Financial Results Q4 2020

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Q4 Report

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OPERATOR: This is Conference #: 8780761.

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the SEB Q4 2020 results. (Operator Instructions) For your information, this conference is being recorded.

Now I would like to hand the conference over to your speaker today, Mr. Johan Torgeby. Please go ahead, sir.

Johan Torgeby: Thank you very much, and a warm welcome to everyone to this annual report presentation for 2020. As normal these days, I'll start with just refer you to the presentation that we will go through. It's on www.sebgroup.com. And I will refer to the page slides as we proceed.

Starting on Page 2 with the highlights of Q4. We have characterized that as a healthy improvement in return on equity coming in at 12.2 percent at a clearly elevated capital level of 21 percent. We saw a elevated level of expected credit losses during the year that fell over the year and came in at 14 basis points, but lower than Q2 previous in the year and also lower than Q4 2019. Then Masih, our CFO, will to go through some revised financial targets for the group.

Flicking to the next page, Page 3, we can just summarize the year in number. And given the exceptional circumstances from the pandemic, we must conclude that the underlying result roughly in line with what we achieved in a strong year like 2019 and must be viewed in the light of weak macroeconomic performance and an enormously challenging pandemic as a solid performance in a well-diversified business.

The picture changes naturally quite significantly after expected credit losses are taken into account. And we ended the year 20 percent below previous year given the particularly elevated credit losses and the SEK 1 billion sanction that we have got from the Swedish FSA.

The year in key numbers resulted in credit losses of 26 basis points, roughly unchanged cost income of 0.46. The capital position of 21.0 percent is currently equal to an 840 basis points buffer with a return on equity of 10.3 percent before items affecting comparability. After, it was 9.7 percent.

Lastly, the Board has decided to propose to the AGM to pay SEK 4.10 per share in dividend. This is in line with the local FSA's recommendations to have a dividend proposal that is not larger than 25 percent of profits in 2019 and in 2020 – for the year 2020.

Leading to Page 4, I thought it would be timely to just summarize a very special year. This graph has a lot of things in it, so I'll take a minute to explain it. The green line is plainly the Swedish Equity Index. It went up 10 percent before – in the first 2 months of 2020, then it fell by 35 percent, 40 percent, after which it recovered 60 percent.

And we were touching the all-time high level this – earlier this week. The gray line is the mobility statistics in Sweden where people have moved in terms of retail and recreation. This is broadly an indicator of how hard has the country shutdown and how has the population acted in those shutdown periods.

And one can just note that we had the initial bottom where mobility was the lowest was in May 2020. It then steadily recovered to actually break the 0 line, which you have on your right-hand scale, somewhere in July to reach a peak in August where we actually had higher mobility than the previous year.

After which second wave of corona and other measurements were taken, and we are currently at a marginally lower level of mobility than we were in May. And from here, it's, of course, anyone's guess. And there is a clear sense of optimism that the vaccines, given the 2 months, will start impacting positively. But I would say, uncertainty remains and it's very unclear.

The bullet point, so just summarizing some of the things that the bank has done during this year as a response to the pandemic. We have given 40,000 people grace periods for amortization relief. These are predominantly households who have said that they would appreciate not to pay the amortization to retain some of the more – some of the disposable income in their personal lives.

We've also seen a clear shift into a digital adaptation. So this means that the elderly people, they have clearly used digital banking service more than ever before. And we see parallels to this also in the retail industry and the food industry and home delivery industry where we've seen that many more people have used these type of services.

And also in SEB, we've seen that the online trading of funds, et cetera, has increased enormously. And this has also been very evident from the online brokers only, some peers that we look at where you can isolate these numbers and it shows a similar picture.

We also point to, after the COVID-19, an enormous mobilization society. And for us, it meant a new high level of cooperation with government agencies and authorities. So the National Debt Office, the financial FSAs, central banks and also the Ministries of Finance where we are active all came together, and I think in a forceful way acted in order to mitigate the negative effects of the pandemic.

Also in the second quarter, particularly in April and May, we saw this jump in extraordinary credit demand where we call it COVID-related credit requests coming in at an increased pace with 139 billion extra clients, particularly large corporate asked for. That has been in stable after this period, and I will come back to this on the next slide, not really drawn, but rather being more like insurance policies for a potential future rainy day.

We also established an equity capital providing facility in the form of a new company called Cinder Invest. Cinder has now been up and running for just over 6 months, and they are fully occupied in order to support medium-sized companies with equity-like capital in order to bridge the pandemic and its negative effects.

And we also saw several innovative solutions, which had a COVID-19 pandemic or a sustainability-linked feature, such as the corporate bond for Getinge, which was very quickly arranged facilitate for hospital equipment, ventilators for emergency rooms or FM and World Bank, which was immunization bonds or Nordic Investment Bank also did, of course, the blue for bond water previously.

Looking at the operating profit. During this year, you can see a steady gradual improvement. So most of the negative effect came through the elevated credit losses late in Q1. And operating profit started at SEK 3 billion, going up to SEK 4.6 billion, SEK 5.9 billion and then in this quarter SEK 6.4 billion.

Flipping to Page #5, we thought it would be helpful to just say a few words on corporate activity as it is the largest part of SEB's business. First, to the point of loan demand. We've seen a very stark increase during the year for credit commitments. From a bankers' perspective, this means that we've met a lot of clients who are demanding more financial resources to be available to them.

So this went up from Q1 of SEK 876 billion to SEK 987 billion, which is a rather noticeable increase. However, if you look at the dark gray area, as we've commented in the past, it's actually down from Q1. And this is the portion of the credit commitment which is actually drawn, which is at the option of the client.

This means that they have not required the funds for investments or in order to bridge any shortfalls. And we have seen a remarkable response from our corporate clients to adjust their cost bases in very similar form as they've experienced an income drop.

I also want to point out that the economy and the client base is certainly not homogeneous in this. We have several areas still struggling in a significant way, but also many areas that has managed this well and some areas who's doing exceptionally well as what has happened have accelerated their business model most notably in the technology and the online space.

Looking at the activity levels during the year and a little bit of a pipeline here and now. We can see that capital markets and the credit-related areas also in the capital markets, not only lending, performed very well. Corporate finance and other investment banking areas had a fairly muted performance in the first quarter but a strong recovery in Q4.

So activity levels also speeded up meant that we concluded more transactions than we did previously in Q4, resulting in a 75 percent increase in Q-on-Q for issuance of securities and advisory services.

FEC and market income also contributed to a strong result, and this was mainly driven by high activity in the financial markets, high activity within savings and investments and also repositioning our portfolios, driven partly by volatility and large changes as I previously showed in the financial market, not at least the equity markets.

And loan origination, who was, of course, the fee-driven part of our banking book – or sorry, bank lending had an exceptional year as they underwrote more transactions than we typically do. And then the credit exposure, which I mentioned, which ended up 11 percent up year-on-year.

Leading to the next slide. In December 2018, we launched a few particular initiatives for acceleration, which we thought were critical for the bank. And here is a summary of 2 years into that 3-year plan. And we've roughly invested SEK 1 billion, marginally less than we originally planned, but we have roughly seen the outcomes from these investments as planned.

Critical enablers is all about the efforts we do in sustainability, regulatory compliance and also creating an SEB University for the employees so we facilitate for life-long learning. We spent around SEK 300 million extra investing in those areas. Advisory, mostly in the energy space as we see a larger demand for transitional energy advice. And we decided that within the investment bank in corporate banking, staff up with about 40 people to have a better ability to advise clients on transition and the financial aspects of transition.

Asset under custody has increased, and we broke SEK 12,000 billion in December. And if you remember, this is one of the largest investments we've done in the past in order to introduce a new modern custody platform for our financial institution clients. And we had SEK 10.4 trillion or SEK 10,400 billion in 2019 and roughly 15 percent increase during the year. I'll come back to other areas within savings and investments.

Within ecosystem, which is our branding of trying to find new innovative ways of creating partnerships, meeting clients in areas and in environments they are not typically used to see the bank, we have particularly invested in the SME space in order for them to have integrated ERP systems with banking services.

