SEB AB Financial Results Q3 2021

Wednesday, 20th October 2021

Overview

Johan Torgeby

President and CEO, SEB

As always, we will refer to the PowerPoint slide numbers on this call and you can find them on our website.

Development in financial markets

If we start on the page that describes the financial markets, we can just conclude that we have had a continuation of a strong pipe of recovery theme, from the very weak situation we saw in 2020 following COVID. Overall, it has been a very benign financial markets environment to do banking and we can see a slight shift towards the end of the quarter, where we had some weakness coming in in the equity markets, while credit spreads were a bit higher and interest rates also increased. Overall, however, this was a very supportive quarter from the financial markets perspective.

Inflection point

Just a note on the dialogue and the focus in our dialogue as we see them, it feels like we are slightly at an inflection point. We are no longer predominantly talking about the recovery from 2020, but we are looking forward in the medium to long term and I think the debate right now is around inflation, energy prices, the current narrative around the trajection for monetary policy and, as a consequence, the asset price situation going forward.

So, in a way, it is a good thing. We are looking forward. On the other hand, it definitely feels like right now there is an inflection point in what path should the markets take going forward.

Highlights in Q3 2021

We will just summarise the third quarter by noting that we recorded a 14.1% return on equity and had a core equity tier one ratio of 20.2%. This is now post the adjustment made for the proposed further ordinary dividend and the SEK2.5 billion share buyback programme we also have announced this morning.

Results driven by investment banking customer activity

The prime drivers behind the results continue to be high customer activity within investment banking, where we have seen advisory and issuance fees increase by more than 100% this third quarter compared to the same quarter last year, and also very strong support from the asset-based side of our business; so, assets under management and assets under custody have both benefited from this strong market we have continued to see.

We have also received several of the mass market customer surveys. These are for small and medium sized companies and for private individuals. It is encouraging to see that we are making progress in this very important factor for us, namely customer satisfaction, that we believe is a key long-term driver of stability and profitable growth.

Strong capital position

Lastly, we have a strong capital position, allowing for some capital repatriation to be announced now, before the ordinary one that will come in January, proposed to be SEK4.1 per share as a further ordinary dividend, coupled with an initiation programme with immediate effect, or tomorrow, of a share buyback programme that will be active until the day before the next AGM on 21st March.

Development of credit portfolio

On the next page we look at the credit portfolio that had continued a sideline movement for corporates. We noted a 1% FX-adjusted growth in the third quarter, which is technically a weaker quarter due to seasonality, but we still see the same organic demand theme, as we have been discussing, that there is a little bit of less growth compared to 2020, not least because of the elevated levels of recorded financings that we took on, particularly in the second quarter of 2020. The good side is that we are maintaining this high, elevated demand situation, but it is a sideline movement when it comes to the total exposure.

Another observation is of course that anything with a real estate-based type of development has been more positive. So, both mortgages, housing co-operations and residential have continued to grow on a year-on-year basis.

Improved momentum within savings and investments in Sweden

On the next page we have been talking a lot about savings and investments and, as many of you know, this has not been an area that we feel that we have performed as well as we would have liked. We have over the last year or two talked a lot about new initiatives, trying to mobilise ourselves in order to become better, and this is very operational, in order to do what we do in a more effective manner.

Light at the end of the tunnel

Here are four data points that we now see that there is some light at the end of the tunnel. We can note a little bit of an improved momentum, but I still want to be very humble and cautious that it is too early to say that we have sorted this out.

However, the first data point is in the positive trend that we recently have recorded for the net sales of the funds that we have in our investment management unit in Sweden. This is official data, where we can track the AUM, but the blue bars are the monthly net sales. Here, we have gone from 2018 to actually have more outflows than inflows. Then we recovered a bit, so we had a stable situation with a 1% growth – this is where net inflows are surpassing outflows – and in the last 12 months we now have a 7% market share of all the net flows coming into the Swedish fund market, which is a clear improvement. However, our market share is estimated to be around 10%, so we are still below in the last 12 months where we would like to be.

The second graph to your upper right is an indexed number for how much volume we get in ordinary monthly savings, and we have seen a 40% increase from 2008, with majority of the increase coming in the last 12 months, where we have gone up roughly 33% in volume of monthly savings. This is a very stable annuity type of business of ours, and we are happy to see that.

The third graph on the lower left-hand side is an indexation again of how many clients are trading in equities and funds in SEB. This has again since COVID really increased and we are now roughly 120% up on the number of clients that trade funds or equities in SEB.

The proportion of these two in the mobile channel is of an upmost importance as this is the way we believe we future-proof our relevance, and this is an area we previously talked about we had been a laggard, and since 2020 we have had mobile channels developed for buying and selling of funds and since April this year, we have also had the online trading ability in the mobile channel for direct access for our customers on the stock exchange to buy and sell equities. We can just conclude that over the last year, we have now 54% of all the trades being done, customers trading, in France is now done through the mobile channel. It is early days, but we have also very rapidly come to a point where 31% of all the transactions done in equities are now done through the mobile channels.

Growing market share in new pension sales

Lastly, we have an indication here on our market share development of new sales in the pension area, and here we have gone from 8% market share and we are now hitting almost 13%, so this is also a positive momentum and we are currently taking the number two position amongst the peers in Sweden that are active in the pensions and insurance business.

Customers appreciate our support, but there is more work to be done

The next theme is just to try to share with you a simplistic picture with an overall objective for our customer satisfaction. Customer satisfaction is always part of SEB's planning and one of the core ways in how we would like to achieve the strategic targets that we have put out. We must say that we have a pretty supportive development overall when it comes to the external surveys that are being conducted on behalf of banking customers and what they think of their different financial services providers.

Here are eight of them, with particular focus on the Swedish Quality Index that came out a few weeks ago, where we for the first time I think in 30 years became number one when it came to customer satisfaction amongst the larger Swedish banks. There are more banks than large Swedish banks and we are number three if you include all Swedish banks in this survey.

