MOODY'S INVESTORS SERVICE

CREDIT OPINION
28 March 2024

Update

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RATINGS

**Skandinaviska Enskilda Banken AB**

| | |
|---|---|
| Domicile | STOCKHOLM, Sweden |
| Long Term CRR | Aa2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Aa3 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Positive |
| Long Term Deposit | Aa3 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Positive |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


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CLIENT SERVICES

# Skandinaviska Enskilda Banken AB

## Update following ratings affirmation and change of outlook to positive from stable

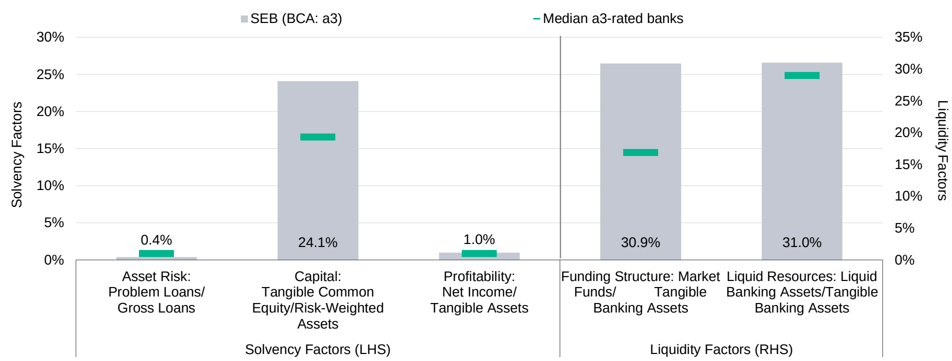

## Summary

The Aa3 long-term (LT) deposit and senior unsecured debt ratings of Skandinaviska Enskilda Banken AB (SEB) reflect (1) the bank's a3 Baseline Credit Assessment (BCA), our forward-looking Advanced Loss Given Failure (LGF) analysis, which leads to two notches of rating uplift, and (3) our assumption of a moderate likelihood of support from the Government of Sweden (Aaa stable), which results in an uplift of an additional notch.

SEB's a3 BCA reflects the bank's strong credit quality and solid capitalisation, which we expect will demonstrate continued resilience despite the challenges in the real estate sector in Sweden and the economic downturn. Whereas the bank has good underlying earnings generation, SEB's focus on corporate banking makes its earnings potentially more cyclical than peers. In addition, similarly to many Nordic peers, the bank's BCA is constrained by the bank's high reliance on market funding.


Exhibit 1

**Rating Scorecard - Key Financial Ratios**




These ratios are calculated based on our Banks Methodology scorecard. The bank's problem loan and profitability ratios are the weaker of the average of the latest three year-end ratios and the latest reported ratio. The bank's capital ratio is the latest reported figure. The bank's funding structure and liquid resources ratios are the latest year-end figures.
*Source: Moody's Ratings*

## Credit strengths

- Broadly resilient credit quality, although its focus on large corporate banking implies a degree of concentration risk and the real estate sector is facing challenges.
- Solid capitalisation, well above minimum regulatory requirements.
- Strong and sophisticated risk management, which mitigates the risks associated with being a large corporate bank.

## Credit challenges

- Elevated risks in the housing and real estate market in Sweden, although broadly contained by underwriting standards, and strong collateral.
- High reliance on confidence-sensitive market funding, which is partly mitigated by proven access to capital markets, a resilient domestic covered bond market and good liquidity.

## Outlook

The positive outlook on the senior unsecured debt and long-term deposit ratings reflects our view that increasing risk weight density and higher capital requirements will result in higher volumes of senior non-preferred debt being issued over the coming 12-18 months in order to meet the resulting higher Minimum Requirements for own funds and Eligible Liabilities (MREL) and MREL subordination.

## Factors that could lead to an upgrade

- The bank's BCA and ratings could be upgraded if SEB were to significantly improve its leverage ratio, or its funding and liquidity profiles on a sustained basis.
- The bank's senior unsecured debt ratings and deposit ratings could be upgraded following increased volumes of loss absorbing liabilities, resulting in lower loss-given failure.

## Factors that could lead to a downgrade

- The bank's BCA and ratings could be downgraded if the bank's problem loans, capital and/or profitability were to deteriorate meaningfully because of a fall-out from developments in the real estate sector.
- The bank's senior unsecured debt ratings could also be downgraded if the stock of senior unsecured debt were to fall more than we currently expect in relation to the nominal balance sheet, resulting in higher loss-given-failure.