In the past, a corporate often had to use 2 different complete digital environments: one for the financial services when it comes to payments, invoices, et cetera; and one for internal accounting. The plan for this initiative is, of course, the client would appreciate if you could merge the 2 environments. And we've done now several integrations with ERP systems, radically changing how customers then can use the bank in different areas.

And lastly, we have launched our digital exploration project, (inaudible) which is to create a new targeted online-only bank for solopreneurs. It's still in a pilot phase, but we have onboarded and launched it with real clients and it's now up running. And this year is all about making sure that it's stable, robust and scalable. We'll update you regularly on the progress.

Next page is just to highlight this year's business plan focus. This is the third year of our 3-year business plan, so the last year before we renew it more from the ground up. And it is similar with operating jaws or operating leverage as part of the plan where income is aimed to outgrow costs. But we have also targeted 4 particular areas of increased focus in 2021. One is within savings and investments.

The other one is within sustainability in many different shapes and forms. We like – I'll come back to. We continue to have the global trend of increased digitization and reviewing of the business model, adapting new technology for operational excellence and meeting clients in new ways, and lastly, regulatory compliance. As regulatory supervision continues to increase, this is a key area for us.

Just doing 2 of these in a little bit more detail, we flick to Page 8. The business plan 2021 for savings and investments, and I just share a few data points. First, this is not an area that we have had performing as we want in the last couple of years or 3 years. It is a very important area, but it's very fragmented. The area of savings and investments is almost a conduct or a business area of activities that hits most parts of the bank. There's no division who has it solely. But it's in CPC.

There's private individuals, private banking, institutional investors, there's life, et cetera. So it more or less is in every division of the bank, there is a tangent to the area of savings and investments. If we add them up, it is a meaningful part of SEB's operating income, roughly 18 percent. And even more so, a very important part for SEB when it comes to capital efficiency as it is a capital-light type of business and generates roughly 38 percent return on equity.

We all have seen around a SEK 500 billion increase in asset under management over the last 5 or 6 years. This has not primarily been driven by exceptional net sales, but of course, by asset under management growing through asset appreciation. But regardless, it's a very important business area that has been growing as the market has improved. We are currently have an asset under management of roughly SEK 2,100 billion. In the plan, there are 3 main areas that we want to invest in and accelerate during the year. The first is product innovation.

And here, there is a clear focus on particular beta being very simple, and alpha trying to find real alternative investment and other type of investment philosophies generate surplus return, together with dramatic investments, investments that cater for clients need to direct their money where they care for it to be deployed, such as sustainability-linked or sustainability-seemed investment strategies. We also will focus on fund performance. And here, we have reviewed policies.

We will also look through the life-cycle management of our funds. We have quite a lot of funds. But we would like to have a commercial, or let's call it, commerce activity-based approach to see where should we spend our time and efforts. And lastly, around sales, so this is predominantly around improving our digital channels, so you're also in the mobile channels can invest and save in a seamless fashion.

And this is a main focus to deliver a good enough solutions to begin with during 2021 as we know some of the most tech-savvy companies out there have gotten a leg up on incumbents like ourselves and we need to close that gap now going forward.

We'll continue to believe in the bank assurance case, namely the synergies between sales of life products through SMEs and the retail network through the branch offices and telephone banking.

And we've also launched an integration of the sales efforts by these 2 different areas. And we'll continue to explore new partnerships, trying to find new ways of distributing our product and also introduce other investment solutions to our private banking and private customers so that we have full access to the best savings products out there.

It has not been, as I said, a particularly impressive story lately, but we have seen a little bit of a light in the tunnel, particularly in Q4. So in December, we have finally seen a steady increase for a few months for what we call monthly savers within retail. And the December number has a run rate 15 percent higher than we had in 2019, so that's early days, but still encouraging.

I mentioned the AUM continuing to grow. And I mentioned the AUC continuing to grow. And we have also seen that the efforts around technical and digital development has clearly been mobilized in the later half of last year in force.

Last slide before we jump into the financials is a second business plan description with regards to sustainability. This is a key area for 2021. It's a key area for medium- and long-term change. First, I just want to point to this exceptional shift that we've seen.

And one way to describe it is the accumulated net sales of ESG funds versus non-ESG funds. And you can clearly see that you have this exponential demand increase for funds with a purpose compared to the demand for funds without such explicit purpose.

Looking at the financial requirements for a transition going forward. Public and private investments are needed in large scale. Here, we have some data points. One is the estimated investment gap in Europe for climate mitigation and energy targets by 2030 and also some other wider objectives beyond climate for the environment, and they amount to just shy of SEK 500 billion per year.

This equates to an investment required, which is not yet funded, of over EUR 3,000 billion. And this is, of course, something that is very important for banks to participate in so the transition be financed and these investments can be materialized.

Over and beyond this, there's, of course, public initiatives that are significant, not at least the 1,800 billion green deal or EU budget that has been assigned to this and the 2,000 billion in the U.S. This also means that there will be a significant need for green or sustainable financing for the government and for government-related agencies to raise this type of capital.

All this, we think, is a very exciting opportunity for every one to contribute to a low-carbon society, but also very interesting banking opportunity in order for this capital to be channeled in a seamless way through the public and private sector.

SEB's role in all of this, and the business plan has been here summarized in 4 points. The first one is that we have a responsibility and ability to innovate the financial products and services. Everyone knows about green bonds. Now the sustainable-linked loan market has really picked up. And here is one role to play to create the financial solutions that accelerates and supports this development.

The other one is an internal must do for 2021. And that is that to transparently report and classify our clients' impact on the world. As the loan book and the significant capital a bank like SEB commits, we need to address what impact that has in order to take wise decisions on how to deploy this capital going forward.

And this is very much aligned with large initiatives in euro – Europe, such as the task for financial disclosure, many national initiatives and also global banking associations and local, trying to find a common way of reporting and classifying these areas.

The other thing which is key in our plan is to update our thematic policies, our sector policies and our sustainability policies. And all those will be reviewed during the year. And the first in line our fossil energy policy, which we will try to publish in 2021, which we did that first time in 2010, but these are, of course, annually reviewed, and now we're going to take a new grip on that.

And the last one is cooperation. There is a need for every one to work together. This is not about a blame game. This is about working together to create a better world. And we all need to face a lot of these challenges. As someone said, this is probably the largest challenge of our generation and I tend to agree. And now it's time to do things in the coming years.

I thought I'll end there on the thematics and the short description of 2020 and our business plan, and I hand over to Masih for the financial review.

Masih Yazdi: Thank you very much, Johan, and good morning, everyone on the call. So I'm looking at Slide 11 now in the presentation, looking at the Q4 results. As you can see, income is up 4 percent Q-on-Q with costs seasonally going up but being lower than the Q4 cost level of last year.

Expected credit losses, as Johan mentioned, down to 14 basis points in the quarter, which is both lower than 19 basis points we had in Q3 as well as the level we had in Q4 last year. And an operating profit above Q3, but below Q4 last year, mainly driven by net financial income. Return on equity in the quarter, 12.1 percent. If you at look the reported number, but then 12.2 percent if you exclude items affecting comparability.

Moving to next page, Page 12, and looking at the net interest income. Strong development during 2020 with a 10 percent growth on this line. You should recall that almost half of this growth is coming from a reduction of regulatory fees, namely the resolution fund fee and the deposit guarantee fee. So the underlying growth, also if you take out the repo rate hike we had, is maybe around 3 percent or 4 percent during 2020.

In Q4, net interest income is up 4 percent. Here, we have a couple of one-off effects. We can see that the net interest income within our markets business is a bit elevated. We think that accounts to about SEK 100 million of the quarter-on-quarter increase. Also, we had earlier paid too much when it comes to deposit guarantee scheme for 2019 and reserved a bit too much for 2020. And we have a one-off improvement there of SEK 50 million in the quarter.

So if you look at the underlying growth in the quarter and also adjust for the fact that we've had some negative FX effects, it's about SEK 800 million.

