Skandinaviska Enskilda Banken Q4 2023 Results

Thursday, 25th January 2024

Introduction

Johan Torgeby

President & CEO, SEB

Welcome

Thank you very much, and welcome to everyone to SEB Full Year Results for 2023. As customary, we will refer to the slides that you can find on our website in the PowerPoint presentation for today's presentation named Financial results Q4 2023.

Highlights in Q4 2023

On our highlights page, we would like to first start with a very strong performance in customer satisfaction. This is probably one of our most important areas that we follow in order to make sure we are relevant for our customer base and it is encouraging to see that we maintain the first position in the customer surveys, both for large corporates and for financial institutions in the broader Nordic area.

Secondly, we have an exceptionally strong bank with very robust asset quality and a very solid capital position, and the return on equity in this quarter amounted to 15.2% in line with our long-term aspirations.

We will also today double-click on the cost guidance for 2024, which our CFO will go through in more detail later. But the headline is that with target to be equal to or below SEK29 billion, reinvesting approximately SEK1.5 billion extra in 2024.

And we have a proposal from our Board of Directors for the AGM when it comes to capital repatriation and that is a dividend of SEK11.5 per share, divided between an ordinary dividend of SEK8.5 and a special dividend of SEK3. In addition, last night we also announced the share buyback volumes up until the AGM of SEK1.75 billion.

Financial summary FY 2023

Turning to page three, we will just have the full year financials for 2023, amounting to 24% increase in operating income, 10% increase in operating expenses, resulting in a 34% operating profit before expected credit losses and imposed levies and bank taxes.

We did have a significantly lower expected credit loss level during the year, but a significantly higher imposed levies through bank taxes and fees. Earnings per share increase is 44%.

Development of credit portfolio

On page four, we now clearly, for the second quarter in a row, can see the muted demand for credits. So looking at the credit portfolio and the lending by corporates, household, commercial real estate, I will just summarise this and say we are around flattish. It is a sideline movement, plus/minus 1% or 2%. And this is clearly, as expected, as now we can see the monetary policy actions biting actually making loan demand move sidelines.

Stable growth in operating leverage over time

Next page, on page five is something we think is very important and that is to look up, think about the long-term perspective. One year is a very short period of time. And here in the last 32 years, we, of course, have a guiding principle to generate operating leverage over time where income increases more than cost in a way that supports our clients with good lending opportunities, good advice and good investment opportunities.

We will have a very elevated speed of increase following the rapid increase in rates we have experienced over the last 18 months, and is therefore quite natural that an increase of this magnitude of 40% plus does not repeat itself. It is not a sustainable growth rate and it does resemble some of the features we saw in the year 2000, where we also had one of these very rapid, which was then followed by somewhat more of a consolidating P&L over the coming two to three years.

Perspectives on our broader financial contribution

On page six, we will just give an incremental perspective to our broader financial contribution. As you may have seen, there is a lot of discussion around the increased profits in the banking sector.

And I would just conclude that we do have a 42% increase in operating profit, and this is, of course, not to be misled going to what is called the bank. We have beneficiary owners in the tone of millions of households through the owners that have provided SEB with the capital that we then redeploy in society. And here, we have just listed our three largest ones with investor, where this dividend and this operating profit belongs to foundations and over 500,000 single investors.

We have then pension funds with millions of individuals, who is dependent on capital income coming from banks and from companies like SEB. And we ourselves have about 250,000 direct investments from individuals who choose to save and invest some of their capital in the bank.

We also, to a similar tone, have increased the resources provided to public finances. Taxes and imposed levies are up 46% year-on-year and amounts to SEK14.4 billion. There is also been a discussion about corporate tax and bank tax and risk tax and mortgage tax. We would just like to highlight that we are now having, including bank tax, risk tax, etc., a 26% tax rate. You also saw an elevated level that Masih will come back to during this quarter, compared to the 20.6%, which is the Swedish corporate tax rate at the outset.

Lastly, our customers. Deposit beta means that how much of the interest rate increase in society or in the markets was passed on to the deposit takers of your institution. Here is some international comparison that I think quite staggering, that in Sweden we are a positive outlier in this context from the viewpoint of clients, namely passing on 75% of the increase in interest rates compared to the Eurozone average where only 26% was passed on.

With that, I will hand over to Masih to go through the financials in more detail.

Financial Overview

Masih Yazdi

CFO, SEB

Financial summary Q4 2023

Thanks, Johan. I will start on slide eight, focusing on the Q4 results.

As you can see on the slide, we see a lower operating profit in the quarter compared to the previous quarter. That is mainly driven by a slightly lower income, seasonally higher cost in Q4, but predominantly driven by higher net expected credit losses and a elevated income tax level.

I will talk a bit about three of the lines here that we do not have a special slide on. I am going to start with net expected credit losses. As you can see, they are at SEK664 million in the quarter, or 9 basis points, and that is clearly higher than the previous quarters most recently.

When it comes to the expected credit losses in the quarter, more than half relates to one single counterparty. The actual loss related to this counterparty is less than SEK50 million, but the reserve we have done is more than SEK350 million. This is now a company that is going through reconstruction, and if that is successful, it is a likelihood that it will be upgraded and some of the reserves we have taken which have not been realised losses can be reversed. The underlying asset quality is pretty much unchanged compared to what we have seen in the last couple of quarters.