## Key indicators

Exhibit 2

**Skandinaviska Enskilda Banken AB (Consolidated Financials) [1]**

| | 12-23[2] | 12-22[2] | 12-21[2] | 12-20[2] | 12-19[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (SEK Million) | 3,355,812.0 | 3,532,779.0 | 3,144,444.0 | 2,846,485.0 | 2,713,979.0 | 5.5[4] |
| Total Assets (USD Million) | 332,988.9 | 339,054.6 | 347,569.5 | 346,601.8 | 289,922.5 | 3.5[4] |
| Tangible Common Equity (SEK Million) | 215,011.0 | 197,067.0 | 186,002.0 | 164,590.0 | 172,084.0 | 5.7[4] |
| Tangible Common Equity (USD Million) | 21,335.0 | 18,913.3 | 20,559.6 | 20,041.3 | 18,383.0 | 3.8[4] |
| Problem Loans / Gross Loans (%) | 0.4 | 0.3 | 0.6 | 0.9 | 0.7 | 0.6[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 24.1 | 22.9 | 23.6 | 22.7 | 23.1 | 23.3[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 3.4 | 3.3 | 5.1 | 8.6 | 6.4 | 5.3[5] |
| Net Interest Margin (%) | 1.3 | 0.9 | 0.8 | 0.8 | 0.9 | 1.0[5] |
| PPI / Average RWA (%) | 5.4 | 4.4 | 4.2 | 3.6 | 3.7 | 4.3[6] |
| Net Income / Tangible Assets (%) | 1.2 | 0.7 | 1.2 | 0.7 | 1.0 | 0.9[5] |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cost / Income Ratio (%) | 40.2 | 42.7 | 43.4 | 45.8 | 45.2 | 43.4[5] |
| Market Funds / Tangible Banking Assets (%) | 30.9 | 32.4 | 26.2 | 30.0 | 34.0 | 30.7[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 31.0 | 27.4 | 30.5 | 30.0 | 26.3 | 29.0[5] |
| Gross Loans / Due to Customers (%) | 121.5 | 116.3 | 111.4 | 122.3 | 143.3 | 123.0[5] |

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
*Sources: Moody's Ratings and company filings*

## Profile

Skandinaviska Enskilda Banken (SEB) is the largest Swedish bank, with total reported assets of SEK3.6 trillion ($358 billion) as of December 2023. It has strong domestic market positions in retail banking, wealth management and commercial banking. SEB is also one of the largest financial groups in the Nordic region, where it has a leading market position in corporate and investment banking. While the bank serves retail and SME clients, its main focus is on large corporates.

As of December 2023 SEB distributes its products through around 135 branches, including 55 branches in the three Baltic countries, as well as other international locations. SEB operates through subsidiaries in the Baltic states, and through branches in most of the other countries where it is present, including Germany and the United Kingdom.

SEB was founded in 1856 as Stockholm's first private bank and one of the first commercial banks in Sweden. Its shares are listed on the NASDAQ OMX Stockholm Stock Exchange (Ticker: SEB). As of December 2023, its largest shareholder was Investor AB (Aa3 stable), which held 21.3% of the bank's total share capital.

## Detailed credit considerations

### SEB's BCA is supported by Sweden's sound operating environment

Swedish banks operate in a wealthy, diversified and highly competitive economy, and benefit from the country's very high institutional strength. However, we view Swedish household debt levels and the multiyear growth of household debt along with the challenges in the real estate sector as key vulnerabilities to the financial system. We reflect this by assigning a 'Strong+' macro profile.

SEB has most of its operations in the Nordic countries (around 78% of the credit portfolio as of December 2023), with the vast majority in Sweden. SEB's macro profile is 'Strong+', in line with that of Sweden.

SEB's home markets also include the three Baltic countries, Germany (Aaa stable) and the United Kingdom (Aa3 stable). SEB aims to expand its business for large corporates to the Netherlands (Aaa stable), Austria (Aa1 stable) and Switzerland (Aaa stable).

### SEB's credit quality is strong; focus on large corporate banking implies concentration risk

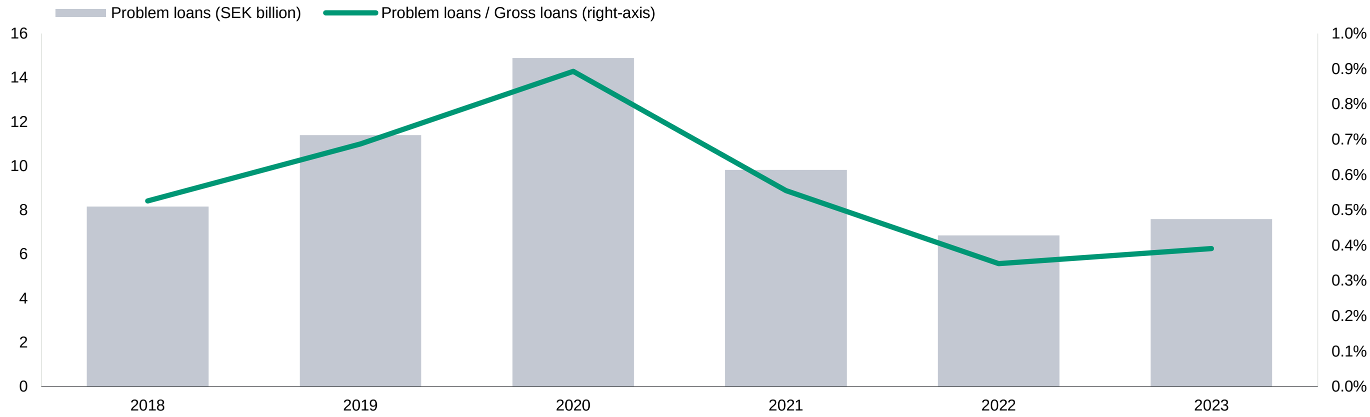
Our a2 score for Asset Risk reflects SEB's strong asset quality with a low level of problem loans. However, we negatively adjust the bank's score to reflect the risks stemming from the very sizeable concentration in real estate, despite the relatively low loan-to-values (LTVs). The score also incorporates the bank's stronger focus on corporate and investment banking compared with that of its Swedish peers, which also implies a degree of concentration risk. We expect SEB's loan portfolio to be broadly resilient even as the real estate sector goes through necessary deleveraging.

