FitchRatings

Banks
Universal Commercial Banks
Sweden

Skandinaviska Enskilda Banken AB (publ)

Update

Ratings

Foreign Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+
Derivative Counterparty Rating	AA(dcr)
Viability Rating	aa-
Government Support Rating	ns
Sovereign Risk (Sweden)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Key Rating Drivers

Strong Credit Profile: The ratings of Skandinaviska Enskilda Banken AB (publ) (SEB) reflect its low risk appetite, stable and well-executed strategy, and robust asset quality and capitalisation. Its funding profile benefits from a stable deposit base, low refinancing needs, ample liquidity and strong access to wholesale markets. SEB has a strong market position in Sweden and the Baltics and established corporate- and institutional-banking franchises in other Nordic countries.

Universal Nordic Franchise: SEB offers a full range of universal banking and financial services in Sweden and the Baltic countries. Its market shares in Sweden are strong, particularly with corporates. The bank benefits from a broad and balanced business diversification. SEB also has a leading Nordic franchise in trading, capital markets, foreign exchange and equities, and is the second-largest asset manager.

Robust Asset Quality: SEB's asset quality is underpinned by very high stability, and low levels of impaired assets and loan impairment charges (LICs) through the cycle. Concentration risks are low and well-managed due to conservative underwriting. SEB's loan book comprises mainly low-risk residential mortgage loans and diversified corporate lending, largely to well-established large Swedish and Nordic blue chips.

We expect SEB's asset quality to remain stronger than international peers', although the bank's impaired loans ratio could modestly increase to 0.6% at end-2024, mainly due to contained deterioration in lending to property-management companies.

Resilient Profitability: SEB is one of the most profitable large Nordic banks. Revenue has been solid (including during the low interest-rate environment) and, while more tilted towards corporate and institutional banking, a large share is made up of diversified fees and commissions, underpinned by strong relationships with affluent individuals and corporate clients.

Operational Efficiency Drives Profitability: Fitch Ratings expects SEB's operating profit/risk-weighted assets (RWAs) to remain above 4% in 2023 and 2024 due to the bank's recent healthy increase in income, mainly driven by interest rate hikes, and low credit losses. We expect SEB's cost efficiency to remain solid by international standards.

Strong Capitalisation: We believe that SEB's common equity Tier 1 (CET1) ratio will remain comfortably above 16% in the long term, which takes into consideration a comfortable management buffer of 1%–3% above regulatory requirements. SEB's fully loaded Basel III leverage ratio of 4.6% at end-September 2023 is low for the high rating, but still acceptable in light of the bank's historically low LICs, its high share of low-risk non-loan assets, and its robust internal capital generation.

Stable Funding: SEB's funding benefits from a stable deposit base and strong access to wholesale markets. Ample liquidity sufficiently covers short-term refinancing needs. SEB relies less on wholesale funding than its peers, given its strong and reliable corporate-deposit franchise, which it closely monitors. Fitch expects SEB to maintain good access to debt capital markets due to the presence of a deep domestic captive investor base, particularly for covered bonds.

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Affirms Sweden at 'AAA'; Outlook Stable (October 2023)

Global Economic Outlook (September 2023)

Fitch Affirms SEB at 'AA-'; Outlook Stable (June 2023)

Analysts

Michal Bryks, FCCA
+48 22 103 3024
michal.bryks@fitchratings.com

Anders Viden
+46 85051 7806
anders.viden@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would downgrade SEB's ratings if we expect that its impaired loans ratio will materially increase above 1% on a sustained basis. We would also downgrade the bank if the operating profit/RWAs or CET1 ratios shrink materially below 2% or 16%, respectively, on a sustained basis. This could be due to a materially weak economic recovery in the Nordic region, coupled with a substantial price correction in the property market and a sustained rise in unemployment.