Then on imposed levies, they are at almost SEK1.1 billion in the quarter. There will be a few changes in 2024. We expect the Resolution Fund fees to go up. We expect the bank tax in Sweden to be largely flat. The solidarity contribution in Lithuania will be largely flat on a year-on-year basis. And then there will be a new levy in Latvia related to mortgage lending.

All in all, we expect imposed levies in 2024 to be in line with the Q4 level of 2023 per quarter or maybe slightly below that level.

On the income tax expense, we have an effective tax rate of almost 26% in the quarter. There are four one-offs in this line in this quarter relating to, for example, a corporate tax that has been introduced in Latvia, retroactively higher corporate tax in Ukraine, and a dividend payment from our Estonian business. Looking forward, we expect the effective corporate tax rate for SEB to stay at around 20%.

Net interest income development

If I move on to the next slide, net interest income, as you can see, year-on-year up 42% or around SEK14 billion. It is noteworthy in the footnote that when it comes to this increase of net interest income, only SEK800 million or less than 6% is coming from normal Swedish households. The other part is coming from interest rates on our own equity, the corporate business and the Baltic franchise.

Quarter-on-quarter, net interest income is largely flat. Note that we do have a one-off here, which is a customer compensation, amounting to SEK162 million in the quarter. And we also have a negative FX effect of SEK113 million. So adjusted for FX in local currencies, net interest income is marginally up. But we did have rate hikes in September which has had a positive effect this quarter.

In the previous quarter, we said that assuming that lending growth continues to be as muted as it is now and assuming that policy rates are unchanged from current levels, we expect NII to slowly drift downwards. We keep that guidance. If anything, maybe it is going to be a slower drift downwards than we expected last quarter. That is mainly related to the fact that mortgage margins have improved slightly in the quarter, and the fact that we have seen a deceleration of flows to term deposits. These flows almost stopped in November and December. We do not know whether that is a new trend or not, but that is what happened in the latter parts of Q4.

Net fee & commission income development

Move on to slide 10, net fee and commission income, up 1% year-on-year, helped by FX as well, one should have in mind. Quarter-on-quarter, as we typically do, we see a seasonal uptick, mainly driven by advisory fees related to our Investment Banking business as well as lending fees.

What we can see in our business is that the card business continues to be at a good level and we can see there is a very large difference between how the corporate card franchise is performing compared to private customer cards where corporate cards have seen a much clearer recovery post the pandemic compared to consumer cards.

Net financial income development

Moving on to slide 11 and next financial income, we are reporting a level of SEK2.4 billion in the quarter. We continue to see healthy activity in our FX business as well as our fixed income business and we have continued to see a positive effect from the strategic holdings that we have in this quarter, mainly Euroclear.

As you can see from the slide, the average for last 16 quarters is SEK2.2 billion. Our best guidance going forward is that we will be around the historical average. We have set at that around SEK2 billion. We know that that average has gone up slightly in recent quarters.

Capital buffer development

Moving on to slide 12 and the capitalisation of the bank and the capital buffers we hold. So given the proposal from the Board on the dividends and share buybacks, we stand at 440 basis points in Q4.

On the share buybacks, just a few words on that. In Q3, we had a mandate from the Swedish FSA to do share buybacks of SEK2.5 billion. We executed on SEK1.5 to SEK1.25 billion of that during Q4. From that mandate, we have SEK1.25 billion left. In January, we received a new mandate to do share buybacks of SEK2.5 billion. In total, we have a mandate of SEK3.75 billion, which has been fully deducted from our common equity tier one capital. The Board has decided to execute on SEK1.75 billion of those SEK3.75 billion now until the AGM.

From the mandates we have now post the execution of the share buyback programme that is going to start tomorrow, we will have another SEK2 billion to do, if the Board decides so.

Strong asset quality and balance sheet

Moving on to slide 13, few key ratios. The only one I would like to highlight is customer deposits. As you can see, it is marginally down year-on-year. Here, one should note that there is a fairly large negative FX effect of, I think, it is SEK63 billion. Underlying, we can see that there has been an increase in deposits. We mainly see that from corporates, whereas from households, we see a marginal decline of deposits year-over-year.

With that, we are going to have a few slides on a business plan update, and Johan is going to start.

Business Plan Update

Johan Torgeby

President & CEO, SEB

Our 2030 Strategy remains intact

Thank you, Masih. On page 15, and now going forward, we talk a little bit about the year that passed and the strategy going forward. Today, the message is we are going to stay the course. No material or even meaningful change.

Then as a reminder, our 2030 strategy remains intact, and the headlines are we want to expand and grow our Corporate and Investment Banking business, both where we are and in geographies where we have previously not been as prevalent.

Leverage our markets platform, these are the custody side and how we trade and sales of financial securities, and of course a continuation in savings and investment focus across the firm together with this formidable long-term structural trend of sustainable finance where we want to play a very active role.

We continue to reshape retail banking as we know it, ever becoming more digital, but also established a new Private Wealth Management and Family Office a few years ago, that is progressing very fine. And use SEBx new innovation and try to find disruptive technologies in a safe and secure manner on the sidelines in order to be more progressive than otherwise would have been the case.