Problem loans (IFRS 9 Stage 3 loans) were equivalent to 0.4% of gross loans as of December 2023, slightly up compared to the end of 2022 (Dec-22: 0.3%) and considerably lower than the 2020 peak level. On a nominal basis, problem loans also declined consistently since 2020, reflecting ongoing clean up and write-offs of exposures in problematic sectors, including oil and gas and shipping. The Stage 3 coverage ratio was adequate at 46% as of December 2023. Stage 2 loans, which include loans with heightened credit risk, slightly increased to 3.7% of gross loans as of December 2023 (Dec-2022: 3.4%). Although problem loans will moderately increase as the economic slowdown is starting to take its toll, we expect SEB's loan portfolio to be broadly resilient. Our expectation reflects our view that higher problem loans will not stem from a broad deterioration in the quality of the bank's loan portfolio but rather from specific exposures.

Exhibit 3

**SEB's problem loans have declined from pandemic levels**

**Problem loans / Gross loans**




*Sources: Company reports, Moody's Ratings*

SEB continued to report a low level of credit losses of SEK962 million in 2023, equivalent to 3 basis points of total gross loans[1](2022: 7 basis points), supported by reversal of provisions as well as updated macroeconomic scenarios. The bank's stock of model overlay provisions[2] amounted to SEK2.3 billion as of December 2023. While we expect credit losses to rise from low levels, we expect the increase will be contained.

As of December 2023, 22% of the bank's credit portfolio comprised mortgages. Current economic conditions, including a 15% decrease in house prices since the peak in spring 2022 and higher interest rates, could challenge weaker households. However, risks are mitigated by good underwriting standards, an average loan-to-value (LTV) of 57%, affordability assessments (that include stressed interest rates) and Swedish households' strong repayment culture. The bank's customer base is strong, as evidenced through recent voluntary amortization of mortgages as customers repay loans using their savings.

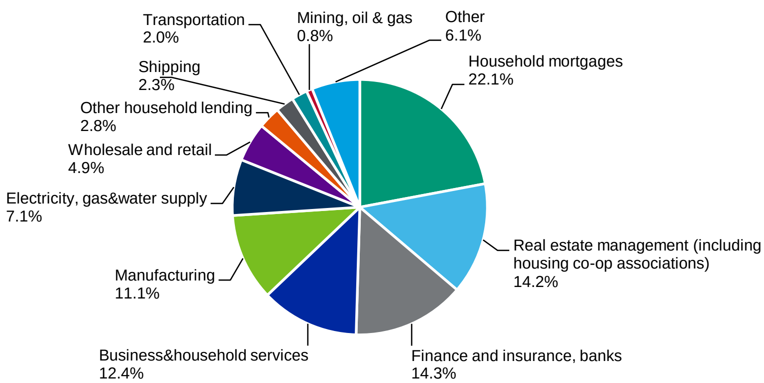
SEB's loan book has high borrower and sector concentrations because of the bank's large corporate banking business. Corporate and property management exposures accounted for around 55% and 14% (including housing co-op associations, which we consider low risk), respectively, of SEB's credit portfolio as of December 2023.

We believe that SEB's high single-borrower concentrations result from the limited number of large domestic enterprises in Sweden, but recognize the fact that these companies are diversified across industries and geographies, and acknowledge the bank's comprehensive and strong risk management framework in this area, as demonstrated by a strong through-the-cycle loan performance, with credit costs averaging 9 basis points, according to the bank, over the period 2007-2023, excluding the Baltic crisis in 2009.

The bank's exposure to the real estate sector, accounting for 17% of the bank's lending portfolio as of December 2023, although lower than peers, presents a potential risk due to the local challenges within the sector. Specifically, Swedish real estate companies are dealing with the need to reduce leverage amid higher interest rates and tougher refinancing conditions in capital markets. SEB's Stage 2 loans in the bank's property management exposure increased to 3.6% as of December 2023, from 1.4% as of December 2022, a level which is significantly lower than peers, while Stage 1 loans are only 0.1%. Whereas we consider the Swedish real estate sector among the more vulnerable in Europe for senior unsecured investors, the Swedish banks have a strong position due to fully collateralised exposures to the operating companies, which are performing well with low vacancy rates. We believe that SEB will be broadly resilient to the ongoing restructuring.

The bank's residential real estate exposure is predominantly in Sweden, while its commercial real estate exposure is diversified across other Nordic countries, and - albeit to a lesser extent - in the Baltics. The bank's property lending risks are also mitigated by relatively low LTVs, which were an average of 47.2% and 44.6% for the bank's commercial and residential real estate portfolios respectively as of December 2023 and underwriting criteria that focus on borrower cash flow and repayment ability under stressed conditions. In line with other large Swedish banks, SEB's large property management customers also hedge against interest rate rises (for an average period of 3-4 years), limiting an immediate strain on their repayment capacity.