Pressure on SEB's ratings could also arise from an adverse change in investor sentiment materially affecting the bank's access to debt markets.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require greater diversification of SEB's franchise and business model into retail banking, as it is dominated by corporate banking, and also a stronger financial profile.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits and senior preferred debt	AA/F1+
Senior non-preferred debt	AA-
Tier 2 subordinated debt	A
Additional Tier 1 notes	BBB+

Source: Fitch Ratings

SEB's long-term senior preferred debt and deposit ratings of 'AA' and Derivative Counterparty Rating (DCR) of 'AA(dcr)' are one notch above its Long-Term Issuer Default Rating (IDR). This reflects the protection that we expect will accrue to deposits and senior preferred debt from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt and deposits ratings of 'F1+' are the only option mapping to their respective long-term ratings.

We expect SEB's buffer of subordinated and senior non-preferred debt to remain comfortably above 10% of RWAs in the long term. For the same reason, its long-term senior non-preferred debt rating is equalised with the Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and their average recovery prospects.

SEB's Tier 2 subordinated debt and additional Tier 1 securities are notched down from its Viability Rating (VR). We rate the Tier 2 debt two notches below the VR to reflect the poor recovery prospects of this type of debt. The additional Tier 1 securities are four notches below the VR to reflect the poor recovery prospects of these securities (two notches), as well as the high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds, and our expectation that this will continue.

Significant Changes from Last Review

SEB's 9M23 operating profit return on RWAs of 5.3% exceeded our expectations, mainly due to a 49% yoy net interest income improvement, driven by much higher deposit margins. We expect the ratio to decrease to 4.5% in 2024 due to slightly lower net interest income, higher operating expenses and higher loan impairment charges (LICs).

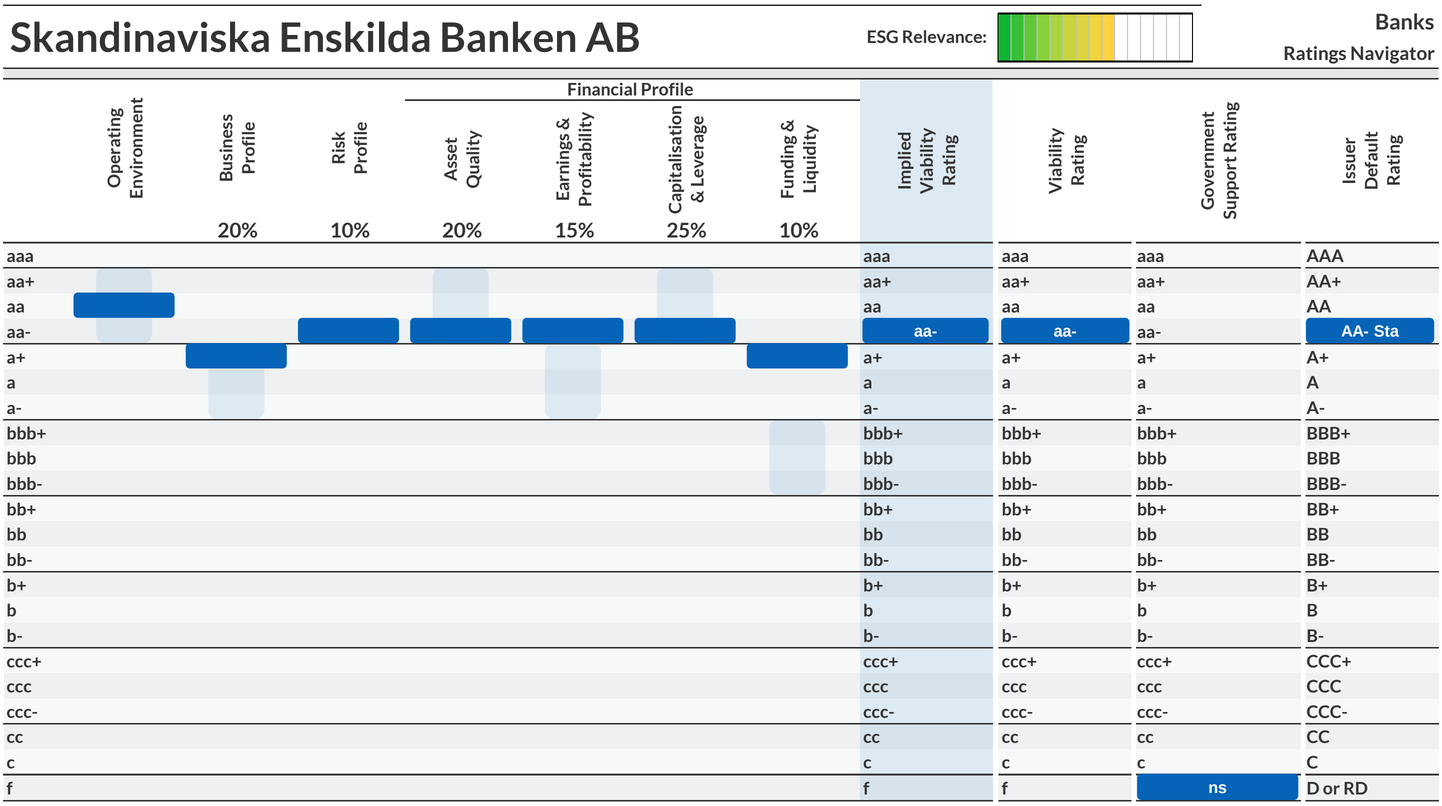
Further net interest income growth is unlikely, and we expect deposit margins to peak in 4Q23 or 1Q24 as interest rate rise cycles in the Nordics come to an end and the deposit repricing continues, particularly in the Baltics. Fee income has been stable yoy as higher payment, card and lending fees offset lower income from the asset management business and investment banking. Operating expenses were up 11% in 9M23 yoy, mainly due to planned IT investments, weaker Swedish krona and an approximate 5% increase in staff level. However, thanks to 31% income growth, the cost/income ratio was robust at 38%, and we expect the ratio to remain at around this level in 2024.