Partnerships. We cannot do everything. We cannot be excellent at everything. Therefore, we need to be open and make sure that we build ecosystems and that we are part of interesting, very beneficial movements and inventions out there in order to provide the best service to our clients and to the firm over time in the future.

Of course, house in order. Efficiency, cost control, regulatory compliance, and using technology in order to become better.

A selection of what we have delivered during 2023

On the following page, we have just, I would not go through all, some highlights from the year that passed divided into these categories. We have had a very good product development within savings and investments where new offerings in thematic funds have come out to a greater extent than in the past.

Sustainability linked financial services has now increased and the index is at 123%, and we have reduced the fossil intensity of our loan book, the Carbon Exposure Index by 39% from the reference point end of 2019, and that is in excess of both the MGFS and the IEA's projections and recommendations in order to provide to a sustainable future.

We have enhanced our digital functionalities, particularly in CNPC, and it was very encouraging that the net promoter score in our retail bank was now noted in the highest level ever, where we hit around 69 in some of the areas.

We have had several new partnerships established during the year. Here we mention a few. PE accounting, on the insurance side with Insurely, and also increase and enhance the digital process for entrepreneurs to start a new company with Fortnox.

Since we closed the books, we have also announced a cooperation with Kivra and an investment in cooperation with Copenhagen Infrastructure Partners in Denmark.

On efficiency, I will just highlight the improved productivity, which is one simple way of measuring how it all results in some type of actionable, observable benefit when you invest as much as we do in the technology and in digital improvements. That was noted again, just like last year, at a 5% productivity gain measured as number of transactions that we can perform per FTE.

We continue to receive positive feedback from our customers

Lastly, before I hand over to the financial plans on page 17, we will just give the full picture on the customer satisfaction during the year in all the eight different categories that are our headlines, and I will just conclude that it is on a headline level looks very encouraging, although you can never be satisfied. If you do double-click on these, there are definitely things that you can improve and you need to work on for the coming year.

With that, I will hand over to Masih again.

Business Plan Update

Masih Yazdi

CFO, SEB

In 2024, we will continue to invest to future-proof our business

Thank you, Johan. So looking at slide 19. So one of the main mantras in the bank is to future-proof our business, and we will continue to do that during 2024. As Johan mentioned before, we will allow the cost level to increase by up to SEK1.6 billion during the year.

You can see that inflation still is a bit elevated, both when it comes to salaries, but especially when it comes to other types of inflation related to, for example, premises and how much we pay vendors, for example, for different tech solutions. Up to SEK1 billion of the cost increase during 2024 will be driven by inflation.

In addition to that, we are doing large investments. We will continue to invest in our savings area, mainly within the Private Wealth Management & Family Office division. We will continue to expand our large corporate business in Austria, Switzerland, and Netherlands. Obviously we continue to invest into sustainability.

We will also do large investments in future-proofing our infrastructure. This is something all banks need to do and it is important to do so to stay relevant in the products you already provide your customers with and we will do large investments in 2024 in our financing systems, in our payment systems and continue to do large investments within cybersecurity and cloud.

When it comes to house in order, financial crime prevention, risk and compliance, we will continue to see a cost increase related to those areas. However, the cost increase will be less in 2024 than what we have experienced in the last couple of years, especially relating to financial crime prevention, where we now have invested a lot in the last few years and are reaching a higher level, but more so plateauing at that level.

Updated financial aspirations for divisions, evaluated annually

Moving on to slide 20. We have marginally updated our financial aspirations for different divisions. This is a way for us to show and explain how we, as a Group, try to reach the 15% return on equity aspiration and how different divisions should contribute to that.

You can see that the cost/income aspiration for the Baltic division has been lowered, which has led to a marginally lower cost/income ratio aspiration for the Group. The reason for these two changes is mainly that we have seen imposed levies being introduced during the year and to be able to reach our return on equity aspirations we need to have a lower cost/income ratio to be at that level.

SEB Group financial targets

Finally, reiterating our Group financial targets on page 21. A dividend payout ratio of around 50%, a capital buffer of 100 basis points to 300 basis points. Again, return on equity compared with peers with an aspiration of being at 15%. I should also mention that we are at 440 basis points. The first ambition of the bank is always to reinvest as much as possible the capital we have, but when that is not possible, we do pay out dividends and do share buybacks, and the Board still has an ambition to move towards our financial targets in terms of capital buffer by the end of this year.

With that, I will stop and we can open up for Q&A.

Q&A

Tarik El Mejjad (Bank of America): Just a couple of questions please. Your comments on the NII outlook, you mentioned that you reiterate your Q3 guidance of a slow drift in NII, even you could see a slower drift than initially expected. But you started saying assuming that the volume remained muted and the rates will remain where they are. What would that be if obviously we assume that rate cuts will start to feed through in the next months? Is that still a valid guidance? And if you can comment on the two moving parts in terms of deposits and lending spreads?