On NII, we don't guide on the development for 2021. The part we can guide on is that we expect the resolution fund fee to increase for us in 2021 versus the level in 2020. And that's mainly because of the fact that the balance sheet has grown, and we expect the increased fee level to be about SEK 100 million to SEK 150 million for the full year '21 versus 2020.

Moving to Page 13 and looking at net fee and commission income. It's down 3 percent in 2020. A fairly mixed picture here. Obviously, a very negative development for our card business given the travel restrictions, which has hit our corporate card business where we have a reduction of net fees of about SEK 800 million in the year or 20 percent. However, this has been partly offset by higher lending fees and custody mutual fund fees. Quarter-on-quarter, we see an 11 percent improvement. This is mainly coming from higher activity within investment banking, higher lending fees and again higher custody mutual fund fees.

I think we mentioned in the end of Q2, early Q3, we start to see an improved pipeline in investment banking. And obviously, in Q4, in 2020, some of this pipeline did materialize. And we continue to see a good pipeline moving into 2021.

Going to Page 14. Our net financial income, down 18 percent versus last year, very much due to the weak Q1 that we had. If you look at the results in Q4, it's pretty much in line with Q3. And we have earlier guided for NFI to be around SEK 1.2 billion to SEK 1.4 billion if you exclude XVA as well as treasury. And if you look at the level in Q4 2020, you can see that this is perfectly in line with that guidance of SEK 1.3 billion. Also worth noting that after the big hit on the CVA/DVA in Q1 of SEK 1.3 billion in Q2 until Q4, we have recovered approximately SEK 1.1 billion out of that SEK 1.3 billion.

Next slide, Slide 15. Operating leverage, pretty much unchanged in 2020 versus 2019 at both – as both income and costs are pretty much unchanged. But it's interesting to sum this up after a decade. So you can see that in the last decade, we've had income CAGR of 3 percent per year and a cost CAGR of 0 percent, which has led to an operating profit CAGR – sorry, operating profit increase of 100 percent in 2020 versus 2010.

Next page, 16, look at expected credit losses, coming down in Q4 and landing at around SEK 840 million or 14 basis points. We see the same trend as we saw earlier in the year that the large share of the reserves that we took was within the LC&FI division, and a large part of this is coming within oil and gas and mainly within the offshore sector.

We have, in this quarter, in Q4, utilized about SEK 350 million of the earlier model overlays that we have taken and allocated this to individual exposures. If you look at the full year, we landed on the level we guided for, around SEK 6 billion. So we land at SEK 6.1 billion, of which SEK 1.3 billion is model overlays during the year. And as you can see here, also that in the C&PC and the Baltic divisions, almost none of the reserves are for specific engagements and almost everything is for – as model overlays.

We do a guidance here for 2021. We say that assuming that the outlook in – Nordic outlook is materialized during 2021, we expect this to be a transitional year, moving to a more normalized level of expected credit losses in 2022. And by normalized, we mean somewhere around SEK 2 billion to SEK 2.5 billion, around that range.

Next slide, a few key ratios. A couple of ones I would like to mention here. The first one is customer deposits increasing by more than SEK 200 billion in 2020, taking the loan-to-deposit ratio of the bank down to 122 percent, which is, by far, the lowest level we've had at a year-end. The second comment is on capital. The buffer stands at 840 basis points compared to 250 basis points a year ago.

Most of that improvement is coming from the fact that we've accumulated a lot of capital and have had lower dividends than we've had previously. But it's also relief coming from regulatory requirements coming down. Here, one should note that in December, late December, the bank package was introduced in Sweden.

And there are parts of the bank package that haven't been introduced yet, namely the Pillar 2 guidance and also one part of the Pillar 2 requirements that haven't been removed yet. These will be introduced by Q3. The net effect of this is that the minimum requirements, everything else equal, will go up by 100 basis points at that point.

Now as you've seen this morning, we've also revised 2 out of the 3 financial targets that we've had. The main purpose of these revisions is to increase the bank's financial flexibility so that we can support customers in the long term. Starting with capital, we're changing the target from around 150 basis points above the minimum requirements from the Swedish FSA to a range of 100 to 300 basis points.

We believe that the range better reflects that the buffer can vary also in normal times, and at any level within this range is normal and does not necessitate any extraordinary actions from the bank. When it comes to the dividend payout target, we used to be more than 40 percent of annual earnings per share. We're changing that to around 50 percent of earnings per share, excluding items affecting comparability.

Well, in practice, we've actually paid out 70 percent to 75 percent in the last 2 years. So in practice, this is probably a reduction compared to what we've had in the past. We believe, again, this gives us more flexibility. We will, when the year starts, accumulate more capital.

And if demand is higher, we have a better potential of meeting that demand. We've also said that if our buffer exceeds the higher end of the new capital target range of 300 basis points, we're going to use share repurchases as the main form of capital distribution. One should say that these are now forward-looking financial targets, and they do not necessarily answer how we will address the current situation where we have a capital buffer that is significantly above our target range.

We believe that just using share repurchases would not be suitable for the current situation, also having in mind that the dividend payout for 2019 and

2020 has been lower than what we would have done hadn't there been recommendations from regulators. But exactly how we'll address this, we'll have to come back with when the regulator's dividend recommendations have been lifted.

Finally, on Slide 19, we're also introducing aspirations on return on equity as well as cost income for the 5 divisions the bank has. We have set these targets based on 2 factors. The first one is that we want each and every division in the bank to be better performing than relevant peers we have in this region with similar businesses. The second anchor is that we wanted some of these targets or aspirations to be equal to the 15 percent return on equity aspiration for the SEB group.

There are a few different purposes offsetting these aspirations. One purpose is internal. We use these new targets now our aspirations as inputs when we allocate cost and capital to the different divisions. And there's also obviously an external reason for this. Now we can show you how we believe that the different divisions should contribute to lead to increasing the return on equity to the long-term aspiration for the grab as a whole – bank as a whole.

I think I'll stop there, and we can open up for Q&A.

Operator: (Operator Instructions) We're now taking our first question from the line of Magnus Andersson from ABG.

Magnus Andersson: Just starting off with your new financial targets and your dividend target. I understand from what you said, Masih, that there's nothing in this really preventing you from doing, for example, a second dividend installment in the second half of this year depending on what happens to the dividend and given your strong capitalization.

But once we are through this, I guess that when you are between 100 and 300, there will be a dividend of around 50 So my question there is 50 percent the target? Or you say around it? Could it be even significantly higher than that given that you are within the range, so that buybacks will only be used above the 300?

And secondly, just if we look at 2022 and assume a fully loaded capital requirement, I guess that it should be around 15, 15.5 which would imply that above 18, 18.5 we should expect buybacks, just to confirm that.

Masih Yazdi: Yes. Thank you, Magnus. On your first question, yes, I mean, you're right. There's nothing excluding extra dividends in the future. That will be allowed then if we have the capitalization to be able to do that. That's correct.

And the around number, you should assume that it's going to be close to 50 percent. The reason we say around is that we want to have the possibility to have a lower volatility in our dividend per share than the earnings per share. So if you have a year when the profit of the bank goes down by 2 percent, it goes up by 2 percent, we have the optionality of not changing the dividend per share compared to the previous year. So that we, over time, have a lower volatility in the dividend per share.

It is correct that whenever we're within that range, 100 to 300 basis points, it's only going to be the dividend. And when we're above that range and expect to continue to be above that range, meaning that if we know that there is not a new regulation, for example, coming in the next year, that's going to have a big impact on that capital level, then we will do share buybacks in addition to the dividend.

When it comes to the forward-looking capital level, yes, I mean, it's 12.6 percent in Q4. If you add the Pillar 2 guidance and remove the other Pillar 2 requirement that's going to be removed in Q3, that's going to be pro forma, maybe at 13.6 percent. And obviously, it depends on what kind of countercyclical buffer you assume.

As the FSA has said, if the countercyclical buffer is increased again, when they start to do that, it's going to be very gradual. And that's what they've said. So I guess it's unlikely that's going to be up at the full level of 2.5 percent already in 2022. So it's up to you how you want to model this.

Magnus Andersson: Yes. And then what kind of regulatory risks do you see here? Is it primarily the IRB model reviewer?