Exhibit 4
**Breakdown of SEB's credit portfolio**
**As of December 2023**




Note: Includes banks.
*Source: Company reports*

SEB is exposed to the Baltic countries (around 8% of the credit portfolio[3] as of December 2023), which was the main driver of the bank's deterioration in asset quality in 2008-09 because of the Baltic financial crisis. Risks in the Baltic portfolio stemming from geopolitical uncertainty, higher interest rates and elevated inflation have not yet manifested through asset quality deterioration. However, risk in the portfolio remains higher compared to the Swedish portfolio, in our view.

### Solid capitalisation well above regulatory requirements

We consider SEB's capitalization to be solid relative to its risk profile, supported by good underlying earnings which results in a good capacity to generate capital. The aa3 assigned score also reflects our expectation that the bank's capital, which benefits from significant buffers over its requirements, will decrease moderately going forward as the bank manages down its capital towards targeted levels and the bank's high leverage.

SEB's Common Equity Tier 1 (CET1) ratio was 19.1% as of December 2023, exceeding the minimum regulatory requirement of 14.7% by 440 bps. The requirement includes a pillar 1 component of 4.5%, a pillar 2 component of 1.6% as well as a pillar 2 guidance of 0.5%[4], a combined systemic risk and O-SII (other systemically important institutions) buffer of 4.1%[5], a 2.5% capital conservation buffer and a 1.6% countercyclical buffer.

The reported CET1 ratio incorporates the full impact of ongoing and recently approved share buyback programs[6] as well as regulatory changes[7].

SEB's profit distributions are in line with its targets which include a 50% dividend payout ratio, complemented by share repurchases, which enhance financial flexibility for the bank. The bank's CET1 ratio is also well above the management's target range of around 100-300 basis points above the requirement, which covers sensitivity of the bank's capital levels to currency fluctuations in risk-weighted assets, changes in the net value of the bank's Swedish defined benefit pension plan and general macroeconomic uncertainties. We expect SEB's capital buffers to reduce as the bank gradually manages these towards its targeted levels. However, capital will remain strong as we expect SEB to maintain higher capital headroom than usual given continued macroeconomic and geopolitical uncertainty.

SEB's tangible common equity (TCE)/risk-weighted assets ratio remained strong, at 24.1%[8] as of December 2023. However, similar to the other Nordic peers, we apply a downward adjustment to SEB's capital score in our BCA scorecard to take into account slightly lower risk-weights compared with the average of the peers that we rate similarly, and the sizeable defined-benefit pension plan assets, which cannot be used to cover potential losses outside of pension costs. SEB's leverage ratio (TCE/total assets) was 6.4% as of December 2023, relatively low compared with that of similarly rated global peers, with a median of 7.1% for banks with a BCA of a3.

The bank's leverage ratio is typically lower during interim quarters, reflecting a typically smaller balance sheet at year-end reporting dates.

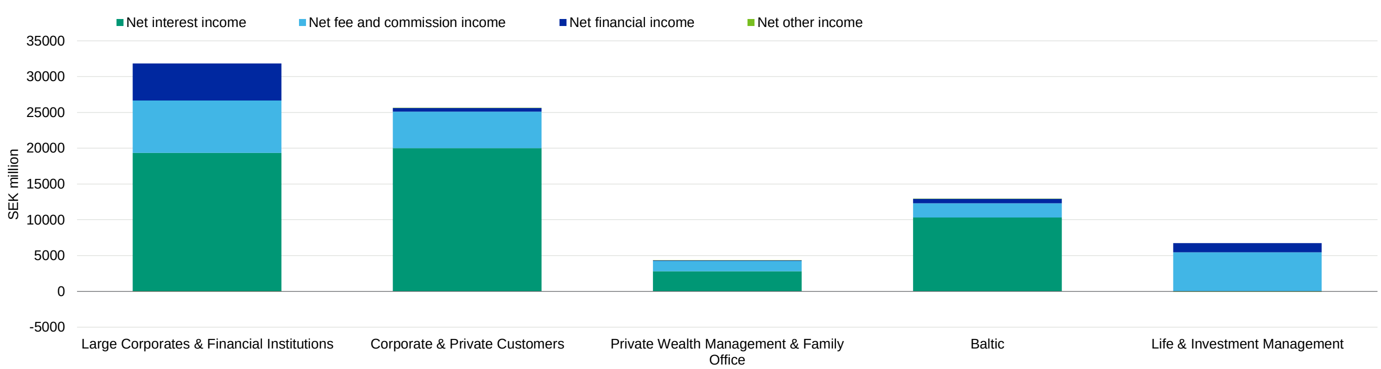
### Good underlying earnings generation; focus on corporate banking may add to earnings cyclicality

Our assigned profitability score of baa1 reflects SEB's underlying earnings, which provide a good capacity to generate capital internally and/or absorb loan losses. Consistent operating income growth combined with contained cost growth over the last decade has led to sustained efficiency gains for SEB. Also, the bank's earnings are well diversified by activity but the focus on corporate banking could add to earnings cyclicality.

Following exceptionally strong profits in 2023 as a result of higher policy rates, with net income accounting for 1.2% of tangible assets[9], we expect profitability to normalise in the coming quarters. We see more limited scope for net interest income growth in the coming quarters as the positive impact of loan repricing wanes and lending growth remains subdued. An ongoing customer shift to savings accounts with higher deposit rates, a potential increase in deposit costs as banks compete more intensively for deposit funding, and higher wholesale funding costs are further headwinds. NII trends will also depend on the trajectory of central bank rates. At the same time, operating cost growth, tax costs[10] and higher loan loss provisions, as mentioned above, will also weigh on the bank's profitability.