On the Swedish Quality Index for private individuals, we have had a very solid place, in second. We have made a significant improvement in Prospera private banking, which was one of the areas we felt particularly strong about last year, where we noted seventh place. We have now improved to fourth and we still have some way to go, with a high ambition here to come up in a very strong way.

The others are around fixed income, large corporates and financial institutions that are from 2020. They will be updated in the near future.

It is very important however to stress that we believe that customer satisfaction and making sure that we have a relevant offer is the key of what we do. This is really the way we need to perform in order to meet the financial aspirations of the bank.

I will now hand over to our CFO, Masih Yazdi, to talk about the financials.

Financial Performance

Masih Yazdi

CFO, SEB

Financial summary, Q3 2021

Thank you, Johan. If we move on to slide 8 and look at the Q3 numbers isolated, you can see that the profit this quarter is largely in line with the previous quarter. However, typically we have a seasonally weaker quarter in Q3, but this time it is largely in line, so we believe that this is a good set of results, and obviously compared to Q3 last year you can see that we have a good income growth of about 9%, a profit growth of 15% and net of expected credit losses the profit is up 35%.

As Johan mentioned before, we delivered a return on equity of 14.1% in the quarter and a cost income ratio of 0.41, as well as an ECL level of 1 basis point.

Financial summary, YTD September 2021

If we move to the next slide, slide 9, and look at the year-to-date developments, here we can see that income is up 11% so far this year compared to the same period last year, costs are up 1%, leading to a pre-provision profit growth of 19%. Given that expected credit losses are about SEK5 billion lower than last year, we see a profit growth in total of 62% for operating profit.

I should mention here that we have some FX effects. On the income side, we have a negative effect of about SEK500 million for the first three quarters compared to last year. At the same time, we have a positive effect on the expense side of about SEK200 million. However, given the strong performance of the share price so far this year, this positive effect due to FX on the cost side is offset by higher costs related to variable compensation due to the higher share price.

Net interest income development

If you move over to the next slide, slide 10, and look at net interest income, we have seen this line grow by about SEK1 billion, or 5%, year to date, compared to last year. This 5% is mainly due to lower funding costs and, as Johan mentioned before, volume growth related to real estate lending, mainly mortgages.

Stable net interest income

Quarter on quarter, net interest income is stable. It is up slightly. That is mostly due to one extra day in the quarter and some volume growth, mainly in mortgages.

We have seen that the net interest income we have in our Markets business, as we have told you before, has been elevated for a few quarters. It continues to be elevated by approximately half the level we have seen in previous quarters.

Corporate margins up slightly

If you look at corporate margins, they are slightly up this quarter. That is mainly a mix effect. We see less demand for regular CAPEX lending, but we have seen more demand for structural finance, leveraged finance, and typically that type of lending has a higher margin.

Intense competition in mortgage market

On the mortgage side, we still see intense competition in the market. We have lower margins in the front book than in the back book, but the impact on the margins for the overall mortgage portfolio is fairly small.

I should also mention that we have some effects when it comes to the net interest income in the divisions and in Treasury, and that is due to internal funds transfer pricing and with lower credit spreads now Treasury compensates the divisions less for deposits, which means that there is a negative effect on the divisions' NAI and there is a positive effect in Treasury.

Net fee and commission income development

If we move on to the next slide, net fee and commission income, here we see a SEK2 billion increase year-to-date compared to last year, or 15%. More than half of this improvement is coming from the asset management business, about SEK650 million is within investment banking, so our advisory business within equity capital markets, debt capital markets and M&A, and the remaining improvement is coming from our card business and the life business.

Small quarterly decrease in net fee and commission income

Quarter-on-quarter, we see a small decrease on net fee and commission income. That is good, given that seasonality leads to this line typically coming down more in Q3 versus Q2. There's a lower C[?], related to investment banking and markets this quarter, but this is offset by asset management lending and card fees. On the card side, I should say that when it comes to private card turnover, we see that now that is higher than the pre-Corona levels. On the corporate card side, we are still way below the pre-Corona levels, but we have seen encouraging signs during the quarter, especially in September, and we are recovering from the low levels we have shown in the last few quarters.

When it comes to the pipeline, we think that it continues to be very healthy on investment banking, both on ECM as well as DCM and M&A.

Net financial income development

Moving on to the next slide and looking at net financial income, here we see a 28% increase year-to-date. We have some positive valuation effects. XVA, as you know, Q1 last year was a very negative quarter, but if you add the last quarter – the few quarters after Q1 last year, we have made up for that negative effect and then some. In the last two quarters, we have had two revaluations. In Q2, there was the Tink revaluation of about SEK500 million and now in Q3 we have the holding in Euroclear that has been revalued by about SEK500 million.

Weaker underlying business

The underlying business has been weaker here in the last couple of quarters, mainly due to the flattening yield curves, but we could see that in September, when the yield curve started to steepen again, the underlying business in fived income started to improve again. We have earlier guided for this line being at SEK1.3 billion to SEK1.5 billion in the divisions, excluding XVA and excluding Treasury, and we keep that guidance going forward.

Operating leverage

Operating leverage looks good. So far this year, we have seen a SEK1.2 billion increase of the average quarterly income, which is the highest level we have recorded in the last 10 years, both in nominal terms and in percentage points, so a 10% increase.

To summarise, the last 10 years we have had eight out of 10 years with income going up, and given that we have kept expenses fairly flat, eight out of 10 years we have seen the profit go up and the income CAGR for the last 10 years is now 4% and the profit CAGR is about 8.5%.

Capital development

If you move over to the next slide, on the capital development, obviously we have seen some movements during the quarter, but if we start with where we ended Q2, we had a capital buffer of 860 basis points. During Q3, we have generated 44 basis points of capital net of the 50% we reserved for dividends. The further ordinary dividend and the share buybacks we have announced have cost us 150 basis points, and then we have had some regulatory changes in the quarter.

The Pillar 2 guidance has been introduced, which leads to 150 basis points higher requirement for us, but that has been partly offset by what is called the M[?] factor of the Pillar 2 requirement, which has been removed, which leads to a 25 basis point lower requirement. In the end, we end up at 640 basis points when it comes to our buffer in the quarter.