Mortgage lending slightly contracted in 9M23 and we expect a recovery only from mid-2024. This reflects households' materially eroded purchasing power, higher loan amortisations and possible further reduction in home prices (despite a stabilisation in 3Q23). A material price correction is unlikely given our expectation of only modest rises in unemployment.

We expect muted non-retail lending growth in 2024, except for some large infrastructure projects and the investments in the green transition. Bondholders' mixed risk appetite and prohibitive pricing of capital markets financing should increase demand for bank credit, particularly in the property-management sector.

The Stage 3 ratio (0.3% at end-September 2023) will gradually increase as bankruptcies have started to pick up in the Nordics, but from low levels. We expect higher, but easily manageable, LICs in 2024, which should be viewed in light of SEB's significantly higher income and a large management overlay in its impairment model (almost 13bp of loans).

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

The above Ratings Navigator shows the scores for the Key Rating Drivers, as determined at the last annual committee review in June 2023.

In September 2023, Fitch published its updated Bank Rating Criteria in which it introduced an 'alternative core metric' for the funding and liquidity key rating driver assessment. The new ratio is defined as loans/deposits plus covered bonds, and we believe that it is a better indicator for SEB, because covered bonds are a material and stable source of long-term funding for the bank. The four-year average alternative core metric is 100%, resulting in the implied funding and liquidity score for SEB changing to the 'a' category, which is in line with the assigned score.

VR - Adjustments to Key Rating Drivers

The earnings and profitability score of 'aa-' is above the 'a' implied category score due to the following adjustment reason: earnings stability (positive).

The funding and liquidity score of 'a+' is above the 'bbb' implied category score due to the following adjustment reasons: liquidity coverage (positive) and non-deposit funding (positive). For details, see blurb above.