The second question is on the capital return. I mean, it is interesting, the move is down. Clearly here what we can read between the lines is that you will step-up the share buyback and adjust the DPS at the end of the year with specials to converse towards your buffer. I mean that implies significant special if you want to go to the higher end, the 300 basis points by 2024. Is that a good understanding? Secondly, I mean I am new to the region. However, when you say 100 to 300, should we read 200 or pressure is for you guys to stick with the higher end of the range of the CET1? I will keep it here.

Johan Torgeby: Okay, I can start. Thank you, Tarik. Then Masih can fill in. Now, on the NII, the volume, assuming where we are now and the consensus of sharp drops, we do not guide, but I will reason with you for a minute.

What typically happens now is that you get the balance sheet. It is a beta movement in the P&L. We have not done that much activity-based P&L as we have balance sheet-based P&L. What typically happens is now that when rates, if they start going down, that will put the wheels of the economy going and the fee and commission part of the bank, the activity-based part of the bank, which is, of course, very significant in SEB, will start improving and often significantly.

It is very difficult to see which one of these will be the stronger force, but that is always more or less how things work out over time and it is also the purpose of monetary policy to achieve exactly those things.

For the NII, on the margins, I would say we have extremely compressed margins on several of the loan products, not at least the mortgage book. There is, of course, always where rates go down, the opposite theme. They have come down very dramatically as rates go up. I must say we have not seen a lot of margin increase on corporate loans, which is a little bit surprising. Typically when credit spreads and economic financial conditions tightens this much, there will be also a spill-over into the corporate banking sector. However, if you do look over the last 18 months, it is not significant, and there is a lot of protection on the margins on the lending book.

On the deposit side, it is, of course, the opposite. If rates start to sharply drop, that is typically where you will have a deterioration of the margins coming from the deposit side.

When it comes to step-up, I will just conclude, the math, as you describe it on dividend and what is required to hit 300, I can just agree with it. We will sit here in one year and communicate what is then the appropriate way with all the stops we have every quarter up until then to calibrate any type of capital communication or capital plan.

The 100 to 300 basis points, I think you should just interpret it exactly like it is. In that range there are no legitimate necessities to change anything dramatic. That is a very broad assessment where we think the bank is a very well-catered for capitalised bank, and of course things move around with FX and loan demand and things outside our control. I would not say that you should think anything about other than that.

For now, I will just remind everyone why we are here is actually because of the involuntary dividend ban on SEB in COVID years. That ended up being 800, 900 basis points of a buffer and we are still trying to adjust for those things, which, of course, with the benefit of hindsight were not necessary. However, that is, of course, a moving, call it slowly, down into the range for a true normalisation of the balance sheet.

Masih Yazdi: Yeah, I will just see if I can add something. On net interest income, there are a lot of static analysis you can do on how policy rate changes can impact the NII. To be absolutely honest, we have several of those in-house, but it only sort of takes into account how competition changes. We have seen that with rate hikes that it is very difficult to predict how things will move.

What I would do myself is actually look at what has happened to the net interest income line, for example, in the last 100 basis points rate hikes we have seen, and just assume that if you see rates being cut by 100 basis points, that the exact same effect will happen reversed. Maybe that is a good base case scenario. However, then it is going to be competition in market on both lending and deposits that dictates how things will move in reality.

On capital return, I mean, I think the only colour I can add is that if we decide to continue to do share buybacks in 2025, then if those decisions are made in conjunction with the Q4 results 2024, then as we have done this quarter, those potential share buybacks will be deducted from the capital base.

When you think about what can a dividend be and a special dividend be and where that share buybacks in 2025, if those are decided on. Now we have a long way to go until then. We do not know how 2024 will look like yet, but that will be something that also impacts the buffer at the year end 2024.

Jacob Kruse (Autonomous): I just had, I guess, a couple of questions. Firstly, on capital. To what extent should we consider your excess to be a bit of a war chest for opportunistic or strategic acquisitions over the next 12 months until the next Q4? How much would that optionality filter into your decision not to bring down the CET-1 ratio more aggressively today?

On the capital as well, could you say anything about what you see as the day one impact on Basel IV in early 2025?

Then just on the NII side. What is your thinking around the deposit beta on the way down? Do you think it will be similarly high to what you saw on the way up? Or do you think it is going to be harder to reduce deposit rates than it was to increase deposit rates?

Masih Yazdi: Thanks, Jacob. I will start there. When it comes to our capital, as I said before, our first priority is to reinvest as much as possible in our business. We think that we can show that over time that has created more value for customers and in the end more value for our shareholders.

Right now there is very little organic demand and we have not closed the door completely when it comes to acquisitions. We have announced one last year with AirPlus, which we hopefully will close later this year. If we can find something that we believe will create more value for shareholders and customers in the long term, more than buybacks or dividends, that is definitely a priority of the bank. So yes, we are open to anything that creates more value.

When it comes to Basel IV, we are not guiding for a day one effect yet because the regulation is not clear yet. We have experienced from the past that these type of regulations change a lot from the day when they are announced to the day that they have been finalised. So we are going to wait for that finalisation before we guide for it.

I think it is still clear to say that the day one effect is likely to be negative, but it is not going to be very material. However, we will see what the exact effect will be.

NII and deposit betas. Yes, as I said before, competition is going to dictate what that is going to be. But I do think that a good base case scenario is that the deposit beta will be the same on its way down as it has been on its way up. Now it has been the highest in Sweden and Europe on its way up. So I guess it is more likely it is going to be high in Sweden on its way down as well. Again, it is all about competition.