Masih Yazdi: Well, the technical guidelines is a regulatory risk. I don't mean we've gone through that in the last few months. And I think in general, our expectation is that, that won't be material for the bank. And then obviously, in the longer term, you have Basel IV. And whether that's going to be introduced or not and exactly in what form, and that's still very unclear.

Magnus Andersson: OK. And secondly, just on your long-term aspirations for the SEB divisions. I note that you have higher expectations in terms of profitability for all divisions, but investment management. Will you outline how you're going to achieve those targets more in detail, for example, in relation to your updated business plan next year?

Masih Yazdi: It's possible. We'll see whether we do that. I would just comment on that. If you look at, at least 2 of the divisions, both C&PC and the Baltics, they are pretty much in line with their profitability targets already if you adjust for the fact that you have elevated credit losses in 2020.

So I think it's a clear sort of signal that when it comes to those 2 divisions, the main improvement from here is to become more cost efficient, which, to a large degree, is dependent on to what extent we can use digital tools in our distribution. Whereas for LC&FI, you can see that they are in line with their cost-efficiency targets. Whereas for that division, capital efficiency is the main driver of improvement from here.

Magnus Andersson: OK. And finally, just if I take a more technical question about NII. You mentioned that you have around 100 extra end markets. Do you expect that to disappear already in Q1? That's the first one.

Secondly, you mentioned fees, that you should have a high-resolution fund fee SEK 100 million, SEK 150 million next year. What about the deposit guarantee level next year versus the SEK 330 million you had this year?

Masih Yazdi: Yes. On the resolution fund, that's correct. Deposit guarantee, you typically find out in Q3 or Q4. So when it comes to the start of the year, we're going to reserve as much as we did in 2020. So that's not going to be a change.

Markets, it's difficult to say. I mean we've seen typically that when it's been elevated, it's normally normalized the next quarter. So I think that's a good base case.

Operator: We are now taking our next question from the line of Adrian Cighi from Crédit Suisse.

Adrian Cighi: I have 2 follow-ups on capital and net interest income, please. You mentioned the technical guidelines won't impact the capital materially. Can we expect this to be so within the 20, 30 basis point range? Or is there something more precise maybe you can give us?

And then just, still, within capital. What time line do you expect to have a sort of clarity on the true excess capital? And once you do, what time line do you expect to distribute this under? I'm mindful that we had sort of the excess capital over the previous target sort of stay around for many years in the past.

And then on NII, you obviously had a great quarter in terms of market NII. Can you help us understand how sticky this is and how do you expect this to develop into 2021?.

Masih Yazdi: Yes. On the capital, on the technical guidelines, I mean, we are in the process of applying to the FSA on getting our internal risk-based models approved. And in that process, we obviously look into what the capital implications of the updated models are. In general, the only thing I can say is that we don't believe it's going to be material.

Exactly how many basis points is going to be, it depends on the whole process with the FSA as well, what they approve and what they don't want to approve and what we need to recalibrate. But in general, for this bank is that you do up to your models, mainly for probability of default and loss given default. And in the product default dimension, we might see a release. Whereas in the loss given default dimension, we might see an increase. And a net impact – net impact of that right now, we believe, will not be material.

Johan Torgeby: Clarity on excess capital. I mean there are quite a few things there. Obviously, one clarity we need is from the regulators, exactly how they communicate around recommendations on dividends. We've seen that it's been extended once. And it's difficult to say right now how the macro outlook will be in the autumn and whether it's going to be extended to some extent again or revised or completely lifted. So obviously, that's going to be a very important input.

In terms of regulation, I mean, as I mentioned before, Basel IV is the big long-term uncertainty. It's very difficult at this point to know exactly how it's going to land. I think we're in a very good position given the capital ratio we have today. And also, it's very important to say, we are generating 250, 300 basis points of capital every year.

So we have – with that capital generation, you have time to build whatever you need for the future. So yes, I don't think we can give more clarity than that at this point. It's – I mean I think in some sense, your guess is as good as our guess when it comes to future recommendations from regulators.

On net interest income, I would say that the market NII is not sticky. So it's volatile. It sometimes is below the normalized level. Sometimes it's above. And when it differs from the normalized level, we try to be transparent about that. And we're just saying now that in Q4, it's about SEK 100 million above the normalized level, so you should assume that's go down.

And in addition to the resolution fund fee guidance, we don't guide on NII in 2021. I think it's just important to note that the high level of 2020 is partly driven by lower regulatory fees. That's not going to repeat itself in '21. And also the tailwind we had from the rate hike in December '19, it doesn't seem at this point that we're going to have another rate hike in 2020 – 2021 that will have a positive impact. So those 2 obviously should not be extrapolated into 2021.

Operator: We're now taking our next question from the line of Andreas Hakansson from Danske Bank.

Andreas Hakansson: Two questions. Coming back to the dividend, sorry for that. Just – I'm not sure it really matters, but the 4 10 that is the dividend for 2020 now, right? It's not for 2019 since you didn't have an EGM. Then you're roughly at a 50 percent payout. But come the end of the year, that's nothing to prevent you from paying another dividend on top of that, just to make that clear.

Then on the buybacks, have you discussed with the regulator what's their view about buybacks? Do you think you can start that very soon, after the end of September? And do you need another approval from the regulator? Or how do you see that develop in the end of the year?

Johan Torgeby: Thank you. No, you're correctly in assuming that there's nothing limiting us as we come out with this for 2020 when it comes to default. So of course, the next important date will be as the current recommendation lapse in September, what's to do there. And then to Masih's points, we will have to wait.

You're correct in your question that it is based on 25 percent of profits in '19 and '20, but it is solely recorded as a 2020 dividend. So we will not, as you said, have EGM before the AGM to ER market as we think that is on the margin positive for us in the cost basis to put it all into 2020.

Was there anything – another question?

Masih Yazdi: Yes. On the buybacks, yes, I mean, you need an approval from the FSA to do buybacks. That's irrespective for what purpose you do the buybacks. You always have to get an approval to do that. I think if you look at the communication from the Swedish FSA around the current dividend recommendation, it's pretty clear that they don't see a difference between dividends and share buybacks.

They use that in the same sentence. And our impression is that they don't see a difference between those 2 ways of optimizing a bank's capital structure. But I think in general, I mean, the way we view it is that it increases financial flexibility, which also is good for financial stability. So at least my expectations would be that this is something that gave you as positive to have 2 vehicles to optimize your capital structure.

Johan Torgeby: And of course, Masih, the current targets and changes we've gone out through has been anchored and validated with the FI prior to the announcement today. So there's no reason to believe this would not be a problem.

Andreas Hakansson: And then just, yes, and to understand, so if you're going to pay an extra dividend in the fourth quarter, then you need to call an EGM, let's say, in October. But if you're going to do buybacks, the only thing you need is an approval from the EGM seems to get the approval for the buyback at time of the AGM now in the spring?

Johan Torgeby: Yes. So it's the current mandate for the management, which we've always asked for, to buy up to 10 percent, there's no further requirement needed for buybacks. And you're correct, if you need to call an EGM, if you want to do an extra dividend, which is earmarked for 2020, so you're absolutely correct, then we need to call. But you can also announce an ambition on an extra dividend to be paid out in conjunction with March 2022. And then if you don't call it an EGM, that's another alternative we had.

Operator: Our next question from the line of Nick Davey from Exane.

Nick Davey: I've got a couple of questions. The first one, I can see in the balance sheet, you've passed the tipping point now where deposits are coming down again from this record high and seems like there's maybe a little bit of deleveraging alongside that. So first question, do you think that might be a theme for 2021 that cash-rich companies deleverage a little bit?

Second question on the divisional targets. I think you alluded already on Slide 19 about this attempt for better capital efficiency in the large corporate unit. And I just wondered whether you had specific milestones or measures underway? Or it's more just a general philosophy to be more efficient with capital, just if there's anything we can track from the outside?

And then the third question, just coming to the Baltics unit where it seems there's still this NII pressure. I think there's something odd in the quarter around funding.