However, SEB has lower reliance on net interest income compared to its main peers, accounting for 59% of total operating income in 2023, and the bank's earnings are well diversified by activity (Exhibit 5). SEB's diversified revenue streams through the bank's fixed income, fx, investment banking, custody, and asset management businesses is a relative strength, lowering its dependence on a single sector or segment, but also adds complexity and costs. As part of its business plan, the bank has an increased focus on savings and investments, an area where the bank has underperformed in recent years. However, a large portion of operating income (around 39% in 2023) originates from large corporates and financial institutions, and part of this income is more dependent on market conditions. For this reason, we consider earnings from these activities as potentially more volatile than more traditional retail and commercial banking. We note, however, that SEB has shown a high degree of earnings stability over the recent past. Also, within the large corporates and financial institutions division, SEB has increased the geographic diversification of total client income, with a lower share of income originating from Sweden.

Exhibit 5
**SEB's operating income by division and activity for 2023**




*Source: Company reports*

SEB's cost-to-income ratio stood at 40%[11] in 2023, a stronger efficiency than most of its Nordic peers despite being a large corporate bank with more customer-tailored solutions. The bank has improved its efficiency in recent years, reflecting operating income growth that averaged 7% over the last decade[12] while cost growth remained contained at an average 1%. We believe that further efficiency gains will be constrained by higher inflation, heightened compliance costs and a continued need to invest in technology and other strategic initiatives. For example, the bank's full-time employees increased to 17,502 as of December 2023, compared to 16,616 a year earlier, reflecting the need to hire highly skilled, specialized personnel.

The bank is targeting a return on equity of 15% on a sustainable basis in the long-term (17.9% during 2023). To achieve these, the bank has set specific goals within its various divisions. The main pillars of the bank's 2022-2030 strategy announced in the beginning of 2022 include an acceleration of efforts to further strengthen customer offering, including in the sustainability-linked business where SEB benefits from a strong positioning, evaluating areas of strategic changes, entering into strategic partnerships to strengthen innovation and efficiency improvements.

### High reliance on confidence-sensitive market funding, which is mitigated by access to diverse capital markets, prudent maturity management and strong liquidity

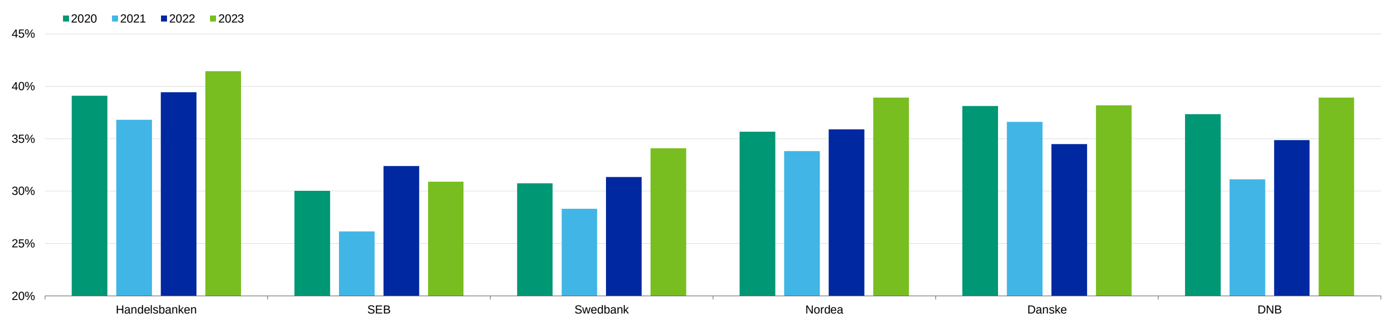
The baa3 assigned score reflects SEB's relatively high share of wholesale funding, similarly to many of its Nordic peers, which we consider a key credit weakness as it exposes the banks to changes in market conditions and renders them more sensitive to swings in investor confidence. This is mitigated by the bank's prudent maturity management, strong liquidity and its track record of having strong access to funding markets even in times of stress.

In our view, SEB's overall liquidity and funding profiles are adequate. SEB's market funding/tangible banking assets ratio was 31% as of December 2023 (Dec-22: 32%), a level that is lower than that of its main Nordic peers. The bank's core gross loans to deposits ratio declined to 123%[13] of customer deposits as of December 2023, from the peak of 148% as of December 2019. We expect growth in deposits to moderate or even turn negative and market funding to edge up going forward, given quantitative tightening by the Riksbank.