Pro forma, as we do expect that the counter-cyclical buffer eventually will be increased back to the level it was pre-Corona, we are around 500 basis points in terms of buffer.

Strong asset quality and balance sheet

On the next slide, there are some key ratios worth point out. Here is obviously the improved asset quality, seeing the net expected losses this year being at 1 basis point. We have seen a large inflow of deposits across the board, both when it comes to financial corporates, non-financial corporates and households, and year-to-date we have seen almost a SEK400 billion increase of deposits. This means that our liquidity ratios and funding ratios look very stable and good and, as we have discussed before, so does the capital position of the bank.

SEB Group financial targets

We are keeping obviously the financial targets: 50% payout ratio; this buffer when it comes to our capital, 100 to 300 basis points; and we have said also in the report that we will gradually work our way down to that interval going forward. Obviously, we have a return on equity target that is to be competitive with peers and with the long-term aspiration to be 15%.

Now, I can hand back over to Johan for a save-the-date announcement.

Sustainability Event

Johan Torgeby

President and CEO, SEB

Thank you, Masih.

We will just end by sending out a save the date. As we have many times during these conference calls had themes around sustainability, we have decided to invite all of you in a broad way to come and listen to SEB's work that we have been doing over the last couple of years, including targets and ambitions for the future. We will also have external speakers and this will happen on 17th November and it will be something like a two- or three-hour session. You will all be invited to and welcome to attend to further details to come.

With that, we say thank you for your attention.

Q&A

Andreas Håkansson (Danske Bank): Good morning, everyone. Thank you. First one: on the NII and the sustainability of NII, volumes seem to be picking up on the corporate side, so if you could comment a bit on that, but also when I look at your funding structure, you have a continued increase in deposits and issued debt is continuing to go down. So, do you think you are going to continue to see a tailwind when it comes to funding driving NII? That is my first question.

Johan Torgeby: Thank you, Andreas. On the loan book, yes, there is a tentative 1% FX-adjusted quarterly growth on corporates. It is 4% annualised, which is a very normal type of level. I do not[?] want to say that we have seen this kind of lack of broad-based organic demand has not changed during this quarter, but there is a very attractive pipeline around M&A transactions which are more financing driven than ECM. We talked about that last quarter. That is still the case. As Masih mentioned, there is a little bit of an uptick. What has gone up here is on the leveraged finance, the structured finance, infrastructure and real estate, so those are the ones that the margin has gone up. Then on top of that, we still have the positive expectation on the green supercycle. It is still not something I could guide will materialise in a quarter or two, but there definitely is enough discussion to go around to conclude a lot of things are happening, and these are massive infrastructure-like transformational projects that many companies need to go through. However, it is constructive and stable, with some potential upside from these areas that are not yet being seen [inaudible]. On funding, Masih?

Masih Yazdi: I would say in general, going forward, it would be difficult to take the wholesale funding down further. That is mainly related to regulatory reasons. We have to have a certain share of outstanding senior unsecured and non-preferred senior because of the M realm[?] requirements, and so I would say that most of the funding tailwind we have seen in the last 12 months or so is behind us and you should not expect much more to come.

Andreas Håkansson: Okay, thanks. Next question. I have heard some people complain about the size of your buyback programme this morning. I did not expect any until next year, but you say that you want to have 100 to 300 basis points' buffer and you say that pro forma you had 500. That should give you substantial room to do more buybacks. Is it just that you want to wait until next year, or what is holding you back?

Johan Torgeby: Well, you are correct and we just wait. We think this is a well-balanced approach to do something, call it mid term. The next date in the calendar will be when we call to the AGM in late January. So this is what we have done for now, between 20th October and January. The timing for the buyback programme should of course be also thought about in that shorter time period. This is not an announcement for a yearly programme. It is just here and now.

Andreas Håkansson: Okay. That is it. Thank you.

Magnus Andersson (ABG): Good morning. Just to follow up on Andreas' question there on capital and a bit about how we should think about you continuing to reduce your excess cash position from here. Just when we go into the next year, should we from here now rule out additional dividend payments in addition to your 50% payout ratio target, i.e., a continued combination of dividends and share buybacks to take the excess cash position down, or should we be at 50% payout and just share buybacks in addition to that? That is the first one.

Secondly, Masih, you still talked about that you expect to be down within your management buffer target range, so the 100 to 300 basis points, within one to two years from now. Is that still valid?

Masih Yazdi: Thank you, Magnus. If I start with the first one, I think when the board looks at the excess capital position we are in and the toolbox to adjust that, they are looking at all the tools available, which means you have the ordinary dividend, you have a potential for further ordinary dividends or extraordinary dividends, as well as share buy backs. And exactly how they will combine the different tools to get there is going to be up to them. We have a capital plan in the bank we present to them and there are many ways to do this. So, I do not think anything should be ruled out [inaudible] dividend and then share buybacks over time, but in this sort of more extraordinary position I think all the tools are available to the board.

On the timing, I mean, we say gradually we will get down there. One to two years sounds fair. Exactly how long it is going to take, it is difficult to say. It depends on many external factors. We have new regulation with Basel IV probably announced next week. We will have to see how that is going to impact us and the timing of the introduction of that. You have what we really believe in, which is the sustainability supercycle. We are really hoping for that to kick in. It has started to some extent, but not in the magnitudes that we are hoping to see, and we want to be very potent if that happens, having a lot of capital to be able to take a large share of that demand coming from customers. So, there are many things that could happen and therefore we think it is very good to have a gradual approach to adjusting the capital position.

Magnus Andersson: Okay. Thank you. Just if I may, I am one of those who thought that the buyback programme was a bit smaller, or at least smaller than what I had anticipated. So, my question is, when I look at the SEK2.5 billion, if I annualised this to SEK5 billion, is that what you think you can do in a year or is that the wrong way of looking at it, that it could be upsized when you are done with this programme if you are satisfied with the outcome, etc?