But I just wondered if you could come back to the theme of excess liquidity building up in the Baltics unit, and anything you can do about it? Clearly, you have a strong market position, so I wondered whether there's any discussion about trying to offset this excess liquidity problem with the changed deposit rates or lending rates to try and protect margins a bit.

Johan Torgeby: On deposits, I think you probably should see it as a consequence of QE, in combination with lower mobile mobility. So when people do not spend on some capital goods or some travel entertainment, et cetera, it's natural that the salary increases the deposit. And QE, in the bigger picture, kind of make more money go around, which means that the sum of whatever is accumulated in the banking system or deposits should be higher just by nature as $20,000 billion or so has been the increase in money available.

I don't see those 2 things really changing in the short period. So I think for – I'm not guiding or making a projection. I'm just reasoning out loud. There are these still powers in play. So if there's been a tailing off, the growth rates might not be as high next year. But there's still these things in play until people start to consume, which consumes savings, and until a QE starts to tail off a bit, which is not kind of putting more money out in the system.

On the deleveraging point by corporates, I think it's reasonable to assume as things look pretty healthy right now. If you look at the macroeconomic forward-looking indicators, it looks pretty OK. The equity market is, of course, priced for perfection in my book. It's kind of assuming that we will survive this very well.

You could clearly see a break in correlation between mobility going down and equity markets going down, which was the case in the spring, it was not the case on the second wave. and if there's any deleveraging, I do not think it's going to be cash balance predominantly. It might be that you just do not renew some of the COVID-19 loans that you brought on the books, typically, a year. They're typically shorter in nature.

And when we get to, call it, April, May and the elevated level of the credit exposure, which is undrawn, I think it's fair to assume you will not see another increase like this year at least. And therefore, the total amount of indebtedness in that form would be reduced.

Then on capital efficiency, there are clear milestones in the business cloud, which is a long document and many, many different initiatives within LC&FI in order to achieve it. And as Masih said, we will take onboard to consider to go through those in a bit more detail. But very bluntly, it's all about having noncapital-related businesses, which are still 1/3 or low capital-intensive businesses, which is 1/3, to outgrow the capital-intensive business of LC&FI, which is 1/3.

You can divide the group into – the business area into 3 areas. So it's all about having a plan and milestones of growing fees and commission in those areas. We know we have had a cyclical, what we could call a downturn in some of the investment bank fees, which is clearly having a completely different picture now in Q4 and the pipeline looks very different from right after corona. And it is also about that the bank currently doesn't have a large, call it, client intake in the home markets where the capital will be deployed at the moment.

So there is a capital-light plan where fees and income is outgrowing risk exposure amounts and that is, of course, the way we want to plan for them to improve. And remember, this year, they have taken the absolute majority of the expected credit losses. Hence, it's clearly depressed from that reason.

And that's where we have an 8-ish percent return on equity compared to an overall aspiration of 13 percent. But this 13 percent is what we believe we can achieve with the current, call it, engine that we have. And the credit losses, if they are not repeated next year, of course, will be also a major contributor for coming up.

Masih Yazdi: Yes. And your last question there, net interest income in the Baltics. There is a technical factor in Q4. If we repay the loan to treasuries, you see the offsetting positive side of that drop in NII in treasury.

And when it comes to the Baltics, you should also have in mind that there's been quite large negative FX effect, especially in the second half of the year. So in general, in the Baltics, you have low but still some loan growth, and you have small margin improvement in general.

And you're right that we've had this issue with excess liquidity, which we still have. What we've done lately is that we've been able to change pricing to some extent when it comes to large depositors in the bank. And we're also finding new ways of investing that excess liquidity, leading to a small yield pickup. So we have sort of and continuously addressing that issue, which will mitigate the negative effect of deposits outgrowing lending.

Operator: We're now taking our next question from the line of Riccardo Rovere from Mediobanca.

Riccardo Rovere: I have maybe 4 questions, if I may. The first one is certainly for Johan. I remember when you were appointed CEO kind of 3 years ago, so you state that you prefer to invest your capital in your core operation, core markets without being obsessed by the dividend. My question here is whether this kind of approach attitude still stands? And if it is still stand, where do you see these growth opportunities and eventually these growth opportunities could include M&A, maybe even bolt-on acquisitions?

Second question is somehow related to that on the buyback, is it really a capital-efficient way to use your excess capital when the share price is above the book value per share? Wouldn't it be, let's say, just more linear to pay in cash dividends? And that's it.

The another question I have is just to be sure I understood correctly. Masih, before you state with regard to ECLs, credit losses, we expect 2021 to be a transition year towards a more normalized 2022. And more normalized means 2 – between SEK 2 billion and SEK 2.5 billion credit losses. I'm not sure I got it correctly.

And the last question I have is on costs. You are keeping the target more or less unchanged at SEK 23 billion, if I'm not mistaken, despite the benefits from digitalization and people obliged to stay at home or something like that. So I was wondering what is offsetting this benefit?

And very, very finally on area, this year, there should not be any particular impact aside from the growth in the loan book.

Johan Torgeby: If I start, and thank you for the question, and hand over to Masih on the buyback question then. But yes, time flies. It's actually 4 years ago this week, we had the pleasure of speaking the first time. And yes, I still think that is the commercial kind of inclination we have.

If we can deploy capital in the bank as a return on equity on 15 or above, we really would like to do so. That doesn't mean that what we have gone out with today really changes anything. So the aspiration from management's point of view to have a capital repatriation, similar to the past of, call it, 70 percent, I would say it's a good rule of thumb also going forward.

But with increased flexibility by how that capital is repatriated. I also want to point out that we have not limited ourselves to use dividends because we introduced share buybacks even though we guide for when share buybacks will be most – will be deployed under normal circumstances, it is when we're not in the range and we, during the year, can adapt. But we have no limitations on using dividend as an extra dividend or such. That is still unchanged.

Now given what I just said, we are still clearly capital-repatriating bank given that statement. And therefore, in a way, I'm saying we don't have enormous opportunity to deploy capital at 15 percent return on equity with the current strategy. Hence, there is a large cash repatriation type of part in this plan. We've just signed off the business plan in December for 2021.

And there is no meaningful or noticeable M&A consolidation or bolt-on acquisitions in that plan. As you alluded to in your question, that's, of course, one way to deploy it. But that is not part of the current business plan. And that is, of course, what we know today. Things change quickly in that. So I'll just make that caveat. But today, we have no plans for that type.

Masih Yazdi: Yes. So on your question on buybacks. I mean I think there are many sort of pros and cons with buybacks or dividends from a sort of financial engineering perspective. But I think all of those arguments are pretty secondary to our primary argument, which is that we think this improves financial flexibility.

Having a lower dividend allows you to grow faster if you see that kind of demand. If you don't grow faster, you can still repatriate capital through share buybacks. And if something unexpected happens, you still have capital in the bank and you can stop or decelerate share buybacks accordingly. So I think that improved financial flexibility trumps all these sort of issues with financial engineering around this topic.

On ECL, yes, I mean, you're correct, we're basically saying that assuming the outlook that from our economists for the coming 2 years in terms of macro, we think we will reach a normalized level of ECL of about SEK 2 billion, SEK 2.5 billion in 2022. And then '21, quite a lose guidance there, but somewhere around or between that 2 to 2.5 to this year's level of 6. Exactly where in that interval we're going to land, it depends on exactly how the recovery looks like.

On the cost side, yes, we are still keeping the SEK 23 billion. Despite that, we have some benefits. Those benefits, a lot of them that we had in 2020 are very temporary, which has to do with travel. It has to do with lower cost for consultants. Obviously, we hope that those are temporary. We want the world to normalize.

And I mean in terms of digitalization, we had that in the plan when we set the target of SEK 23 billion. So we don't think that is changing that much. And if there will be any room, there are a lot of things we will want to invest in. So we probably just accelerate a certain investment. And we are accelerating some investments already in 2021 compared to the previous business plan. One area that Johan mentioned is savings and investments where we are accelerating some of the digitalization efforts.

On REA in '21, we said throughout 2020 that we expected net – negative risk migration to lead to REA increasing faster than lending. It didn't really happen, which has to do with that we also took – or we had migration into risk class, default risk class, which means that cap promise goes down.

