**	**(104,322)**	**–**
Intercompany commission income	2,149	–	2,132	–
Intercompany commission expense	(47)	–	(30)	–
Net intercompany commission income	**2,102**	**–**	**2,102**	**–**
Other intercompany income	2,619	3,028	998	2,637
Other intercompany expense	(42,830)	(1)	(40,624)	–
Total other intercompany income/(expense)	**(40,211)**	**3,027**	**(39,626)**	**2,637**
Total	**(88,264)**	**3,027**	**(141,846)**	**2,637**

Amounts with Parent company, and other intercompany parties as at 31 December 2022 were as follows:

Bank	2022 Parent	2022 Wholly-owned subsidiary	2021 Parent	2021 Wholly-owned subsidiary
Included within assets				
Intercompany lending*	5,459,444	–	3,858,978	–
Other intercompany assets	148	1,792	2,004	–
Total	**5,459,592**	**1,792**	**3,860,982**	**–**
Included within liabilities				
Intercompany deposits	7,236,315	20,113	7,875,660	**16,177**
Of which deposits	*6,621,440*	–	*7,188,117*	–
Of which subordinated loans	*401,732*	–	*400,633*	–
Of which senior non preferred debt	*150,323*	–	*200,092*	–
Of which other	*62,820*	*20,113*	*86,818*	*16,177*
Other intercompany liabilities	1	–	356	**–**
Total	**7,236,316**	**20,113**	**7,876,016**	**16,177**
Of which, accrued interest	*48,821*		*10,971*	

* Subject to impairment testing

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

DIRECTORS AND ADVISORS

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Mikael Hallåker (Chair)
Maureen Laurie (SID)
John Ellacott
Patricia Jackson
Agneta Lilja
Arja Taaveniku
Margaret Willis
Martin Björnberg (Chief Financial Officer)
Mikael Sørensen (Chief Executive Officer)

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