



# Svenska Handelsbanken AB

## Company Profile

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**Europe, Middle East & Africa**

119 Farringdon Road  
London  
EC1R 3DA  
United Kingdom

t: +44 20 7551 9000  
f: +44 20 7551 9090  
e: [euinfo@datamonitor.com](mailto:euinfo@datamonitor.com)

**Americas**

245 5th Avenue  
4th Floor  
New York, NY 10016  
USA

t: +1 212 686 7400  
f: +1 212 686 2626  
e: [usinfo@datamonitor.com](mailto:usinfo@datamonitor.com)

**Asia Pacific**

Level 46  
2 Park Street  
Sydney, NSW 2000  
Australia

t: +61 2 8705 6900  
f: +61 2 8088 7405  
e: [apinfo@datamonitor.com](mailto:apinfo@datamonitor.com)

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## COMPANY OVERVIEW

Svenska Handelsbanken (Handelsbanken) is a universal bank, which provides a range of banking services including commercial and investment banking services, property finance, investment, fund and asset management services. Additionally, the group provides leasing and financing for capital goods; custody services; life insurance products; and other financial services. The group operates through a network of subsidiaries primarily in the Nordic region and also in other European countries, the US and South East Asia. It is headquartered in Stockholm, Sweden and employs 10,821 people.

The company recorded revenues of SEK32,335 million (\$4,257.5 million) during the financial year ended December 2009 (FY2009), an increase of 8.2% over 2008. The operating profit of the company was SEK13,727 million (\$1,807.4 million) in FY2009, a decrease of 10.4% over 2008. The decrease in operating profit was due to increase in loan losses, mandatory government fees and because the comparison period included capital gains of a non-recurring nature totaling SEK 988 million. The net profit was SEK10,244 million (\$1,348.8 million) in FY2009, a decrease of 15.6% over 2008.

## KEY FACTS

<b>Head Office</b>	Svenska Handelsbanken AB Kungstradgardsgatan 2 10670 Stockholm SWE
<b>Phone</b>	46 8 701 1000
<b>Fax</b>	46 8 701 2345
<b>Web Address</b>	<a href="http://www.handelsbanken.se">http://www.handelsbanken.se</a>
<b>Revenue / turnover (SEK Mn)</b>	32,335.0
<b>Financial Year End</b>	December
<b>Employees</b>	10,821
<b>Stockholm Ticker</b>	SHB

## SWOT ANALYSIS

Svenska Handelsbanken (Handelsbanken) is a financial services group engaged in the provision of a range of banking services including traditional corporate transactions, investment banking, trading and consumer banking including life insurance. However, intense competition could affect the group's profitability.

<b>Strengths</b>	<b>Weaknesses</b>
Decentralized operations and personalized service ensures stable financial performance Better cost management results in higher profitability and return to shareholders	Higher loan losses affecting profitability and returns to shareholders
<b>Opportunities</b>	<b>Threats</b>
Strategy of organic growth could increase market share and profitability Internet banking could increase revenues and market share Swedish credit card usage likely to enhance revenues Positive outlook of asset management could increase revenues	Intense competition in banking industry likely to affect market share New settlement standards likely to increase competition in securities services

### Strengths

Decentralized operations and personalized service ensures stable financial performance

Handelsbanken offers full range of banking activities private and corporate customers, based on the customer's requirements and a personal relationship. Handelsbanken competitive advantage is that it does not strive to be mass market bank, but serves customers who have a stronger cash flow than the average bank customer. The business operations of the Handelsbanken group are decentralized and all business decisions concerning the individual customer's relationship with the bank are made by the local branch. The bank has 26.8% market share in Sweden. During FY2009, Handelsbanken had the most satisfied customers in Sweden, private as well as corporate customers, in a comparison with four largest Swedish banks. Handelsbanken was once again ranked number one on all its domestic markets during the year. The group's decentralized operation makes it possible for the branch staff to serve customers personally and thus increase the revenues of the group.