Now it sounds like I'm just repeating myself, but you should expect negative risk migration in 2021, mainly also that we expect that reserves will be lower in '21 than 2020, which means that this offsetting factor will not be in place as much in '21 as it was in 2020. So now becoming very technical, but I think the base case scenario should be that REA would increase by more than lending growth in '21.

Operator: We're now taking our next question from the line of Sofie Peterzens from JPMorgan.

Sofie Peterzens: Sofie from JPMorgan. I just wondering if you could give an update on all the litigation that is or residential litigation that is outstanding. You have the German tax claim, but also there was a new super article end of last year's saying that FBI had as the Swedish authority for information from the Swedish bank. Is there any new developments on this side? And if you could kind of give an update on how we should think about litigation risk for SEB going forward.

My second question would be on M&A. You have plenty of excess capital with a core equity Tier 1. How should we think about additional M&A? I recognize you said that there are not many adds or that deliver over 15 percent return on equity, but is a something that you consider and what would kind of start criteria for M&A be? That's it from my side.

Johan Torgeby: Thank you. I can start and then Masih. What we call litigation, I would say, there's litigation risk and there's supervision and regulatory compliance risk, which is not litigation. And there's no change really during this quarter.

So what has happened is, of course, that the previous ones are more or less on track. So we have closed some of the once in Baltics, and we have another 3 months, and everything is progressing fine. And we do this in cooperation with the 3 Baltic and the Swedish. Those are the ones that came out last year. And they've all progressed according to plan and/or been closed without further actions.

When it comes to the U.S., we have no update. So we have just said that we are in discussion with all relevant parties in the U.S. And it's in information requests. So as far as we know, there is no litigation or any type of those processes, sanction cases that are currently being explored with the bank. But there's no change during quarter.

On M&A, you're correct. There are, of course, many reasons why one could consider it. Return on equity is a tricky one because they're very little assets generating it. But one could also consider defensive or need for consolidation. And in particular in Europe, this is, of course, a quite frequent and active theme at the moment, not that much on cross- border, but certainly on national.

But as I previously said, I can just repeat, in the current plan, we have not any targeted acquisitive growth. It's all organic in this plan. And just for caveat, as always, you never know what happens tomorrow. If someone were to put something on sale, of course, it's our obligation to look and do the math on things. But the plan does not entail any of those.

Sofie Peterzens: And just on the German...

Johan Torgeby: Germany. Yes. There was an update during the quarter on a tax reclaim. So the German local tax authority send in a tax reclaim for SEB that we have sent out a press release on. This is very surprising to us. These are related to, of course, a securities lending business prior to 2015 from 2008.

And we will now have to iron out what the legal ground for this is. And if we were to process, which is a likely scenario, should we not agree, this is a 5-year process where we will have a judgment in this.

And this is, of course, a case which many banks are in Germany right now, in our opinion, is a retroactive change from the tax declarations that we've done for the last 13 years or so, which have all been done in full transparency. And this is, of course, a very unfortunate situation and we'll just have to play that out now.

Operator: We're now taking our next question from the line of Namita Samtani from Barclays.

Namita Samtani: I've got 2 questions, please. The first one, could you please comment on the outlook for large corporate lending in 2021 given further restrictions in Sweden and Europe?

And secondly, just a question on SEB to mutual fund performance in Sweden. And I appreciate what you said in your initial remarks about the investment. However, despite the investments, if I look at market share, net inflows, it's been a bit pain, actually declining for a few years. So I just wanted to ask why is this the case and whether it's to do with competitive dynamics or a focus away from this type of product.

Johan Torgeby: Sure. Thank you. On large corp lending, there is – we don't – I'm not making a projection or guiding you to a number. I'll just reason out loud. There has been an elevated level given COVID-19 in the type of credit requests we've seen. It's unlikely those credit requests will be replicated. And those are currently on the book, and this is why the exposure amount to corporate loans has increased by the roughly 10 percent year-on-year. But as I said, we can clearly see that the companies who ask for this money didn't use it yet.

So there are 2 factors that are key to assessing the future. One is, when will the investment cycle and expansion and travel and business commerce in an investment category increase. That's going to drive lending growth up. It is very common when you've had these kind of extreme events, we can see in 2009 very similar patterns. We have this explosion even greater than this time in terms of credit requests.

And then they kind of take a little bit of a pause afterwards and not continuing to increase. But I think the investment cycle is key, and that's really down to us opening up the economies, our corporate clients getting the confidence to kind of act in a positive way to acquire businesses, establish new factories and/or establish new companies.

And it does look on many aspects, that's going to be pretty good. It feels like it's very concentrated, the real problems that we currently see from COVID-19, and those are significant. But they are concentrated to certain areas of our exposure. So it's constructive. But these double-digit numbers we've seen for some time, I think, unlikely to expect.

When it comes to mutual fund performance, my quick assessment is as follows. For 5 years, 3 years, they have underperformed broadly. So we have not had a performance on the 5-year history. And here, we look in simplistically in 5 different categories. So we have kind of active equity investments, alternatives, private equity, global funds, managed funds by others and quant.

And this is, of course, why the investments have been decided a couple of years ago that we need to invest. The last 12 months is the first light in the tunnel we've seen where 5 out of, I think, 7 numbers on performance are positive where we beat an index and not at least on the equity active equity fund.

But over the 3 and 5 years, that's weak. So you're correct in assuming that we are pointing out that it hasn't been that impressive. And I don't know if this is just a temporary light in the tunnel, but we are hopeful. And regardless, we will spend time on making sure that the right money managers are here, that they have all the things at their disposal. And also, as I said previously, in my prepared remarks, we'll review the funds that we manage so we can handle on (inaudible) We know how to do this well.

On flows, it's also very accurate in the questions. We have not seen any improvement in flows compared to the best. We've kind of been around the (0) market was weaker this year than 2 years ago. Last year was also a bit weak. And we saw a little bit of uptick late this year. So this is not – this is operational.

So I can't blame it on anything. This is doing the job right. So if we compare ourselves with the best in net sales. It's either doing the job as an incumbent in the best possible fashion. And that is not what we have done last year because there are others who have done it better or it's kind of going into the online brokerage online only.

So both of those, of course, is something very important to take with you. So we focus on those 2 things now in an increased fashion. To get the job done as an incumbent, be the right adviser on the telephone, in the branch network and on Internet banking and online and improve our mobile capacity to service our client base on investments. And hopefully, this will change the trend over the coming years.

Masih Yazdi: Can I just add something to your first question there. I mean this is probably the most frequent question we get, is corporate activity high or low? And then typically, people use loan growth or loan demand from corporates as one of the proxies, if not the only proxy to answer that question, whether corporate activity is high. And we had a slide on this presentation to address that question because it's a very mixed picture. Corporate activity is high except for loan demand.

And this is not necessarily a bad thing from the bank's perspective. If you look at our large corporate business, the loan part is the least profitable for us. It's the glue product. And right now we're in a situation when that the demand for that glue product is a bit lower. But then everything else, we see high activity for it. So just have that mixed picture in mind that it is generally high activity, just that product that is not where we see lower activity.

Operator: Our next question from the line of Rickard Strand from Nordea.

Rickard Strand: Two questions from my side. Regarding making the LC&FI business more capital-light, did you say if you had already looked into potential levers already now? Or are you about to do that? And when you expect to come back to the market about the potential levers there?

And then also on the time frame for the return targets for your divisions, do you say that – you say that they are long term and that you will evaluate them annually? But could you say something about when in time you find it reasonable that these targets will be met? Is that a couple of years ago? Or is it longer?

And then finally, also just on the composition of loan losses. You said that '21 is expected to be a transition towards normalized loan losses. But do you think the composition of the loan losses, loan loss provisions will be similar in '21 compared to how it looked like in 2020 with the big bulk coming in from the offshore segment?

Masih Yazdi: Yes. I'll start with LC&FI. I mean when it comes to the business plan for that division, nothing has really changed. We're just externally publishing the ambitions that we had. In general, if you look at that business of ours, the advisory part of that business is generally more labor intense, so it has a higher-cost income ratio.

