

## CEO Statement AGM 2018

Last year's operating profit – 21 billion, 25 million Swedish kronor – is the best in the Bank's history. Return on equity was 12.3 per cent, which means that in 2017, we again achieved our corporate goal.

Handelsbanken's corporate goal is to have profitability that is better than the average of other banks in our home markets. This, like so much else in life, is much easier said than done.

Handelsbanken operates in a sector where every player can copy its competitors' products and services – quickly, simply and often at relatively little cost. Customers can also make price comparisons quickly and simply. Transparency is almost total.

And therefore, creative pricing or new products are rarely decisive weapons of competition – at least not for particularly long.

This means that if we are to achieve our goal of being better than the average, we must do something else – something different. And we do – all of us. All of us who work at Handelsbanken try to exceed expectations every day.

And I believe that this striving to constantly exceed expectations is definitely one of the main reasons why we achieve our corporate goal.

This constant ambition to exceed expectations gives us more satisfied customers. And having more satisfied customers gives us better profitability.

For many years, research has been conducted at the Stockholm School of Economics into the correlation between satisfied customers and strong returns. One of the companies that has been analysed is Handelsbanken – right down to our individual branches. This research is very extensive: in Sweden alone, just over 20,000 interviews are carried out every quarter with Handelsbanken customers.

According to those conducting the research, the result is clear-cut: there is a direct link between satisfied customers and profitability. It is even possible to calculate how an individual branch, by increasing its customer satisfaction, also raises its profitability.

Handelsbanken has more satisfied customers than the average for the banking sector in all six of our home markets. And this has been the case since independent surveys began.

I have worked for the Bank for 33 years, and have never experienced a year where we have not had more satisfied customers or higher profitability than the average for the sector. So, based on myself and my own experience, I am prepared to say that the researchers are right – there is a link between satisfied customers and strong profitability.

But there's no ground-breaking science behind how we work with gaining, retaining and developing satisfied customers.

We have, by any standards, a highly decentralised work method. Virtually all important business decisions within the Bank are taken locally, out at our branches. This unique independence provides the branch with a very strong local presence. We are simply the district's own bank – only with the advantage of having one of the world's strongest and highest rated banks supporting it. Behind every branch is the whole of Handelsbanken, with all its expertise and breadth.

Decentralisation results in more satisfied customers, since the branches decide locally on what works best in their particular market; the branches therefore know how we can match, or preferably exceed, the customer's expectations at any given time.

Here, our branches' uniquely strong position gives us an advantage, I think. Every day, they meet customers with wishes, expectations and requirements. If anything is missing, it will without further ado and in clear terms be referred back within an organisation tasked with supporting the branches. Therefore the whole of our offering is in a state of constant development, in step with our customers.

One example of this is all the new digital services that have been or will be introduced. The fact that our customers want digital solutions is nothing new – over 90 per cent of our customers' current contacts with the Bank are already digital. And therefore we already have good digital meeting places. In independent surveys, our customers give these meeting places very high ratings.

But although our customers are increasingly choosing to meet the Bank digitally, these same customers also value being able to get in contact now and again with a flesh-and-blood human being who can help them with their business. Just because technical advances are now probably being made faster than ever, this does not mean that people have fundamentally changed. People build up relationships and trust through personal meetings. And customers still want to be able to contact real people with financial knowledge who can provide advice and support for decisions, or just give a helping hand with an everyday transaction. The frequency of visits to branches has decreased, but not the importance of them to our customers.

Therefore, we regard digitalisation not as an alternative, but as a complement to, the branch-led business model that we have at the Bank. For even though our customers are becoming ever more digital, they are still local, which is why Handelsbanken will continue to be both local and digital.

Professor Gary Hamel from the London School of Economics, one of the world's leading experts in the field of business strategies, considers that Handelsbanken is Sweden's most innovative company, thanks to our rather different business model. Maybe he's right, although I have to admit I've never really thought of us in that way.

But quickly adapting to new circumstances and demands in the business environment is not that difficult at Handelsbanken. So Professor Hamel may be right; that our decentralised work model plays a decisive role. Throughout the Bank there are people with the authority to make decisions independently. This brings with it greater personal responsibility and strong commitment from all employees.

Let me share an example from a part of the Bank that I have known well for many years: the UK. In the past decade, our business there has grown and progressed splendidly. Several years ago, we realised that sooner or later we would have to convert that part of the Bank from a branch into a subsidiary, so that we could fully benefit from the big opportunities we see in that particular market. We are now implementing this and I know that the employees who lead our operations in the UK can handle whatever is demanded of them – whether on the commercial front or in terms of compliance with new regulations. They are making all the decisions now and implementing changes and modifications without disrupting their customer business.