Exhibit 6

**SEB has a lower market funding reliance than peers**

**Market Funds / Tangible Banking Assets**

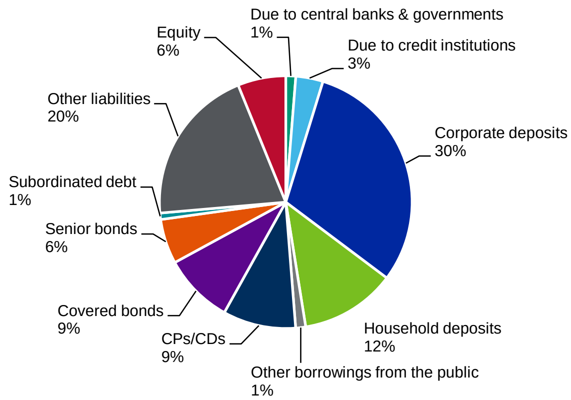



SEB: Dec-23, Danske: Jun-23, all other banks: Sep-23

*Source: Moody's Ratings*

The bank's funding includes a significant proportion of short-term instruments such as commercial paper (CPs) and certificates of deposits (CDs). The use of these instruments is mainly driven by the bank's trading business, which is mainly customer-driven and which generally increases when financial markets are volatile. SEB's funding also includes retail and corporate deposits, senior unsecured debt and covered bonds. SEB is more reliant than its Nordic peers on corporate deposits, which we generally view as more volatile than retail deposits because these tend to be larger and more sensitive to changes in market yields. However, we note that SEB's corporate deposits have been fairly stable in the past, helped by the bank's long-term relationship model and its leading market position in the cash management and custody business, which tend to be less volatile than that of other corporate deposits.

Exhibit 7
**SEB has a reliance on corporate deposits**
**Breakdown of total liabilities (December 2023)**




Corporate deposits include financial and non-financial corporations deposits. Other borrowings from the public include margins of safety, repos and registered bonds. Senior bonds include senior preferred (senior unsecured) and senior non-preferred (junior senior) debt. Other liabilities include liabilities to policyholders, financial liabilities at fair value, liabilities held for sale and other liabilities.
*Source: Company reports*

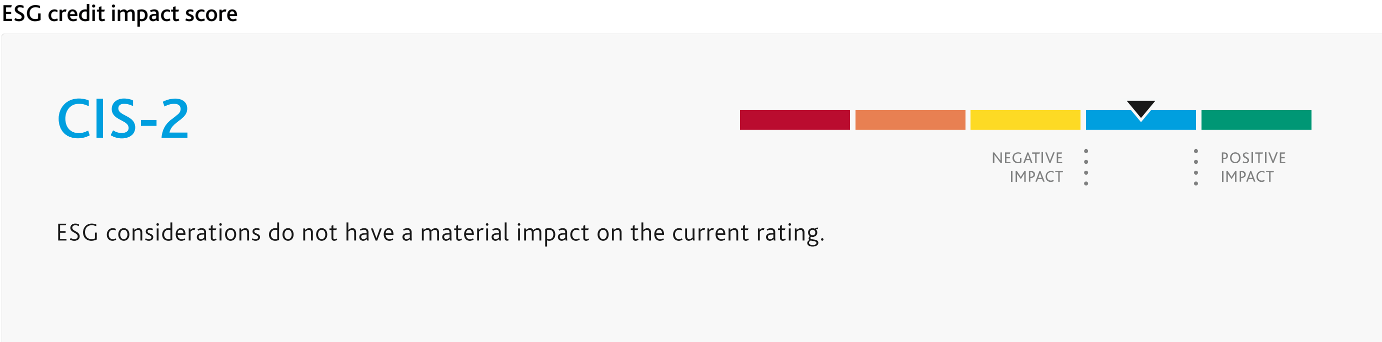
We reflect the greater stability of covered bonds, compared with unsecured market funding, through a standard adjustment to the funding structure ratio. Given the long history of the Swedish covered bond markets, local currency and deep domestic investor base, we make additional (positive) adjustments for local currency denominated covered bonds issued in this market.

SEB reported a liquidity coverage ratio (LCR) of 140% as of December 2023. SEB's liquid banking assets/tangible banking assets was a high 31% as of December 2023. This reflects its leading position within cash management and custodian business which imply larger volumes of short-term assets and liabilities. In our view, the bank's strong liquidity position largely mitigates refinancing risk from the dependence on wholesale funding. Our assigned score reflects the level of the bank's highly liquid assets but also some asset encumbrance, captured in a negative adjustment.

## ESG considerations

### Skandinaviska Enskilda Banken AB's ESG credit impact score is CIS-2

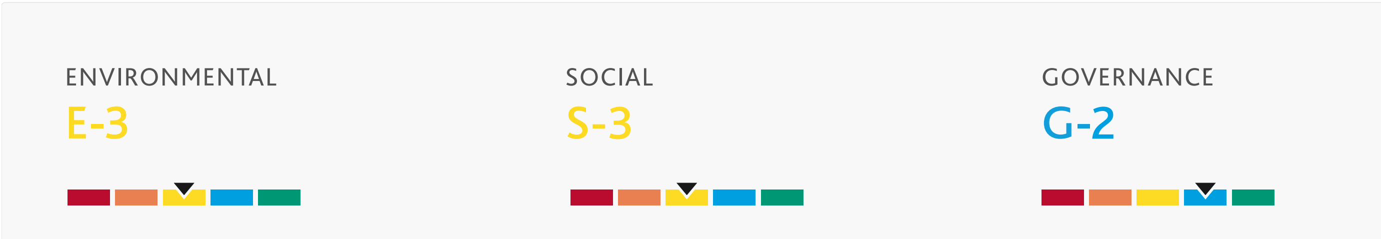
Exhibit 8
**ESG credit impact score**




*Source: Moody's Ratings*

SEB's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 9
**ESG issuer profile scores**




*Source: Moody's Ratings*

### Environmental
SEB faces moderate environmental risks primarily because of its exposure to carbon transition as a large corporate bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, the bank is developing its climate risk and portfolio management capabilities, and it has set clear targets to phase out exposures with high carbon transition risks.