And the lending part of that business is more capital intense, has a low-cost income ratio. So what we need to do in practice is similar to what we're trying to do in the last few years, we need to give more advice and have a better product penetration to the customers that we have. And that's in line with our business plan. It's something we've been working on for some time.

If you look at Q4, for example, example for LC&FI, still with elevated expected credit losses, they're at 11.8 percent on return on business equity. So not too far off. Obviously, we have to hold that level for a longer period of time to achieve the annual level of 13 percent. So it's basically saying that we are willing to invest in more labor in that division as long as it's capital-light and leads to increased profitability. And that's what we do. The energy initiative we have is very similar in that sense that it's advising our – those customers on different products.

In terms of long term, I think, in general, we mean 3 to 5 years. So that's the time frame we have in mind. And when it comes to the composition of loan losses, I think we have taken the bulk of the reserves we think will be necessary for the oil, mainly the offshore sector. So exactly what the composition will be going forward, difficult to say. But if you look at the model overlays we have now going into 2021, it's predominantly for the C&PC and the Baltic division.

So obviously, it gives you a signal that, that's what we expect or maybe think that there could be some loan losses coming through. It has a lot to do with the government support schemes you have in place and whether those are removed at some point and if that is too quick and if that leads to some issues emerging from companies that have been held by those schemes. So – but in general, I think the bulk of the offshore expected losses have been taken.

Operator: We're now taking our next question from the line of Jens Hallén from Carnegie.

Jens Hallén: It's more of a follow-up on the provisions question, actually. I'm just thinking aloud. So if the economy turns out as per your economic outlook, and you've now already taken sort of a 12-month view expected losses, you have your management overlays, what will drive the elevated part now in 2021? Is that purely anticipating negative credit migration? Or is it something else that I'm missing? That's my question.

Masih Yazdi: Yes. Well, it's difficult to know. I mean we model this bottom up. We look at all the different large exposures that we have. And we look at samples for the smaller exposure as well. And we have something called special credit management where we look at different companies that we believe have issues, that could face issues. But we also have something we call the unknown unknowns that where we don't know where things will go.

And I think the big unknown in '21 is the different support schemes and to what extent it will be extended and whether there is a risk that they will be withdrawn prematurely and if that make some issues that we haven't seen surface. So it's difficult to say. It's difficult to predict. But this is the best estimate we can have at this point in time that it's going to be a transitional year, and it's going to be better than 2020, but maybe not reach a normalized level yet because there are still uncertainties out there.

Jens Hallén: OK. OK. That makes sense. So it sounds like a conservative estimate because we don't quite know what's going to happen.

Johan Torgeby: Yes. I want to add that the whole 6.1 for this year is a conservative estimate as the actual bankruptcies and the actual losses in the economy are widely different from what we recorded as expected. And just to point out that the area where we have seen very little actual losses is in the broader economy and the mid-caps. And we know that the longer this second wave is affecting us, it's a fight against the clock for some of the well-capitalized companies who have survived very, very well during this period, but there is a limitation.

And the second wave shutdown was, of course, not welcomed by several medium-sized. So we need to have a little bit of cautiousness in mind that this credit default – sorry, the bankruptcy numbers that we have officially seen, they have been down year-on-year.

And it's not reasonable once the government supports are tailing off, one need to just acknowledge that there is a risk that some of these might run into trouble. But it's very – it's a conservative estimate rather than having tangible evidence that the bankruptcies are going up right here and now.

Operator: We're now taking our next question from the line of Robin Rane from Kepler.

Robin Rane: Yes. So to come back to the capital repatriation a bit. So you said you generate about 250 to 300 basis points of capital per year. And then if you pay out half of that, this – and this would imply that you have a quite high risk-weighted assets growth, unless you, more or less constantly, over time, will be at the upper end of the (250) to 300 management buffer. Any thoughts on that?

And secondly, just on the commission fee. So the commission expenses was quite low in relation to the commission income. Any mix effect or other that we should be aware in relation to this?

Johan Torgeby: Yes. Thank you for that. I mean you're right, if you look at the last 5 years or so, we've had – or before the dividend plan came into place, we've had a payout ratio of around 70 percent, 75 percent. So if we continue at the same growth rate in the future and have a dividend of 50 percent, it means that we continuously will improve the capital buffer and be above the 300 basis points if we don't conduct share repurchases.

So if that is the case, then share repurchases will be something we do every year. But with this, we also allow ourselves to see higher growth if we see higher demand. And if you look at historically, you can see that especially corporate lending is very lumpy. You have years where it grows 10 percent, 15 percent.

And then you have years where it doesn't grow that much at all. And now we're just allowing ourselves to be able to take our market share, even improve market shares in years when you see high demand from customers and we can be more supportive of them. So I think it just gives you more flexibility. But if things are as they have been historically, the same level of capital repatriation will go out just in a different form than historically.

On the commission line, it is a mix effect. If you look at the gross commissions and the net commissions, you can clearly see that when it comes to payments and cards, those commissions have a higher cost/income ratio than other commissions. And since card business have come down, the cost – the commission expenses have come down more than commission income. So it has to do with the mix effect of specialty card commissions coming down during 2020.

Operator: We'll take our next question from the line of Maria Semikhatova from Citibank.

Maria Semikhatova: I have a couple of questions. First, a follow-up. You mentioned that the bulk of offshore provisions have been taken in 2020, can you please remind us what's your gross exposure in offshore? What was the levels of NPLs and your coverage at the end of fourth quarter?

Second question on margin, specifically in large corporate divisions. You posted quite a strong increase in net interest income come over the quarter. I think it was up 6 percent, whereas loan book was down around 2 percent. Just maybe you can clarify if there were any one-offs in the fourth quarter. And just in general, how you see margin progression in this division.

And finally, on your divisional aspirations. Does your strategy foresee a reallocation of capital across your different segments?

Masih Yazdi: I'll take the first question. So we don't disclose exactly how much the offshore exposure is. That's within what we disclose as oil, mining and gas. I think in terms of coverage, what we can comment on, you can see that in the fact book. It's the coverage we have on Stage 3 loans.

It's in Q4, 48.4 percent. It's up from 48 percent in Q3, and it was 45 percent by the end of 2019. So it has increased during the year. And it's also encouraging to see in Q4 that the Stage 3 loans are coming down from 0.96 percent to 0.9 percent in Q4. But in terms of offshore, we don't comment on that subsegment.

Johan Torgeby: But we can say that the oil and gas and mining is SEK 49 billion, I think, of exposure as of year-end out of the corporate book of north around 1,000.

Masih Yazdi: What was the second question? Sorry.

Maria Semikhatova: Second on margins in LC&FI division. There was a big uplift in NII.

Masih Yazdi: Yes. No, there's underlying. There's no meaningful change in margins for the LC&FI division. So what we have seen is a marginally down trend of credit spreads, namely the price we charge our clients. But that has been more or less mirrored by a falling credit spread for SEB. There was, of course, an elevated level in Q2 where we did some of the loans that put on in the COVID panic a month, which had a very different price level than would be normal. So – but for now and going forward, it seems to be fairly stable.

Margins, when it comes to investment banking, the fees that we can charge on ECM and M&A, et cetera, also feels fairly stable going forward. So it's volume rather than margins that will explain how we do.

Johan Torgeby: And there was the third question. Sorry. Could we take the third one?

Maria Semikhatova: Yes. Yes, no problem. So just on the divisional targets, if you foresee any reallocation of capital across divisions.

Johan Torgeby: Yes. I mean it's not like we have a very one single-sided strategy of just allocating capital who has the highest return on equity. Because then we would just do some of it. We would become an asset manager. But it is definitely something that is taken into account when you set the capital allocation and when you devise the targets and the business plans.

There are also, of course, many other things that are even more important than return on equity and cost income for the divisions. It's just that we haven't – this is more of an attempt to explain 1 target, mainly the return on capital – return on equity. But we also have, for example, for LC&FI, it's more about sales actually than cost income and/or return on equity.