Thus, changing the Bank in step with our customers and the business world around us is happening all the time, everywhere. And this applies not only to products and services, and the service levels provided.

One example is customers' requirements for transparency regarding the Bank's role in the community. Customers want to know more about our work with sustainability, responsible ownership and gender equality.

Therefore, for a number of years, we have produced a special sustainability report; nowadays, it's also available as a separate publication. But for us at Handelsbanken, sustainability is nothing new – a long-term approach, using resources sparingly, being an asset and never a burden on society, and – not least – a high degree of personal responsibility are core values at the Bank. Over the years, we've become better at telling people about this, but the actual work with sustainability is something that's completely natural to us.

Not only doing well as a bank, but also doing good as a bank, is also essential if our business model is to work. Since we run our Bank with such a decentralised work method, we need to have extremely competent, skilful, and – particularly – independent staff, who are willing and able to take decisions and their own responsibility.

And indeed we do have such staff.

But in the future, too, we need to be able to attract and recruit the very best people, and so we must always be improving. We must be an employer that is mindful of all its employees, developing them and giving them opportunities, regardless of gender, ethnic background or religious preferences, etc.

And although, for example, we won awards a few years ago for our work with gender equality, this area is still constantly relevant in our day-to-day work. I'm naturally proud of what we've achieved, but we can always be a little better.

Looking at last year's figures, I feel the same way: income, for example is increasing on the right lines – both net interest income and net fee and commission income are generally performing strongly, in fact better than they have for a while – and we are showing good growth in asset management. At the same time we continue to invest in the future, in better IT solutions and in our growth markets.

In the Netherlands, for example, we are growing at an amazing pace – a rapid influx of new customers and new business – which is not that strange, considering this is our newest home market, established in 2013. At the same time, we are also growing here in Sweden, a market we became established in almost 150 years ago, with increases in income that we haven't seen for a very long time. So our model works – regardless of whether the market is mature or we're newcomers.

But we can also try to be a little better.

Still, I'm very optimistic about the year ahead. We're on the right path, and we have a strong, tried-and-tested ability to meet the challenges that arise. Where others see threats, we see opportunities.

For example, we're looking hard at artificial intelligence, and testing it in various environments. We're not the only ones doing this.

Virtually all sectors and companies – indeed our whole society – are now preparing for when computers and other technical equipment can be built and programmed so that they can carry out tasks independently, and even learn new ones. In other words: intelligent machines – completely artificial.

What could this mean for us, and for society in general? No one really knows, but generally we can say that developments have progressed more than many people can imagine. But at the same time, there are still far fewer practical applications than the enthusiasts had hoped.

However, everyone agrees that there will be changes, and that rapid advances are being made. Naturally, this will impact on Handelsbanken, as all other developments have done, since we founded the Bank 147 years ago.

Jack Ma – founder and chairman of the Chinese IT conglomerate Alibaba – is one of the people who has made most progress in the use of artificial intelligence. He believes that we should stop trying to compete for jobs that a machine can learn. Sooner or later, the machines will win.

Instead, we should develop and train ourselves in soft skills that are genuinely human, such as entrepreneurship, creativity and care. Machines will never beat us at those things, says Jack Ma.

Entrepreneurship, creativity and care: these are the three fundamental qualities that we look for when we appoint a new branch manager at Handelsbanken. At Handelsbanken we have just over 800 branch managers, all unique in their own ways, all with different strengths and, naturally, like us all, with one or two weaknesses as well. But I think it can be said that they all have these three qualities: entrepreneurship, creativity and care.

And therefore I don't regard artificial intelligence and digitalisation as a threat – on the contrary: this is a great opportunity for Handelsbanken. All companies can develop – and copy – technology. But none of them can copy our branch managers.

I believe that wherever progress takes us, people will continue to meet other people – preferably people they know locally. Human contact will never become old-fashioned.

Therefore, Handelsbanken will remain Handelsbanken, just a little bit better than before. Just as it's always been.

And so our ambition to match, or preferably exceed, expectations remains.

Finally, I'd like to thank those people who enable me to have such confidence in the future: our board, our employees, and, naturally, our customers, who continue to show great faith in us.

And last of all, I'd naturally like to thank all you shareholders. I can assure you that, this year, all of us who work for the Bank will again do our utmost to be worthy of your confidence.

Thank you.