Better cost management results in higher profitability and return to shareholders

Handelsbanken corporate goal is to have higher profitability than the average banks in the Nordic countries and Great Britain. Return on equity of the group's total operations was 12.6% in FY2009, which is higher than weighted average of other major Nordic banks (4.1%). Handelsbanken's higher profitability is primarily attributable to better cost management. The cost to income ratio of Handelsbanken is lower than its competitors. The cost to income ratio of the group was recorded at 47.1% in FY2009, lower than its competitors, which was 51%. Handelsbanken had the highest cost-effectiveness of the major listed Nordic banks.

Handelsbanken's efficient cost management enabled the group to earn profits, and create more value for shareholders.

## **Weaknesses**

Higher loan losses affecting profitability and returns to shareholders

In FY2009, the loan losses reached SEK 3,392 million or 0.21% of lending. As a result the company's operating profit during the year reached SEK 13,727 million (\$1,807.4 million), a decrease of 10.4% over 2008. The increase in loan losses led to 3.6% points decrease in earnings per share to reach SEK 16.44 in FY2009. Thus the profitability and returns to shareholders has been affected due to increase in loan losses.

## **Opportunities**

Strategy of organic growth could increase market share and profitability

Handelsbanken's strategy is to grow organically at a steady pace, with minimum risk and low costs. Handelsbanken has 461 branches in Sweden; 208 branches in other Nordic countries and Great Britain and also operates 35 branches in other countries. By the end of 2009, the group had 62 branches in Great Britain. To complete its strategy, the group intends to acquire small banks that can be easily integrated into existing branch network. Great Britain represents an attractive market and growth opportunity for Handelsbanken. There are a large number of towns with a sufficiently large potential customer base for expansion. Organic growth would help the group to reinforce its market position in various segments as well as expand its geographical coverage.

Internet banking could increase revenues and market share

Banking through the internet presents a large opportunity to the Swedish banks. There is a rising trend in the Nordic countries, especially Sweden to do financial transactions over the Internet. As compared to banks in most other countries, Swedish banks have a high proportion of Internet customers. In Europe, Sweden has the highest proportion of the population using bank services

through the Internet. The key factor behind the success of online banking in Sweden is the early investments made by banks in developing efficient, customer-friendly online banking services. Another important reason is that a large proportion of Swedish homes (more than 70%) have access to the internet. Handelsbanken can benefit from this trend and thereby generate higher revenues.

Swedish credit card usage likely to enhance revenues

Credit card usage in Sweden and other Nordic countries is increasingly rising, leading to a newer source of revenues for traditional banking organizations. The Nordic credit card market is highly attractive, as the number of transactions is growing by 20% per year, and credit card usage is growing even more strongly, although from a low base. Charge cards still amount to 84% of volumes, compared to 16% for credit cards. This new user base presents an opportunity for Handelsbanken to capture a substantial untapped market.

Positive outlook of asset management could increase revenues

In FY2008, the global asset management and custody banks sector has assets under management of \$60,166.2 billion, representing a compound annual growth rate (CAGR) of 5.2% for the period spanning 2004-2008. In independent customer surveys, the company's institutional securities business is ranked number one for Swedish equity trading and number two for Nordic equities in the US, Great Britain and continental Europe. In 2013, the global asset management and custody banks sector is forecast to have assets under management of \$70,312.3 billion, an increase of 16.9% since 2008. Handelsbanken Capital Markets can contribute to group's earnings due to positive outlook of asset management.

## **Threats**

Intense competition in banking industry likely to affect market share

The banking industry is highly competitive. The group encounters significant competition in all lines of business from other companies, offering commercial and investment banking services, property finance, investment, fund and asset management services, life insurance products, and other financial services. The group competes with competitors having larger volumes of business and greater financial resources than those of the group. The group competes with players such as Danske Bank, Nordea and Skandinaviska Enskilda Banken. High level of competition in the market place could erode the market share of the group.

New settlement standards likely to increase competition in securities services

The Nordic banking industry is currently contemplating implementation of the European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR) standards for clearing and settlement in Sweden. However these standards will blur the difference between custodian banks and CSDs (Central Security Depository) as it will involve forming one settlement

infrastructure for the entire region or link to the stock exchanges in a vertically integrated model. This will also create increased competition for Handelsbanken as the CSDs will start competing with the local banks for gaining an increasing share of the securities service industry. These standards, if implemented, will also affect Handelsbanken's capital markets division adversely.



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