Richard Strand (Nordea): Regarding the NII sensitivity next year or later this year when rates are expected to peak, are there any material fixed assets on your loan books that have a variable funding that you are still repricing that could limit the impact during the year when rate starts to decline?

Johan Torgeby: No. I mean the main part of the fixed assets is really within the mortgage book, but as you probably know, most customers choose the three-month variable mortgage. So we do not see much of that. You do have longer duration in the liquidity book in treasury that typically sees a valuation increase when rates go down, but that is typically a net financial income item. So that could be an offset if rates are cut. But in terms of the NII offset, there is not that much of that.

Richard Strand: Okay. Then on the Swedish Resolution Fund fee, do you have any updates there? What you expect the fees to be here now in 2024 and also when the fund will be filled?

Masih Yazdi: Yes. In 2024, the fee is based on the size of the balance sheet at the end of 2022. Our balance sheet grew a bit in 2022 versus 2021, so we think the Resolution Fund fee will be slightly higher in 2024 compared to 2023. However, that is going to be offset if you look at the Q4 imposed levies by other things. So we expect the quarterly imposed levies in 2024 to be at or slightly below the Q4 level.

If you do projections on the fund itself, it should be filled during 2024. If nothing changes with regulation, then post 2024, then the contributions to the fund should only be minimal to the extent that they expect deposits to grow. We are hoping that to happen. Then that will mean that the imposed levies-related to Resolution Fund fee will be significantly lower from 2025.

Bettina Thurner (Exane BNP Paribas): I had a question on deposits firstly. You mentioned that deposit mix shift is a bit flattening out, but you are not sure whether that is a sustainable trend yet, but it would definitely be one headwind abating on the deposit side. When it comes to other deposit headwinds that you have seen throughout the year, like increased amortisation on the loan side or maybe in the future deposit flows to competitors, what are you seeing at the moment? Are deposit headwinds in general a bit lower now than what you have seen before?

Then maybe a second question just on loan growth in general, which is very subdued at the moment. Do you think in terms of what you are seeing in the market, is it that households do still have an appetite for credit in general, or do you think that this experience of higher rates might have triggered some sustainable deleveraging cycle for Swedish households and that it will be lower for longer, even as rates are being cut?

Masih Yazdi: Thank you. I can start up there. On the deposit side, I mean, we think the macro driver is really quantitative tightening and we have expected the deposit base in total to shrink. That has been the case as well in 2023, and we have done a lot of long-term funding in 2023 in anticipation of that to offset that potential effect.

To the extent that we continue to have quantitative tightening, you should see a decline of the total deposit base in Sweden in general.

In terms of competition, I mean, I guess it is likely to expect that if there are expectations of rate cuts, it is going to be less competition to move around your deposits because term deposits, for example, will not pay as much because it is going to be embedded in the interest rates on term deposits that rates are expected to be cut. So I guess from that perspective it is likely that you see less competition going forward.

On loan growth, it is difficult to say what is going to happen. I think it is a lot about the interest rate level. It is all according to plan, that loan demand is low. That is why interest rates have been hiked.

Whether it is going to be a structural change in the market, I do not see any reasons why that would be. I think what we are seeing now is really completely related to the fact that the cost for lending has gone up by three or four times and then obviously the demand for that product that has become so much more expensive is lower; and as soon as rates are cut, I am pretty sure that at some point you are going to see more demand for lending.

So I do not know, Johan, but we do not see any reasons why that would be structurally different now.

Johan Torgeby: No, I have nothing really to add. I just point out that the leverage on households is probably on average around 50% LTVs, so it is a function also where house prices go, and point out that household lending and demand, therefore, is a pretty small part of our bank. So the corporate side is more important.

Sofie Peterzens (JP Morgan): My first question would be on the Stage 3 exposure. Those increased almost 50% or SEK3 billion in the quarter. Could you maybe just talk about what actually drove the increase in Stage 3 exposure, the nature of those exposures?

Then my second question would be on net interest income growth in the Baltics. Given that net interest income there has always tripled in the past two years, should we expect NII to fall in a similar magnitude when rates come down? Is it the EURIBOR six-month rate that we should be tracking?

My last question would be just on financial crime. There has been quite a lot of stories in the local press and radio in Sweden over the past couple of months. Do you think SEK200 million is enough to spend for getting the house in order considering that, at least based on press articles, it seems to be a quite big systemic issue in Sweden?

Masih Yazdi: Yes, I can start with the first two. I will leave financial crime to Johan. When it comes to the Stage 3 exposure, you should have in mind that we are starting from a very low level, so whatever happens to that exposure, it goes up by a lot in percent. However, it is one exposure really that drives the whole increase in Stage 3. It is the same exposure where we have taken about half of the expected credit loss reserves in the quarter.

That exposure is large in itself, but the actual loss magnitude for exposure is much lower than the total exposure because a lot of exposure is guaranteed by an export guarantee. That is the reason. It is actually the same thing for Stage 2. You can see there is a fairly large increase in Stage 2, again, starting from a low base, and that is a different exposure. It is a company that has been downgraded from the lowest level of investment grade to the highest level of non-investment grade, and therefore it has moved into Stage 2 and that stands for 85% of the increase in Stage 2. So it is basically one and one leading to these increases that seem high in percentages, but again we are starting from a very low base.