### Social
SEB faces moderate social risks related to regulatory and litigation risks, particularly in the area of customer relations, requiring high compliance standards. The exposure to customer relation risks is lower than those of its peers, given the bank's untarnished customer conduct track record. Cyber and personal data risks are mitigated by a strong IT and cyber framework, and the bank has a stronger track record in this regard.

### Governance
SEB has low governance risks. SEB's very strong and sophisticated risk management framework mitigates risks arising from the bank's large corporate focus. The bank has a track record of strategy execution, relying on a long-term business model with strong financial and risk performance. The investigation by the Swedish FSA in 2019-2020 identified a number of deficiencies in the bank's governance and control of its Baltic subsidiaries' anti-money laundering function, which are primarily historical and have been largely addressed.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Loss Given Failure analysis
We apply our advanced LGF analysis to SEB as the bank is domiciled in Sweden, which we consider to be an operational resolution regime because it is subject to the European Union Bank Recovery and Resolution Directive. For this analysis, we assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions. For our LGF analysis, we use the deposit split as provided by SEB in its financial results (72% of deposits are junior as of December 2023).

Our Advanced LGF analysis is now applied to SEB at a group level (that is, including its Baltic operations), which reflects our view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue internal loss absorbing capital (ILAC), leading to a likely transfer of losses from subsidiaries to parents at the point of failure. We apply a forward-looking approach on the bank's near-term bail-inable debt issuance, which currently indicates a very low loss given failure for junior depositors and senior unsecured creditors, resulting in a two-notch uplift in the relevant ratings from the bank's a3 Adjusted BCA. The positive outlook on the long-term senior unsecured debt and deposit ratings reflects the decreasing loss-given failure due to our view that the volumes of senior non-preferred debt (what we term as junior senior unsecured debt) will increase in the coming 12-18 months due to increasing risk weight density and higher capital requirements, thus driving the nominal volumes of senior non-preferred debt needed under the bank's Minimum Requirements for own funds and Eligible Liabilities (MREL) and MREL subordination. Higher

MREL subordination and SEB's use of senior non-preferred issuances without call options will lead to increasing volumes of MREL-eligible debt outstanding, which provide loss absorption to senior creditors during a resolution.

For junior senior debt issued by SEB, which is positioned at the level of the bank's Adjusted BCA, our Advanced LGF analysis indicates a moderate loss given failure, given the limited volume of debt and protection from more subordinated instruments and residual entity.

For subordinated debt issued by SEB, which is positioned one notch below the bank's Adjusted BCA, our Advanced LGF analysis indicates a high loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for more junior instruments.

### Government support considerations

We assess a moderate probability of government support for SEB's long-term senior unsecured and junior depositors, resulting in a further one-notch uplift incorporated in the relevant Aa3 ratings as well as in the Aa2 CRR and CR Assessment.

For junior senior and subordinated securities, we continue to believe that potential government support is low and these ratings do not include any related uplift.

### Counterparty Risk Assessment

**SEB's CR Assessment is Aa2(cr)/Prime-1(cr)**

The CR Assessment is positioned four notches above the Adjusted BCA of a3, based on the substantial buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments, along with one notch of government support. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

### Counterparty Risk Ratings (CRRs)

**SEB's CRRs are Aa2/Prime-1**

The CRR, before government support, is positioned three notches above the Adjusted BCA of a3, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. SEB's CRRs benefit from one notch of rating uplift based on government support, in line with our assumptions on senior debt and deposits.

## About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 10

**Skandinaviska Enskilda Banken AB**

| **Macro Factors** | | |
|---|---|---|
| **Weighted Macro Profile** | **Strong +** | **100%** |

| **Factor** | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
|---|---|---|---|---|---|---|
| Solvency | | | | | | |
| Asset Risk | | | | | | |
| Problem Loans / Gross Loans | 0.4% | aa1 | ↓ | a2 | Sector concentration | Expected trend |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | 24.1% | aa1 | ↓ | aa3 | Nominal leverage | Expected trend |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 1.0% | a3 | ↓ | baa1 | Expected trend | |
| Combined Solvency Score | | aa2 | | a2 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 30.9% | ba1 | ↔ | baa3 | Market funding quality | Expected trend |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 31.0% | a2 | ↓ | a3 | Asset encumbrance | |
| Combined Liquidity Score | | baa2 | | baa2 | | |
| Financial Profile | | | | a3 | | |
| Qualitative Adjustments | | | | Adjustment | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior | | | | 0 | | |
| Total Qualitative Adjustments | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | Aaa | | |
| BCA Scorecard-indicated Outcome - Range | | | | a2 - baa1 | | |
| Assigned BCA | | | | a3 | | |
| Affiliate Support notching | | | | 0 | | |
| Adjusted BCA | | | | a3 | | |