Johan Torgeby: I do not think you should do that. I mean, you should remember that this is the first time we are buying back shares in the bank, at least in modern history, and even though it sounds sort of simplified from an external perspective, there are a lot of technical aspects of how you set up a programme, how do you actually do it. And we see it as a test, so we have set up a programme now and this is the way we conduct it and it is good to start with a smaller amount, also given that we have a more limited time period we can do it. And then exactly how we then do it the next time, we will see, and also when it comes to the volume. So, I do not think that you should sort of look at the SEK2.5 billion and take it times two and then you have an estimate of the future buyback programmes. We will see.

Magnus Andersson: Okay. Thank you very much.

Johan Ekblom (UBS): Thank you very much. I think we have exhausted the buyback questions, but maybe two unrelated questions. You talk again in the report about the need to make further investments, and I think last quarter you talked about the cost income reduction being largely a thing of the past. Can you talk a little bit about where you see investment needs and if there is anything you can tell us already now about broad picture, what the quantum is relative to the current pace of investment?

And then I guess secondly, the market is starting to price in rate hikes much earlier than the lack of rate hikes being signalled by the Riksbank. Can you just update us on what is your rate sensitivity given the large growth in deposits, etc., that we have seen over the last 18 months or so?

Johan Torgeby: Sure, Johan. Thank you for that question. On the investments, we will come back to you in greater detail at the latest in conjunction with the Q4 report, but I can give you the things that we have decided on and we are working on here and now, which is really investments in the area of advisory, predominantly in the areas of expanding our corporate and investment bank, so we are in the process of hiring people and setting up a client strategy of how to approach Austria, Switzerland and the Netherlands. These are not very significant in numbers, but still an important strategic change, to become northern European rather than just a Nordic bank with a headquarter in Stockholm. Secondly, we have the area of private banking or private wealth managements. Investments, of course, in banking, as you all know, is around people and technology, so it is of course associated with costs and having more people on the ground and meeting more clients in pursuit of opportunity.

And here we are predominantly focused on two areas. One is to just expand geographically our private banking and wealth management business. Also, there is a technology content in order to continue to improve our online capabilities for trading, savings and investments in the mobile channels. The next area is around custody. We have a very longstanding partnership for global custody when it comes to BBH. We are continuing to add staff and investments. These are technological investments that we have done in the past that need to be maintained, but right now we have a very good momentum in our custody business. On top of that, we also have sub-custody, the Nordic securities, which we are investing in. This is now of course quite a large change in the competitive dynamic in this area, and that is in favour of SEB, which is very committed to this business line.

Then we have the mobile channel revolution for retail banking. So, this is another area where we will focus our resources. These are not dramatic from the past, but this is about an acceleration in order to be quicker, creating more real-time solutions in a robust manner and making sure that the best-in-class, often fintechs or niche banks or monoliners, is a true reference point for what we need to achieve. Then there are other things in the core technology platform, SEBx, cloudification, something around the data journey, which are all part of the future thinking of future-proofing the bank. On rates, yes, we just note what you just said. There is of course a huge shift in this inflection point, very important to the banking industry, and that is if this change in narrative or at least expectations in some areas where the rate paths from central bank in the short end will change, which in a technical sense would be very, very positive as we continue to have this very unique situation we've been in for many, many years, where deposit is call it a non-functioning business line, whereas lending is a very well-functioning business line, because there is no profitability to be had and we have in Sweden decided not to charge on any savings account for private individuals. So, that would be welcomed and it would be a normalisation from this very large economic experiment that happened in the global world of huge quantitative easing and permanent or long-term establishment of negative interest rates.

On the other hand, an increase I think in interest rates could also be factored in as a major risk. We do talk a lot about asset prices being supported by monetary stimulus and low yields, and we have increased indebtedness in the whole system quite significantly over the last decade. So, right now it is a very potent tool for central bankers to increase rates. It is likely to assume, in my mind, that it has a meaningful impact. So, there is always a risk that the rate hikes come too early and they are too large, that they actually create instability and introduce volatility and uncertainty, but I think the central bankers are very clear in their point that that is something they really want to avoid. So, I have nothing more to say about the rate. Masih, do you want to add something?

Masih Yazdi: Well, I can add something to both of your questions, Johan. So, on the first one, I am sure you are interested to understand what does this mean, the higher-level investments for the cost base of the bank next year and going forward. We will come back with that. But just a note on next year. So, recall that we do have quite large Corona-related savings last year and this year, mainly related to travel and entertainment. So, if you look back into 2019, we spent about SEK400 million on that. So far this year, we are just moved[?] to SEK50 million. We do expect that to recover, not maybe fully to the levels it was back in 2019, but to some extent, and that is likely to happen next year. So, next year you will have investments we will do in the business, as well as some recoveries of Corona-related savings, so just have that in mind for next year.

On the rate sensitivity, just to be slightly more concrete, the sensitivity is about SEK1 billion for a 25-basis point rate hike in Sweden. That is the gross effect, just on the deposit side, and we have to wait and see what happens to the lending margins of the bank. You could argue it is slightly higher now with the higher deposit base, but that depends on to what extent these deposits are sticky and to what extent they will change when rates go up, so again, we have to wait and see.

Johan Ekblom: Thank you.

Adrian Cighi (Credit Suisse): Hi there. Adrian here from Credit Suisse. Thank you for taking my questions. I have a follow-up question on NII and one on your view on the investment banking activity outlook. So on NII, you have mentioned some brief comments on margins in the quarter. How do you see them developing going forward? Do you see an acceleration in the Swedish mortgage market margin pressure?

And then secondly, on the investment banking activity, you have mentioned up 100% year-on-year. Is this driven by a few sectors or is it broader based? Do you expect this to remain elevated in the near term? Maybe any comments you can give us on your pipeline in the near term? Thank you.

Johan Torgeby: Sure. Thank you, Adrian. On mortgage margins and the cautious comment Masih made, I would not say that it is accelerating. We have lived under this type of change in business dynamic, market dynamic and pricing for a long time, and it is not accelerating. If anything, I actually think we are getting to a very normalised level where this new competition and the tough competition are the new normal. So, not an acceleration.