Financials

Financial Statements

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20
	9 months - 3rd quarter (USDm) Reviewed - unqualified	9 months - 3rd quarter (SEKm) Reviewed - unqualified	Year end (SEKm) Audited - unqualified	Year end (SEKm) Audited - unqualified	Year end (SEKm) Audited - unqualified
Summary income statement					
Net interest and dividend income	3,254	35,426	33,443	26,321	25,143
Net fees and commissions	1,481	16,127	21,573	21,142	18,063
Other operating income	781	8,504	9,570	7,156	6,511
Total operating income	5,517	60,057	64,586	54,619	49,717
Operating costs	2,119	23,063	27,334	23,245	22,746
Pre-impairment operating profit	3,398	36,994	37,252	31,374	26,971
Loan and other impairment charges	27	298	2,007	510	6,118
Operating profit	3,371	36,696	35,245	30,864	20,853
Other non-operating items (net)	n.a.	n.a.	-1,395	0	-1,007
Tax	639	6,954	6,861	5,441	4,100
Net income	2,732	29,742	26,989	25,423	15,746
Other comprehensive income	163	1,770	2,198	14,783	637
Fitch comprehensive income	2,895	31,512	29,187	40,206	16,383
Summary balance sheet					
Assets					
Gross loans	179,625	1,955,379	1,966,913	1,773,235	1,667,763
- Of which impaired	525	5,715	6,846	9,827	14,890
Loan loss allowances	622	6,769	7,616	8,147	9,512
Net loans	179,003	1,948,610	1,959,297	1,765,088	1,658,251
Interbank	16,812	183,019	146,338	58,076	37,713
Derivatives	17,257	187,861	187,622	126,051	164,909
Other securities and earning assets	105,167	1,144,840	787,771	838,360	804,015
Total earning assets	318,240	3,464,330	3,081,028	2,787,575	2,664,888
Cash and due from banks	52,003	566,099	377,966	439,344	327,005
Other assets	9,483	103,236	73,816	77,311	48,539
Total assets	379,727	4,133,665	3,532,810	3,304,230	3,040,432
Liabilities					
Customer deposits	170,352	1,854,436	1,689,573	1,589,736	1,363,955
Interbank and other short-term funding	61,834	673,122	432,162	370,780	362,709
Other long-term funding	58,179	633,333	456,181	457,238	525,382
Trading liabilities and derivatives	22,770	247,872	290,139	153,444	191,970
Total funding and derivatives	313,136	3,408,763	2,868,055	2,571,198	2,444,016
Other liabilities	45,193	491,962	445,671	526,249	412,194
Preference shares and hybrid capital	1,403	15,269	14,561	13,555	12,279
Total equity	19,996	217,671	204,523	193,228	171,943
Total liabilities and equity	379,727	4,133,665	3,532,810	3,304,230	3,040,432
Exchange rate		USD1 = SEK10.8859	USD1 = SEK10.4273	USD1 = SEK9.1164	USD1 = SEK8.305

Source; Fitch Ratings, Fitch Solutions, SEB

Key Ratios

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	5.3	4.1	3.9	2.9
Net interest income/average earning assets	1.4	1.1	0.9	0.9
Non-interest expense/gross revenue	38.4	42.3	42.6	45.8
Net income/average equity	18.8	13.8	13.9	9.7
Asset quality				
Impaired loans ratio	0.3	0.4	0.6	0.9
Growth in gross loans	-0.6	10.9	6.3	0.5
Loan loss allowances/impaired loans	118.4	111.3	82.9	63.9
Loan impairment charges/average gross loans	0.0	0.1	0.0	0.4
Capitalisation				
Common equity Tier 1 ratio	18.9	19.0	19.7	21.0
Tangible common equity/tangible assets	5.1	5.6	5.6	5.4
Basel leverage ratio	4.6	5.0	5.0	5.1
Net impaired loans/common equity Tier 1	-0.6	-0.5	1.1	3.5
Funding and liquidity				
Gross loans/customer deposits	105.4	116.4	111.5	122.3
Gross loans/customer deposits + covered bonds	88.1	100.1	94.3	98.2
Liquidity coverage ratio	123.0	143.0	145.0	163.0
Customer deposits/total non-equity funding	57.7	64.1	64.5	59.4
Net stable funding ratio	114.0	109.0	111.0	n.a.

Source: Fitch Ratings, Fitch Solutions, SEB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

SEB's Government Support Rating (GSR) of 'no support' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Skandinaviska Enskilda Banken AB**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Skandinaviska Enskilda Banken AB has 5 ESG potential rating drivers

- Skandinaviska Enskilda Banken AB has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.