On net interest income, when we started to have rate hikes in the Baltics as well, most of the deposits were on transaction accounts. Now you can see that about 25% of deposits are in term deposits where we pay a fairly high interest rate. So I would assume that when rates are cut, the magnitude of the decline of NII will be less on its way down than it is on its way up because a lot of deposits now do pay interest. That probably will be adjusted downwards when rates are cut. So I do not think you should expect the same magnitude of NII drop.

And then on financial crime, Johan?

Johan Torgeby: Yes, no, I mean this is a symptomatic situation for any society that we have the fact of criminality. And financial crimes always have a particular role, of course, when it comes to financial markets and banks. I would not read anything into the two or three news articles and draw such strong conclusions of systemically changing your perception of criminality in society. We have, of course, the 200 should not be misinterpreted. It is just an incremental, incremental spend rather than thinking about the thousands of people and billions we are spending on this.

In our opinion, it is the best calibrated investment in order to do what we need to do in the future, which is a significant increase in spend and investment and hiring around this area over the last, I would say, five, six years.

This is a very good challenge and most of the articles by the way, so this is often three, four, five years old data points that now it is finally coming to courts where we have acted, and of course, this is now something that is very topical. That said, we do have an overriding issue with increased criminality in Sweden, so therefore we will all have to pull our weight here.

Sofie Peterzens: Okay. That is very clear. Maybe, if I just may, one final question. In terms of inorganic growth opportunities, if you were to buy something else, what would you be looking for? Would it be more in the Wealth Private Banking side or would it be more on the corporate side or something more similar to AirPlus, or you are very open?

Johan Torgeby: I would say we are very open. I worked many years, sometimes you would have like a wish list and you have a very clear target. That is not us. We have an organic plan today presented to you with cost, all based on organic changes.

But as you can imagine, every week I will get a proposal, Masih will get proposals all around of things that move around, anything from small fintech, minority investments to large scales. And the track record over the last decade is, of course, very, very few things gets pursued. AirPlus is an example that defies or proves that we can do things.

However, there is nothing. It is more think about the plan. So we have the Corporate Investment Bank, the Wealth and Asset Management, retail, digitisation. So it is going to be in line with the strategic direction of the bank, that is at least the first filter we put on.

Namita Samtani (Barclays): I have got three please. Firstly, if the Riksbank increases the pace of its bond sales, what further impact do you think this will have on your balance sheet or your P&L? Or is it just a straightforward deposit declining impact?

Secondly, just wondering how you can expect lending margins to expand in large corporates, given I think there is quite a lot of competition from the likes of Nordea and Danske and also the international banks.

Lastly, could you just give us a steer on what the 2022 cost base was for AirPlus?

Johan Torgeby: I do not know if I can start. I mean the Riksbank bond sales or QT, for me, maybe Masih has more data, it is very difficult to translate into a P&L effect. I would argue it is part of withdrawing liquidity from the system. So any tight monetary policy stance involves increase of monetary rates and potentially then that you will have QE. So both of these.

And as all money in the financial system in the end every day ends up in the accumulated volume of deposit accounts, it is only to be expected that deposit volumes as such will be drawn, go down. It is going to be very different if it is in a corporate or household depending on what kind of financial situation one has. That in itself has an effect on how much business we want to do in deposit taking or not, given margins and volumes, etc., will move around.

On lending margins, I mean, there is stiff competition for sure. However, it is also a matter of cost of capital. It is a matter of risk appetite. As I mentioned, we could have seen more margin expansion on corporates. If you were to look at the, call it, the most elevated point in time the last year when you saw high yield spreads widen out, investment grade spreads widen out quite significantly. Over time, you can see that it typically takes 18 months, two years for the banking sector to kind of get affected by it because we have such a different profit function to solve than a institutional bond investor.

That means that volatility is much, much lower. Whatever we see today, that will be affecting us in the next year or two. Do not forget the average maturity on the loan book is three years. Regardless, it always takes three years on average to put a new price, which you currently observe in the market, through the loan book. It is moving around.

Of course, now we will have, hopefully, rate decreases, increasing the activity level. And with the activity level increasing, hopefully, in 2025 or in the latter half of 2024, you will see increased loan demand from corporates, very closely correlated with the investment appetite from our clients.

Masih Yazdi: Yeah, I can just add on AirPlus. I think you can call IR to get the revenues for 2022. I would just say that it is not very relevant when it comes to the future outlook as 2022 will still impacted by the pandemic. We did say that when we announced acquisition that we expect it to be EPS accretive after a year. Initially you are going to have some cost related to the actual closing, but post that initial phase this transaction will be, yes, accretive for the bank.

Markus Sandgren (Kepler Cheuvreux): I was just thinking on the cost side, should we see the investments of around SEK1 billion as a temporary item that will disappear in 2025?

Then secondly, on your long-term return on equity aspirations, you are now between 15% and 16% depending on if you adjust for the tax. Then we should see shrinking NIMs going forward and also some cost inflation. How do you see that pan out?