On the 100% fee, of course that is a Q3 number. Always be a little bit cautious, because it is a low-activity quarter when it comes to booking and activity. But we see no reason, regardless of the seasonal effect, to caution on the activity in investment banking. It looks still very constructive.

When it comes to sector, well, it is broad based but it is not broad based by type. So, it has been debt capital markets and it has been equity capital markets. So, the primary secondary capital markets businesses. It has not been driven by large M&A fees. We also have some recovery on payment cards, which should be factored into the fees and commission type of analysis. However, that is from a low base, even though it is up 10% in payment fees this quarter compared to the same quarter of last year. And in that sense, there is still some upside. So, in our world, we are not doing all we could do for NII when it comes to the event-driven financings, and when we have the bigger picture of sustainability, green supercycle.

I will just take one minute on velocity of the balance sheet, which you need to just appreciate. The best thing for us is when we have an event-driven call it balance sheet commitment that is required by clients in a confidential manner before they do transformational things. The velocity of that type of engagements is much, much higher. That means that it is not the same thing as a three-year or five-year or a seven-year permanent debt that you put on. You actually put on the same amount of volume or more, but it is only there for three to 24 months. So, there is a very different type of profitability where loan fees and NII goes up quite significantly but at a very call it asset-light or cost-efficient capital way, because the velocity is higher. And that is what we are relatively largely exposed to compared to many of our peers around here. And this is of course the one that we see a very cost-factored[?] medium-term outlook on right now. Things can change, but it looks good.

Adrian Cighi: That is very helpful colour, thank you.

Sofie Peterzens (JP Morgan): Here is Sofie from JP Morgan. I was just wondering if you could give an update on the outstanding litigation cases.

Johan Torgeby: Yes. They will be short. As far as we know, there is no litigation against the bank. We have our regulatory normal processes and we continue, if you are referring to particularly information gathering for the US and working with it. So, no update to report.

Sofie Peterzens: What about the German tax case? Because there is quite a lengthy comment in the quarterly report around that. Should we expect any outcome from here?

Johan Torgeby: There is no significant update that we have received new information or changed our view around the securities lending business that is being debated in Germany, how it should have been taxed in history. However, there has been a new circular that we thought it would be prudent just to disclose, which is giving a reference case, which we do not think is that relevant, but it is giving new information around what can be expected in the future dialogue. But when it comes to SEB and getting any information for us, there is no news right now. And then, this will be a long process. I think you need to at least allow for three to five years before we can conclude in this matter, but new information can of course come any day.

Sofie Peterzens: Okay. Thank you. That is very clear. And just going back to net interest income; so, you mentioned that the funding costs, tailwinds are basically fading away. If loan growth remains as this year next year, is it fair to assume that next year you will have a little bit low interest income growth, because your loan growth in 2021, year to date it has been kind of low single digits? What was it? 1% or 2% year-on-year? So, how should we think about net interest income growth if you margin pressure, funding tailwinds or disappearing, potentially no rate hikes? What will really drive net interest income growth next year?

Johan Torgeby: Yes, Sofie, I will try to answer that. I mean, we do not do a forecast for NII next year, but we do comment that this year so far the main contribution has been lower funding costs, and we do not see that continuing into next year the way things look right now. When it comes to lending growth, I mean, there is strong lending growth with everything that is real estate related, mainly on mortgages. We are growing 7.5% this quarter compared to the same quarter last year. But then on the corporate side, I mean, right now we do have muted demand on regular corporate lending; but at the same time, the economy is recovering, resource utilisation is going up, it is actually starting to become higher than the normal level, and typically when that has been at a higher-than-normal level for a period of time you start to see corporate lending recovering and increasing again. So, whether that is going to be a theme for next year and at what point next year, we do not know. But right now, it is muted demand on the corporate side, if it is not event driven, and on the real estate, the mortgage side, it is growing fairly well and its funding tailwind will probably not continue into next year.

Sofie Peterzens: Okay. That is very clear. But you do not expect any margin, or you kind of expect the current margin pressure to persist but not accelerate from the current level on the interest income side?

Johan Torgeby: On the mortgage side, I do not think there is any reason to believe that the margin pressure will accelerate. It will still be intense competition. It will be there, but it should not accelerate from here. On the corporate side, it depends a lot on the mix effect, so what type of corporate lending do we do. In Q3, it has been a positive margin effect. We think that given how the pipeline looks like right now, it is possible that that positive margin effect due to mix can continue for a couple more quarters. It does not mean that the underlying margin development like-for-like is positive, but the mix effect is positive right now.

But if I may just add, there is no margin pressure identified on the corporate book, which is the large one. This is very much only related to the mortgage side. So, it is stable. There is no margin increase other than the mix, which is of course different. And then I will just make two more points. The velocity, you need to assess, because that is how the loan book translates into NII. So, they are different. But you are absolutely right. Of course, in the long run the loan growth is driving the NII, because that is call it the banking type of business that generates it. The other thing why it is partly muted now and it will take some time is that cash is of course growing, so cash at hand for corporates needs to be consumed first. So this is just a general statement that you see deposits going up for everybody, and of course that means that less borrowing is required. This goes also for the US banks that reported on lower credit exposure on credit cards, etc. And it goes for the whole economy, that we see these cash pile-ups. That is also of course a source that is typically first used for any type of spending or investments.

Sofie Peterzens: Okay. That is very clear. Then my final question would be on M&A. We had one of your peers say they want to exit Denmark and Finland. Is it something that you would consider kind of looking at and will you consider expanding into Finland and Denmark and what are your thoughts here? Thank you.

Johan Torgeby: Yes. We have an organic, very modest but still very clear growth strategy outside Sweden for large corporates only. We do not comment on M&A. I can say that we do not have any in our current business plan. It is not an M&A-driven business plan. We are broadly speaking organic. On the other hand, we of course always look at all options available to us.

Sofie Peterzens: Great. That is very clear. Thank you.