For LC&FI, it's about not allocating more capital in the plan low-yielding lending, but try to keep ourselves honest with that in order to do the more profitable or effective business. And that could be high-return on equity lending or capital-light where you don't need capital.

So – and in C&PC, it's not really that much of a capital issue. We have good return on equities. We need to aim to something that is fair for everybody. But it's really that the best-in-class, seems to have more scale and therefore, better cost income. And that is, of course, a key thing that we would like to address.

Maria Semikhatova: Understood. And just maybe a final clarification. So your target for the group of return on equity of 15 percent, that envisages a normalized capital level. So you are not staying about 300 basis point buffer.

Johan Torgeby: Yes. I mean that is a fair assumption that is on a normal circumstance with a normalized capital level. It's not aimed to say that it should be (at) 21 percent core equity Tier 1.

Operator: We're now taking our next question from the line of Jacob Kruse from Autonomous.

Johan Torgeby: Jacob, are you on mute? Jacob, we can't hear you, so either you're on mute or I'll ask the operator to move on.

Operator: We're now taking the next question from the line of Martin Leitgeb from Goldman Sachs.

Martin Leitgeb: Can you hear me?

Johan Torgeby: Yes.

Martin Leitgeb: Perfect. Just 2 questions from my side. And the first is really just a clarification and sorry again here for distributions for this year. And if I understood your comments correctly what the deal with the current situation. Is it your ambition to pay another dividend potentially later this year, if permitted, respective for periods FY '19 and '20? I think your comments are something around that buybacks might not be sufficient to deal with the current situation.

So is your ambition to potentially pay more if the current situation and economic outlook doesn't deteriorate from here. And could it be a scenario where such a payment, if it comes, put the payout ratio for '19/'20 closer to the 50 percent ambition you've outlined from here?

And the second question, I was just wondering if you could comment on the competitive landscape in Sweden, both mortgages and corporates. What you have seen over the last quarter? We had obviously pricing cuts in mortgages. What's your latest thinking there? And equally, how is the situation in corporate?

Johan Torgeby: Sure. I'm very happy all the questions on capital. So I'll start by saying, we are in an exceptional position with the 840 buffer. And what we are saying is that we will have a transition period over the coming year or years to get into a more normalized state, and we aim to be in the range 100 to 300.

So we got to get there somehow. What we have decided now is to propose what we can do in line with the recommendations, so that's 4 10. We have no ambition statement today or clarification to give what do we do after September assuming different scenarios, but we can reason around them.

So if there's no longer a dividend plan, I foresee that management will have to go back to the Board in Q4 and ask and tell them for how we should proceed from here. Then it's up to the Board to see if they want to recommend something there and then or if they want to recommend and communicate something for the upcoming AGM, which is then going to be only 3 months away to be called to.

The comment around how to make – you can think about it in 2 ways. What we have described today with a long-term financial target revisions are just that. It's the stable state. We have, in addition to that, a current situation where we need to adjust the capital given what happens with the economy, COVID-19, expected credit losses in the coming 12 months.

And here, I think it's unlikely that me and Masih as representatives of management will recommend that we do it through a buyback. We have a lack of dividends that we have not paid out. Hence, it's very natural to me that we don't use this new financial targets to make the adjustment in order to get there.

But there might be a combination, and we don't have any – these are just reasonings. We don't have any discussions in the Board right now. But we will wait and see until September what the landscape is like. But you should, of course, expect us to communicate when things clarify on how we plan to proceed.

Masih Yazdi: Yes. I can take the second question on competitive landscape. I think in general, it's very competitive. You have solvent banks. You have strong financial markets with low credit spreads. And in that kind of environment, you have a lot of competition. In the last couple of quarters, that competition has been coupled with the fact that banks, in general, have seen lower funding costs after seeing funding costs being elevated in Q1 and Q2.

So it hasn't led to margins coming down, but it probably has led to the actual lending rates to corporates and households coming down. So we just have to wait and see what happens in next year, whether this trend in lower funding costs will continue. And if it doesn't, whether this competition will lead to margins developing differently than they have recently. But in general, it's very competitive.

Martin Leitgeb: Anything particular on the corporate side in terms of competition there and that activity has been a bit more muted.

Johan Torgeby: I would say on the local domestic, small and medium-sized, there's higher competition. All banks locally have, as Masih pointed out, they're flushed with cash and it's a very high competition to get it. And it's not decreasing. If anything, I think increasing. On the large corporate side, I would say it's the opposite from the domestic demand.

There is, in my book, a slightly clearer accentuation in SEB to be very focused on large corporates and also servicing them internationally. And that means that we are, to a greater extent, now competing with international banks who have a similar strategy to us. They are, of course, very well positioned up in this part of the world and service them around the globe just like we do.

But just looking at the domestic situation, there's probably a little bit less appetite for business reasons, not because of financial strength. Every bank here seems to be in very good shape. And that's, of course, on the margin, a positive for us.

Operator: We're now taking our next question from the line of Jacob Kruse from Autonomous.

Jacob Kruse: I hope you can hear me this time.

Johan Torgeby: This time we can.

Jacob Kruse: Excellent. So I guess...

Johan Torgeby: Wasn't it the same thing last time, Jacob?

Jacob Kruse: Yes. My system kicks me out, and then I think I have 2 instances, one of them (inaudible) So yes. I – so just 2 quick ones. The first one was, you talked a bit about the you kind of wanting to fill the gap versus some of the more online retail brokerage type of platforms. Could you just say something about how – what your kind of revenue pool at the moment is or your own revenues from retail securities trading, the transaction-related income rather than the AUM-related income?

And then secondly, just given the discussion on dividends and the idea of this being sort of natural to pay further dividends to address the excess capital, could you have kept the 100 percent accrual that you did up until Q3 in your balance sheet? And why did you elect to write that back?

Johan Torgeby: Jacob, I'll start on the online savings and investment. First of all, we don't disclose that number, but I can just point to a quick comparison. You can look at some of the online brokers like Avanza Norne who has 1 million clients plus.

You see the whole income they have. We have, of course, not as much, but it's still not a large number. This is not necessarily an income from online brokerage commission that is the interesting bit. But in your question, you say, what's the divide between that commission from retail savings and investment versus the AUM? The AUMs is widely greater.

The problem with not having the capability is that people leave us, and we have had a very large outflow or at least clients of SEB have complemented us as their bank with someone who's more proficient in this area. And we would like to become a better service provider on this particular area.

It is very, very small in terms of income compared to the group or compared to what we generate within corporates and private individuals who we want to do it. And it is not a very complicated question. It's a complicated execution. But we just need to get all the functionalities we have available to you as an institutional investor or a private individual on the desktop, in the mobile channels because this is what has been lagging compared to the best in the business.

So that's the plan. But it's not like a direct income effect, which is meaningful. But the AUM over time and do it over 10 years, one should be very worried if you get marginalized here because this is one of the annuity streams and, of course, a great return on equity complement to corporate banking that we deem to be of a priority and strategic importance.

Masih Yazdi: Yes. On your second question there on decisions to accrue not to accrue. I think, I mean, we try to signal what we intend to do in terms of capital repatriation in the future by saying that we have a target range of 100 to 300, and we're currently at 840. So for us, that's enough signaling in terms of capital repatriation. In the sort of intermediate quarters in the year, you can accrue – we could have accrued in Q4.

But it's also important to have in mind what happens if you accrue in Q4, it means that you're going to have reported – you would report a lower CET1 ratio, which is an input used when the calibration of the resolution fund fee and deposit guarantee fees used. So the lower CET1 ratio you have at the year-end, the more you're going to pay those type of fees. And in our view, it's not worth the money. It's about – it's 10s of millions, if not 100 million in increased fees if you accrue at year-end more than you intend to pay.

Operator: There are no other questions from the line. Please continue.

Johan Torgeby: Then we conclude for today, and thank you very much for 1 hour 40 minutes, and wish you a good day and hope to see you – I hope to see the next time we have a quarterly conference. But for now, I hope it needs to be adequate. Thank you very much.

Operator: That concludes the call for today. Thank you for participating. You may all disconnect.

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