Johan Torgeby: Yes, I can start. On the investments for 2024, I think you should see further investments in SEB as something absolutely permanent. We will continue to invest in the bank forever, basically, whether that means that nominal costs go up or not every year. It is not the same thing. It depends on what kind of efficiencies we find, but that we will invest in our business. It is something you can be absolutely certain about.

On the return on equity, I mean we ended 2023 at 17.9% for the full year. It is an exceptional year. We have higher net financial income than what we think we will have in the long term and we have low expected losses. But we do also hold a lot of excess capital during the year. If you just look at the operating environment we are in, which we think is much better and will continue to be better going forward than what we had when we had negative interest rates or rates at zero, where we were offering the bank at 13.5-14%, we see absolutely no reason why we should not be able to operate the bank at the long-term aspiration of 15% in the environment we see for the foreseeable future.

Riccardo Rovere (Mediobanca): Three, if I may. First of all, on NII. Masih, when you had started the call, you stated that if rates, and please correct me if I got it wrong. NII to drift down slowly in 2024, if rates stayed flat. Are you referring to period end rates or average rates? Because there could be, in 2024, a big, big difference between those two numbers. Average rates can be flat theoretically in 2024 versus 2023, even if rates are deeply cut by the end of 2024.

The second question I have is on deposit beta. You showed a 75% to Sweden, if loan growth stays fairly weak. I understand that, why should competition be so powerful to not allow you, Sweden, to take back the 75% or a good part of the 75% deposit beta?

The other couple of questions I have is, correct me if I am wrong, you stated that if the Board decide to do so, you still have a couple of billions for additional buyback on top of the SEK1.75 billion that you have announced yesterday. Does it mean that you are technically ramping up the quarterly buyback run rate to SEK1.75 billion versus SEK1.25 billion in 2023?

Then I have a question on DPS. Consensus was going for 9-point-something ordinary DPS, 9.2 maybe, if I remember correctly. Your ordinary DPS is a bit lower than that, but you are adding SEK3 of extraordinary DPS. The SEK3 of extraordinary DPS is really extraordinary or is it just a way to bump up the dividend payout with something that could be correctly withdrawn because it is flagged, branded as extraordinary. But in the meantime, let us say the ordinary one is a bit lower than projected making by the market?

Johan Torgeby: I think I will start with the dividend. We start with the ordinary. As is very clear to most of us, the coming year or two feels unusually difficult to predict will be higher. So when you think about it as a 50% payout ratio and you do around 50% and you put the filter on that we really would like to maintain or increase progressively the dividend in the long-term. That is mainly the reason why the 850 is there, so we can now communicate, we really going to make every effort in the world to keep this and have a progressive dividend over time.

The SEK3 is then more, given the dividend ban from COVID time and the natural adjustment period that we are in to reach the 300, that is put in that context. Masih, you want to add?

Masih Yazdi: No, that is great. I will take the other two questions. When I am talking about assuming unchanged rates, talking about policy rates in the countries where we operate, so mainly the Swedish policy rate and the European policy rate. Just assuming those are unchanged, I know that expectations right now is that they would not be unchanged, they will be cut, but just three months ago there was this expectation that they will be higher for longer.

That is the guidance we can give. I guess, I mean, we are generally against the view that banks can dictate exactly what they do with deposit rates. It is not us dictating. It is a very competitive market and the market dictates what happens to deposit rates. We do conclude that deposit betas in Sweden have been higher and it is absolutely possible and maybe the base case that they are higher also on its way down, but we do not take that for granted because it is all depending on competition.

On the share buybacks, you are right. There is another SEK2 billion in the current mandates that we have and whether the Board decides to execute on that when we have fully concluded the SEK1.75 billion. That is the decision for the Board probably in conjunction with the Q1 results. However, obviously as we have seen in the last couple of years, we will have asked for new mandates whether if the Board wants that and can continue to do the share buybacks also post that period.

I mean, there is not that much to say about it, other than we have decided, the Board has decided to execute on SEK1.75 billion. There is SEK2 billion more left in the current mandate.

Piers Brown (HSBC): Well, actually two questions on deposits. The first one is, you made a comment on the pace of switching having dramatically slowed this quarter. Switching from transaction to term. Just to clarify that, I presume you mean that includes corporate deposits, whereas I would assume that the household deposit switching remains in place. I just need to clarify that.

Then the second question is really a question on the treasury deposits. This is going actually to slide 48 in the investor presentation, where you get the very helpful breakdown of the various deposit categories. I guess the big move this quarter is obviously this 200-odd billion drop in treasury deposits, which I guess is just cash flow management into year end by corporates. However, if you could comment on that, I mean, what are the value of these deposits through SEB? Because it just seems an incredibly volatile number, and I presume therefore the margin on these is wafer-thin to more or less zero. What is the value of that?

Tied into that, I am just a little bit confused about the NII progression in large corporate and financial institutions, because that shows the effect of this deposit reduction in treasury. But you have actually posted a quarter-on-quarter increase in NII in that division. So the trend there just seems a bit confusing given what you said also on corporate loan spreads being still under pressure. So sorry, there is a few questions bundled in there, but hopefully you can work through them.