Jacob Kruse (Autonomous Research): Hi. Thank you. Maybe just a follow-up on the last one. Would you say, given your current strategy in terms of the focus areas, is there anything in these assets that you feel add to the target areas that you have set out?

And then secondly, just about some of your initiatives on the retail brokerage side with the mobile apps, etc, is that in direct competition with peers like Avanza NutNet[?] or is this more a support for your private banking client base? Just what is your ambition level there in the Nordic region?

And then maybe thirdly, if I could, do you see any reason or any need to change the structure of how some of these things like SEBx and other more innovative projects are being held or owned? I would say they are kind of hidden within the greater P&L of SEB. Thank you.

Johan Torgeby: Thank you, Jacob. The first one, I actually cannot answer without guessing too much. I know too little about what they have in their portfolio. This came out quite recently. Broadly speaking, I am just making a general comment, we are very well penetrated in Norway, Denmark, Finland and Sweden. If you were to look at number of large corporate clients, which is our focus, that would say they have a deep, meaningful relationship with SEB, we are close to 100% in Sweden and Finland, so there is very little call it organic growth in terms of new clients in our current thinking about SEB outside Sweden. However, I cannot rule out that there are things I do not know, so I will just leave it there for now.

On the mobile app, we are talking about savings and investment. That is predominantly on the retail mass market side. It is not large corporate or institutional. It is very much so that it should be seen as a competitor to the online brokers that have had a fantastic run over the last two decades in order to service the client base of this part of the world in an innovative, very good way. We have of course lost an opportunity here. This is an opportunity lost, that we have not really had the same capabilities, and we see the number of clients, and we are talking about a million or millions, that are actually financially literate, very interested in financial markets and like to do call it self-service, they like to trade themselves on funds, etc. So, what we now launched in April is kind of the first version of the basic minimum viable product to not have clients to leave us because they find a better opportunity to do these things outside the bank. But it needs to be still developed and that is what the focus is.

Then on SEBx and other partnerships and fintech investments and bank ID and Swish and those, that is just a very large portfolio of you called it hidden values, and I guess it is to a certain extent, but that is just motoring on. SEBx has just commercialised and launched. It is a very quiet one. But we do have an offer available on app store right now to download the first new branded bank for solopreneurs – single employed – called Ankwork[?]. You can download it today and try it out if you want even if you are not a company, you can see how it looks and how quick the onboarding it, etc.

And then for the co-operations, they are of course more of a utility nature, many of them. It is where we have partnered with our peers and we have tried to find an infrastructure solution that benefits all. So, I am saying that there are enormous values in my book from all those type of partnerships, but they are very hard to assess in a traditional type of fintech investment area. It is not impossible. We have seen a very interesting transaction made by Denmark and Norway in their equivalent to Swish, and I know that these companies, that are separate from SEB but we are of course a large stakeholder, they are considering strategic options too. Masih, anything?

Masih Yazdi: No, it is a very good question, a good point. We do talk a lot about what kind of values these different assets would get in the market had they not been owned by an incumbent bank, so we do have that discussion and it is a very important point. Swish standalone has seven or eight million users and the question is what would that be valued at on a standalone basis. So, we do have those discussions. But we do have to cooperate with the other banks which also have a holding of these assets or we have a partnership with them. But surely, that is something the banking industry, the incumbent banks have to work on, that when we do innovation that we can extract the value of that innovation.

Jacob Kruse: Thank you.

Rickard Strand (Nordea): Hello. Thank you for taking the question. On the corporate deposit side, I was just going to ask you if the sort of current elevated level of corporate deposits, in the discussions you have with your clients, do you see that these levels could sort of remain as a wet blanket over the demand going forward, or do you see that the composition of these deposits make it less likely to be so, that corporate demand could pick up sooner than later?

Johan Torgeby: Yes, I do not know if I want to use the words 'wet blanket', but I kind of want to, and say yes, it is definitely a risk. You need to also think about micro-economics. Macro-economically, that is very clear. Micro-economically, it is very different. So, a company that has an elevated deposit on their call it current account will definitely be able to use that for regular spending. It is much less relevant for large-scale transformative. It is not enough or nowhere near. So, it does not really change the picture for M&A, but it does change this organic need for borrowing for working capital need or such. If you are call it involuntarily accumulating more liquid funds because you do not have anywhere to spend it for now, that will be used, for sure, because it is inefficient for them and, as you know, we are broadly speaking charging for that money. So, from a corporate perspective, it is no value being created whatsoever over and beyond whatever they have decided to have for contingency reasons.

Then I think this could go very quickly. I believe it is a very, very clear consequence of monetary stimulus. So, if monetary stimulus stops, positive yields becomes introduced in the corporate bond market, in the government bond market, all of a sudden the bank deposit market has a true competitor at a positive yield, and it could move very quickly into another place. And that is of course in the positive here. But you need probably to see tapering or monetary stimulus being reduced, because right now the cash needs to go somewhere and it kind of all ends up in a bank account at the end, regardless of whom you spend it with, because then you have spent it with a corporate or a private person and it comes back. So it is a monetary phenomenon in my book.

Rickard Strand: Thank you. And then, regarding the investments that you have talked about, both in the corporate and also in the retail segment, going forward, if we could get a sneak peek of your upcoming financial plan, do you see a lag between when these investments will be taken and when you will see the higher growth taking off, or do you see that they will materialise simultaneously in the P&L?

Johan Torgeby: It will not be simultaneously and we will not give a sneak peek.

Rickard Strand: Okay. Thanks. Okay. And then a final one on what you have talked about in the investments that you are doing now in the new savings app for your retail clients. Are you also considering to broaden your product offering and start distributing savings products from external institutes and external fund companies, etc, or is it still mainly SEB products that you want to offer there?

Johan Torgeby: No, it is certainly not SEB products that will be offered to cannibalise on the opportunity as a client to get others. So, it will be an open platform, we will have thousands of funds and fund companies available to you, but of course also SEB.

Rickard Strand: Thank you.

Maria Semikhatova (Citibank): Yes, thank you for the presentation. A couple of questions, first just to follow up on this new app that you launched in April. How many users do you currently have?