| **Balance Sheet** | **in-scope (SEK Million)** | **% in-scope** | **at-failure (SEK Million)** | **% at-failure** |
|---|---|---|---|---|
| Other liabilities | 1,025,986 | 34.7% | 1,329,700 | 45.0% |
| Deposits | 1,565,539 | 53.0% | 1,261,824 | 42.7% |
| Preferred deposits | 438,351 | 14.8% | 416,433 | 14.1% |
| Junior deposits | 1,127,188 | 38.1% | 845,391 | 28.6% |
| Senior unsecured bank debt | 170,311 | 5.8% | 170,311 | 5.8% |
| Junior senior unsecured bank debt | 76,660 | 2.6% | 76,660 | 2.6% |
| Dated subordinated bank debt | 15,133 | 0.5% | 15,133 | 0.5% |
| Preference shares (bank) | 14,109 | 0.5% | 14,109 | 0.5% |
| Equity | 88,693 | 3.0% | 88,693 | 3.0% |
| Total Tangible Banking Assets | 2,956,430 | 100.0% | 2,956,430 | 100.0% |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument volume + subordination | Sub-ordination | Instrument volume + subordination | Sub-ordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | 40.9% | 40.9% | 40.9% | 40.9% | 3 | 3 | 3 | 3 | 0 | aa3 |
| Counterparty Risk Assessment | 40.9% | 40.9% | 40.9% | 40.9% | 3 | 3 | 3 | 3 | 0 | aa3 (cr) |
| Deposits | 40.9% | 6.6% | 40.9% | 12.3% | 2 | 3 | 2 | 2 | 0 | a1 |
| Senior unsecured bank debt | 40.9% | 6.6% | 12.3% | 6.6% | 2 | 1 | 2 | 2 | 0 | a1 |
| Junior senior unsecured bank debt | 6.6% | 4.0% | 6.6% | 4.0% | -1 | -1 | -1 | 0 | 0 | a3 |
| Dated subordinated bank debt | 4.0% | 3.5% | 4.0% | 3.5% | -1 | -1 | -1 | -1 | 0 | baa1 |
| Non-cumulative bank preference shares | 3.5% | 3.0% | 3.5% | 3.0% | -1 | -1 | -1 | -1 | -2 | baa3 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | aa3 | 1 | Aa2 | Aa2 |
| Counterparty Risk Assessment | 3 | 0 | aa3 (cr) | 1 | Aa2(cr) | |
| Deposits | 2 | 0 | a1 | 1 | Aa3 | Aa3 |
| Senior unsecured bank debt | 2 | 0 | a1 | 1 | Aa3 | Aa3 |
| Junior senior unsecured bank debt | 0 | 0 | a3 | 0 | A3 | A3 |
| Dated subordinated bank debt | -1 | 0 | baa1 | 0 | Baa1 | Baa1 |
| Non-cumulative bank preference shares | -1 | -2 | baa3 | 0 | | Baa3 (hyb) |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Ratings*

## Ratings

Exhibit 11

| Category | Moody's Rating |
|---|---|
| **SKANDINAVISKA ENSKILDA BANKEN AB** | |
| Outlook | Positive |
| Counterparty Risk Rating | Aa2/P-1 |
| Bank Deposits | Aa3/P-1 |
| Baseline Credit Assessment | a3 |
| Adjusted Baseline Credit Assessment | a3 |
| Counterparty Risk Assessment | Aa2(cr)/P-1(cr) |
| Issuer Rating | Aa3 |
| Senior Unsecured | Aa3 |
| Junior Senior Unsecured | A3 |
| Junior Senior Unsecured MTN | (P)A3 |
| Subordinate | Baa1 |
| Pref. Stock Non-cumulative | Baa3 (hyb) |
| Commercial Paper | P-1 |

*Source: Moody's Ratings*

## Endnotes

1 Bank's reported figures, denominator includes debt securities and off-balance sheet items.

2 Precautionary reserves above the levels suggested by provisioning models

3 Credit portfolio includes on-and-off balance sheet items.

4 According to the preliminary 2023 SREP decision, the bank's Pillar 2 requirement increased by about 0.2 percentage points, driven by a temporary add-on for the ongoing review of the bank's IRB-models. At the same time, the Pillar 2 guidance decreased by 0.5 percentage points.

5 The systemic risk and O-SII buffer in Sweden amount to 3.1% and 1% of risk-weighted exposure respectively. The total requirement also includes systemic risk buffers in Norway and Lithuania.

6 Totaling SEK3.75 billion

7 Relating to the move of the risk weight floor for exposures secured by real estate in Sweden to Pillar I from Pillar II, which deducted 30 basis points from the bank's CET1 ratio

8 The main difference with the reported CET1 ratio is due to accrued dividends as well as defined-benefit pension plan assets which are deducted from regulatory capital

9 Moody's adjusted figure

10 SEB faces higher tax costs at its Baltic business, adding to the Swedish bank tax. Latvia is levying a temporary bank tax equivalent to 2% of mortgage balances in 2024. In Lithuania, the government imposed a two year solidarity tax on banks in 2023. SEB also incurred additional taxes in Q4 2023 relating to dividend payments from its Estonian subsidiary. The effective tax rate increased to 25.7% in 2023 from 18.5% in 2022.

11 Moody's adjusted ratio which differs from the bank's reported cost-to-income ratio because regulatory costs are included in operating expenses. Specifically, the Swedish risk tax and the solidarity tax in Lithuania are accounted for in 'taxes other than income taxes' in Moody's accounts, which is included in operating expenses, thus affecting Moody's calculated cost-to-income ratio.

12 2013-2023

13 Excluding repos for both loans and deposits, deposits also exclude treasury non-bank deposits

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### CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |


Moody's
INVESTORS SERVICE