Masih Yazdi: Alright. Thanks. Starting with the deposit. So the pace of moving deposits to term deposits, I was mainly referring to households. That pace has slowed. On the corporate side, it has slowed as well, but it has never been as dramatic as it has been on from the household side in the last few quarters. So I will say that both paces have slowed, but the comment was mainly referring to households.

Treasury deposits. There is no value from a liquidity standpoint when it comes to treasury deposits. They are very short-term in nature and you do not have any real value from them in, for example, the net stable funding ratio. A lot of what we do as a bank is service to our customers. When it comes to treasury deposits, these are customers that can place money with us as we have access to central banks and we can place the money there. This is a service we do with very low margins, but we do it because we want to have good customer relationships.

At year end, because of the levies we pay, this service is too costly for us to do, and therefore we do not do it over year end and then we start to do it again. So there is low value other than customer satisfaction, which is obviously the most important value we have.

The treasury deposit, as I said, very low margins, and no impact on the LC&FI net interest income. This is reported in Treasury, so there is no connection between the two.

Johan Torgeby: Can I just add, Piers. I will just take this from another question. Maybe I miscommunicated on corporate loans, but they are not under pressure. My point is actually the opposite. They are very stable and they are very constructive, and we have, up until now, increased them. My point was, why did not we increase them more as a marketplace? So it is a positive second derivative. They are certainly not under pressure, and so therefore there is very little downside compared to otherwise would have been the case when the market changes. So just so that is clear. Thank you.

Piers Brown: Okay. Could I just follow up on the LC&I, so just tying onto that, but I mean, you have posted a quarter-on-quarter increase in LC&I NII, despite the fact that the deposit balances are down substantially and you are saying corporate loan margins still under pressure. What has driven the quarter-on-quarter increase there, please?

Masih Yazdi: Again, so Johan did not say that corporate margins are under pressure. Corporate margins have not increased to the extent we thought they might in the environment we have had. The deposit effect is something that happens on 30th or 31st of December, so it does not say anything about the average deposits over the full quarter, which is what decides the net interest income for that division.

The treasury deposits are not included in LC&FIs deposits, but there are deposits from financial institutions that also go down at year end, but that is one or two days of the quarter. The remaining 90 days, they are on the balance sheet and do not impact the net interest income.

Magnus Andersson (ABG Sundal Collier): Just first of all, a short follow-up on capital. You have been quite extensive there already, but you talked about this SEK5 billion to SEK10 billion range in conjunction with the Q4 2021 report. I was just wondering whether we should still see SEK10 billion as a cap for your buybacks or not.

Secondly also, if you are getting any potential further extra dividends if it is necessarily the case that Q4 2024 is the first potential point in time. That is my first question.

Masih Yazdi: Okay, if I start then. I think it is fair to say that we have reassessed the cap, if you want to address it like this. Probably I would say that we would expect it today to be SEK15 billion rather than the SEK10 billion. This is not something we have tested. So take it for what it is. But you always need to have some type of notion about how much can you do in the market without disrupting it to having any, needs to be very responsible. However, now we have been into this sometime. And we clearly think that the SEK10 billion is probably not the limitation anymore.

Johan Torgeby: Yes. On your other question, I do not think you should expect us to call for an extraordinary Annual General Meeting to decide on a dividend. I mean, this is again up to the Board. However, I think the main message we want to send is that we will move towards the 100 basis points to 300 basis points. Exactly how that is going to work out, we do not know yet ourselves, but I guess in this quarter you have seen some path towards that with the increased share buybacks and the extraordinary dividend.

Magnus Andersson: Okay. Secondly, just there are understandably a lot of questions about the NII and potential trajectory and how things will fare going into 2024, given that rates most likely are coming down. Johan, you talked about net commission income being a potential offset partly with higher activity. I was just wondering also, Masih, you talked about and we have seen trading income consistently having been above your SEK2 billion quarterly guidance. I was just wondering whether you are positioned in any way, for example, in treasury for falling interest rates so that you could get an offset also on the trading income line when rates starts to fall.

Masih Yazdi: Yes, when it comes to treasury positioning, to be honest, we are a bit more dependent on slightly longer rates than the policy rates. So long two-year rates are more important because the liquidity book typically has that duration.

On those kind of rates, we saw massive declines during Q4. That was unexpected for us. That would happen so quickly and so fast. However, obviously, we keep discussing this and whether it works well putting up some kind of a hedge of some sort. You can do this organically. For example, if you see more demand for fixed rate mortgages, you can decide at the back not to hedge against those fixed rate mortgages and allow that to be an open position and then benefit from rates coming down, but you can also take your own position.

It is something we discussed, and I would not comment exactly how we are positioned now. I will just say that it is going to be more dependent on slightly longer rates than the policy rates.

Johan Torgeby: I just want to add for the record, philosophy in SEB is not to have prop trading and any significant size in the market business and in treasury. These are all for the benefit of the bank and its customers. Obviously, we do have some significant abilities because we do warehouse a lot of financial securities. However, it is a position-taking and betting. It is always going to be done in as wide manner as possible and very, very conservatively.

I thank everyone. We are going to, several of us, meet in the coming days. Thank you for joining and see you soon.

[END OF TRANSCRIPT]