Then a question on you had net outflows of SEK8 billion for the quarter. Could you provide a bit more colour, retail versus institutional and maybe by country as well? I think you mentioned outflows from the Estonian taxing reform. Do you expect further impact going forward?

And a final question; if you could provide at the group level the impact on volumes versus margins for this quarter. Thank you.

Johan Torgeby: Okay. We have decided that we do not go out with a number of clients that are trading equities in the app right now, but we have shown in the index today that we have more than doubled the number of trades and that we have 30%-plus of those in the mobile channel. We will take up with your question and see if we can get back to you at a later stage. Yes. On the outflows, yes, we did have SEK8 billion of net outflows during the quarter. You could see in September that when the stock market had a worse performance, there were some outflows out of equity funds. At the same time, we did see some inflows within fixed-income funds. These outflows are mainly related to what we call strategic assets, so basically private banking customers that houseware their assets with us, so the yield related to these outflows is very, very low, if not non-existent. So, the underlying business, the retail business, is actually doing fairly well during the quarter, although we did see some outflows. So, the mix effect, if you want to call it that, is actually positive in terms of fees on the quarter, as the outflows are related to very low fees and what we made at the bank has higher average fees.

Maria Semikhatova: Thank you. And then on the impact on volumes and margins, if you can comment on that.

Johan Torgeby: Related to what? Can you explain that please?

Maria Semikhatova: Yes. You commented that because of the transfer pricing, there was a different allocation, but if you look at the group level, can you disclose the contribution of volumes over the quarter versus margins?

Johan Torgeby: Well, we just say that there is a positive contribution from volumes during the quarter. It is actually a positive contribution from margins during the quarter as well. But if you look at the increase in net interest income in Treasury, which is reported on the group functions, that entire increase is coming from internal fund transfer pricing, so you can add as much back to the division really from that increase and then you can have an estimate of what actually has been removed from the divisions into Treasury.

Maria Semikhatova: Okay, understood. Thank you.

Riccardo Rovere (Mediobanca): Thanks. Thanks, and good morning, everybody. Three or four questions, if I may. The first one again is on the capital return. The actions that you have announced, let us call extra dividend and the buyback, is roughly three-quarters cash, one-quarter the buyback. Is it a way to look at what you might eventually decide to do in the future, or am I just looking too much into this?

The second question I have is, Johan, when you mentioned right at the beginning of the call you have roughly 7% market share in mutual funds, if I am not mistaken you mentioned that your natural market share should be more similar to 10%. If I got it right, it would be a kind of 50% increase in market share, which is not irrelevant, I could say. Do you think this can be done organically, or are you thinking about maybe adding a little bit of acquisitions or some kind of support, some tailwind from acquisition in that?

The other question I have is on inflation. If we assumed inflation will stay elevated for a while, do you think this will sooner or later be somehow incorporated in your cost base, or could it eventually hamper credit demand, especially the corporate credit demand, if bottlenecks in the supply chain had to let us last for a while?

And then, another question I have on RWA, is with the stage where we are, can we say that negative credit risk migration impacting risk weights in RWA, can we just forget it now once and for all?

And the last question I have; you still have the overlay on the large corporates sitting on your balance sheet and still being part of the furniture. For how long can this continue? Will you take a final decision this year? Will you go on taking this for also in 2022? What is the dialogue here you are having with your auditors on this? Thanks.

Johan Torgeby: I think I will start with the capital, the market share on investment management and inflation. I will hand over RWA and overlays to Masih. So, on capital return, we have not explicitly communicated that type of mix, but what we have reasoned with you guys around before is the following narrative. Before we changed to 50% payout ratio and share buyback, we had a practical history of paying about 70% payout ratio. There has not been in my mind any shift in terms of how much we would like to repatriate or not in total compared to the past. And for me, those 70% is a good indication of where we ended up the last three or four years before we had this change.

So, if we were to do that, I would say 50% of a dividend payout ratio, which is lower than the 70% we used to have, creates increased flexibility for us, we are increasing the probability to be able to pay that number, because it is lower, in good and bad times. We will then allow the share buyback programme to calibrate on top of, regardless of what happens. So, if it is a really bad period in the market, you can cancel it. If it is a surprisingly good one, you can increase it. But the base case is still for me somewhere around that historical 70%. It depends very much on the starting point. Right now, we are starting from a luxury position, and sometimes in history we have been saying that it is a bit much for the taste of being able to support the increased demand that you might see in the future. So, I think that gives you a little bit of balance around how we are considering it.

On the 7% and 10%, it is all organic. The 10% is just that statistic that we showed in the presentation. It is the official statistic for Swedish funds in Sweden, which is I think roughly 80% or 90% or so of the funds. We are of course also selling abroad. We have then the institutional business. So, the total AUM is closer to SEK2.4 trillion, and of that which SEK1.4 billion. So, out of it, this is the Swedish one. This is where we sell through the channels, the digital channels, through the physical branch office and telephone bank. And here, there is no reason, if we do this well, we should not be at our natural – we probably have around 10% of the fund market in Swedish, and we should also have 10% of the new sales. That is my only point on that. And organic, it is not acquiring asset managers to get there.

On inflation, I think it is a very complicated issue in terms of assessing the consequence, and you take both clients and the bank. So, I do think that if the inflation is maintained on a more permanent high level, it will affect us just like any other company. That will be a cost increase in the bank that has not been planned for or foreseen, and we also know that the financial industry does experience a lot of anecdotal evidence as we speak of higher cost inflation than average. This is a compensation which is of course 70% of our cost base. It is to compensate people. It is on IT, where services, in order to buy information, real-time systems, they are not becoming cheaper. They are becoming more expensive. And then the transformation, which is meaning that we do less own-developed IT and we are buying more of services. Take the cloudification of our bank, for example. That goes away from in-house producing all the infrastructure required and we are moving it out to a third party and we buy the service. That is not an investment that you then capitalise. It is more of an operating cost. But it is replacing an own-investment you otherwise would have done. So, inflation will of course hit there for us, like anyone else.

On the client side, however, inflation means that companies are increasing prices, so there will be many who benefit from inflation of our client base, improving credit quality, improving profitability. It is the ones that cannot push through any cost inflation they are experiencing through pushing it through the client, which means that producer price inflation might be a tricky thing, but inflation is of course a price increase. If that is not associated with an increase in interest rates, it is just going to be the good thing. People will increase prices and they will try to push through cost increases to the end customer whilst not having an increased cost of financing – the financial net cost. If it increases cost through inflation, meaning higher interest rates, you will have a double cost increase. You will also have to pay more for whatever indebtedness you have and there the analysis is of course pretty simple: if you do not have any debt, it will not affect you; if you have a lot, it will affect you a lot. Masih?

Masih Yazdi: Yes. To your last two questions, the first one on risk migration, I will answer that contingent upon something. So, if the recovery continues, based on our economist view and the consensus view, then yes, in the next 12 months you should not see a negative risk migration. We had further risk migration net in Q3. It is more likely that is going to continue than turn around, if the recovery continues.

And the last question is the same thing. I mean, if the recovery continues, we have put on about SEK1.4 billion in overlay last year. We will in the next few quarters obviously look at that, and if the recovery has continued, we will have to start to reverse some of those recoveries, if not utilised for credit exposures that we have seen that have deteriorated. So assuming that does not happen, yes, this will be reversed at some point, gradually again. Exactly when we start and how to do it, it is going to be a decision that we take, obviously in cooperation with our accountants.

Riccardo Rovere: Thanks, Masih. But the thinking about this will probably start in 2022? Am I right?

Masih Yazdi: That sounds about right.

Riccardo Rovere: Okay. Thanks. Thank you very much. Thanks. Very clear.

Robin Rane (Kepler Cheuvreux): Yes. Good morning. Thanks for taking the questions. Hopefully two shorter ones from my side. The tax rate has been pretty low, at 17%[?] I think, for two quarters now. What should we assume as a tax rate going forward?

Johan Torgeby: Yes, Robin, it is correct. It has been lower than what we typically guide for, which is around 20% or so, and the main reason is that we have had some valuation gains that are tax-exempt. In Q2, we had the Tink revaluation and now in Q3 we have the Euroclear revaluation, and those two are tax-exempt, which takes the tax rate down. We do not expect these kinds of revaluations to happen all the time, at least not to the magnitude we have seen in the last two quarters, so we still believe that the normal tax rate is around the 20% mark.

Robin Rane: Okay, great. Thanks. And then secondly, you said that the front book margin was lower than the back books. Could you provide the differential there?

Johan Torgeby: No. That is pretty much what we want to guide for. It is lower. There is intense competition on mortgages on the front book, but given that the front book is about 5% of the book, so 95% is the back book, it takes some time for that to have any real indications on the mortgage margins in general.

Robin Rane: Okay. Thank you very much.

Martin Leitgeb (Goldman Sachs): Yes, good morning. Just a couple of follow-ups on the mortgage market in Sweden. I mean, in terms of front book-back book churn, I appreciate you do not want to provide the guidance on the yield differential, but how quickly will this feed through? I mean, if we assume a split viable fixed and their usual maturities, is it fair to assume 20% or 30% of that book rolled over each year, the new front book pricing?

And then, related to that, some of your peers called out that the continued switch from variable to fixed-rate mortgages is also impacting margin. Does this also apply for SEB, and could you update us on where the split is for SEB currently in terms of variable versus fixed and how it has evolved over time? But I am trying to get to this how we should think about mortgage NII going forward. Do you assume that the margin which is edging lower is more than offset by continued volume growth?

And second, just a question on house-price growth, which was obviously extraordinarily strong in Sweden over the past year. Do you see a risk that there could be policy measures being applied to the Swedish market in order to try to offset or at least slow down some of this house-price growth? Thank you.

Johan Torgeby: Thank you for those questions. So, when I talk about the front book of the mortgage market, we are talking about the 6% or 7% growth that we have right now, so new mortgages that we grant. So, the back book or the prolongation, so the book that we need to renegotiate the prices for every two years, that part is stable, whereas new mortgages are given out on a lower average margin than the back book. So, it takes quite a long time before that has a large impact on the whole mortgage book. That is pretty much all the guidance I can give you. We have seen the same kind of trend, of more fixed-rate mortgages and less variable mortgages. Margins on fixed-rate mortgages, one to three years, are slightly lower than the variable side, so that has already led to marginally lower margins. I am not sure if that trend is going to continue, but most of that impact has already happened.

On the house price, yes, obviously, to the extent that the house-price growth is leading to higher household indebtedness, that obviously leads to a higher risk of new regulation coming in. At the same time, the Swedish FSA here has done a lot in the last decade. You have the LTV cap, you have the first amortisation, the second amortisation, you have the risk-weighted [inaudible] mortgages, and there is a debate here on to what extent can macro prudential regulation really curb this development we have seen. So, it sounds like, at least right now, that if they use new tools, it will not be macro prudential regulation, i.e., the Swedish FSA coming in and making it more difficult for people to get a mortgage. And already now, risk weights on mortgages are the highest in Europe in Sweden, and historically it has been the best-quality mortgage book, so the question is whether you can increase that further, especially when we know that in Basel IV it will actually go down again, so it does not really matter.

So surely, regulation, the risk of that increases with house prices going up and indebtedness going up, but it sounds like right now that it will have to be other tools than they have used historically to curb that development.

Martin Leitgeb: Thank you. So, in terms of mortgage [inaudible], it sounds like you have a fairly comfortable view that this could continue to grow, basically, with volume of slightly[?] margin, is that fair?

Johan Torgeby: Yes. I mean, as long as the market is growing around 7%, there is a lot of supply to go around for a lot of mortgage providers. If the growth rate does come down closer to zero, then you should expect more competition and more margin pressure.

Martin Leitgeb: Okay. Thank you very much.

Johan Torgeby: Okay. Then I will just end and say thank you very much for participating today and we wish you all a good Wednesday. Good bye.

[END OF TRANSCRIPT]