

**SKANDINAVISKA ENSKILDA BANKEN AB (PUBL)**

**Moderator: Johan Torgeby**  
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OPERATOR: This is Conference #: 5678797

Operator: Good day, and thank you for standing by. Welcome to SEB Sustainable Event. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) And I would now like to turn the conference over to our SEB A. Thank you. Please go ahead.

Johan Torgeby: Thank you, operator, and a warm welcome to everyone participating in the Q&A session for our Sustainability Day that has currently just been concluded. So if I just start with a few comments, and then we'll open up for any potential Q&A. The purpose behind today's 3-hour event is twofold.

One, we have seen an increase in questions and asking for clarifications on what is SEB doing, what have we been doing and where are we going? When it comes to the climate journey and our response to different type of megatrends that are clearly in focus these times.

The other purpose is that we constantly get asked, are we Paris aligned and these questions are quite difficult to have a concise answer to. We ask, not at least from the last Annual General Meeting in the bank was can we produce more transparent more accurate, readily available data that shares with the outside world our assessment of what do we lend to the carbon intense industry?

What do we do on the green financing side? And how do we view the transition – So this is a first attempt to do the best we can without any clear

guidance from regulators or consensus in the market, how to share these –  
how to share these activities.

We also want to produce an easy-to-consume trackable type of KPI, key performance indices, so we can from now on, share with everyone the progress we deem to be making, both in terms of reducing the carbon exposure that we have to clients as well as sharing the activity increase that we foresee in our current strategy and plan within sustainable finance.

I hope you enjoyed our 3 hours today. If not, you're more than welcome to say so, and I'll stop there and open up for Q&A. Operator, will you take the lead on the Q&A, please.

Operator: (Operator Instructions) And your first question come from the line of Magnus Andersson from ABG.

Magnus Andersson: Yes. Johan, just you were talking about this green super cycle in the beginning and also that you thought that the potential negative effects of phasing out some of the brand would be more than counteracted by the possibilities from the super cycle.

How should we look at this from a more tangible perspective in terms of margins, return on equity? And secondly, do you foresee any additional costs for you associated with this transition in the shorter term? Or is it more like high-level society is changing, and we are changing with the society?

Johan Torgeby: Thank you, Magnus. I hope you're well. We can start with looking at the brown Index, the carbon exposure index. And you can see there that we have an ambition to go down by 50 percent. The current exposure is SEK 108 billion, and we will have the reference point when we compare ourselves in 2019 of SEK 120 million.

Two points on this. If you were to assume an average income coming on a normal lending portfolio, you will get a very good estimate what type of income is related to SEK 120 billion of lending in the corporate space.

However, the majority of this reduction will not be done by us stopping any lending. It will be done by a utility going from 50 percent dependence on fossil to 0. That means the whole exposure to the brown will be reduced without any change in the lending or the income or the equity or return on equity implication for the bank.

It is, however, unrealistic to think we will get all this done just by supporting our clients, reducing the proportion of their exposure Brown. And hence, there will be a minor, but it's still the minor effect of some of these relationships that needs to be reconsidered in the next 10 years and also may be canceled, where we have not an aligned view on where we're going.

So what I'm saying is it's less than half of what you make today on that. If you then turn to the green, you can see the counter – the other side of this. And you can pretty quickly established that it is much larger than any potential headwind coming from this reduction. And I'll just give you, we have almost an equal amount of sustainability-related lending that's a SEK 104 billion versus the EUR 108 million where we stood in Q3 '21.

And there we say we would like to tenfold it during the same time period. Then you know the sustainable finance advisory. These are the bond deals where we underwrote SEK 70 billion as of Q3 2021, and we want to threefold that roughly margins are when we underwrite bond deals.

Green tech is not meaningful when it comes to the P&L impact. It's a very important step in supporting entrepreneurs. And then the – you know also what we make on average on asset under management in investment management. And here, we are 1.6 going to (8) fold that number. So I hope that's enough for you, Magnus.

I don't want to give you a more detailed number, but I think it's pretty easy to do the math there and see how – what we've been saying in the past, we are not worried about the financial impact of this shift.

It is so much more meaningful in the green super cycle. And here, you've seen our best estimate and target what we think we can achieve in these 4 business areas over the next 9 years when it comes to that. And it's not particularly

meaningful and it's over 10 years. And even if it's the full SEK 50 billion-ish of reduction in the brown, it's still a SEK 5 billion number over almost a decade and I think not very meaningful on a total lending book of 1,600.

Magnus Andersson: And on the cost side there, do you foresee any additional costs for you as a bank associated with this transition?

Johan Torgeby: There is no additional cost because we have presented this work. This work we have been doing in the bank for some time. We have just shared it with everyone in a new way.

Then, of course, in our future strategy and business plan there are clearly earmarked investments for capturing this green super cycle, developing the AUM offering et cetera. But there's nothing changing whatever kind of from yesterday in terms of estimates of what we think we will cost or not.

Operator: And your next question comes from the line of Andreas Hakansson from Danske Bank.

Andreas Hakansson: Johan, I was listening in a note for a number of reasons. So I might have missed the discussion on, but it's coming back to the same line of questions as Magnus said. On the margins, I met with another CEO of a bank today, and he said that he already sees that there's margin pressure on the green lending because there is competition heating up in that space, while we would see that in the brown lending side, margins are probably going up.

So when are you going to shrink your brown business, so to say, are you going to do that by raising prices in order to be less another attractive lender? Or where can we see margins moving on the 2 sides things?

Johan Torgeby: Yes. On the – on reducing the brown, I just – you might not have heard I repeat. I can't give you a number, but just as a number to reason around 80 percent of this reduction in brown will not be relevant for this discussion.

That's us supporting our clients to reduce their proportion of business exposed to carbon intense damaging activity. So it's not – there's no new loan. There's nothing canceled, there's nothing new done. It's just that the utility company,

as an example, reduce their dependence on fossil and increases the nonfossil part that helps the brown.

For it also to help the green, it's not good enough just to do nonfossil, it needs to be really a green type of financing. So the best of worlds will replace that with new financings, but we don't really take anything out.

But as I said, we can't only rely on that. We also have in this plan over the coming 3, 5, 7 years, there will be different points in time where we need to talk to our clients, very honestly, where we do not have the same view on what is desired or not. And when those – they might lead to that we exit a relationship, exit a project finance or something of that nature.

Now on average, the credit spreads or the margin that we charge in the energy sector, particularly the oil and gas, they are higher than average. It's typically a more inclination of hiring noninvestment grade and high yield compared to the rest.

However, if it's a noninvestment-grade company, who has a significant exposure to something brown that do a green no meaningful difference from your perspective. And typically, there's a couple of basis points of cheaper funding in the market right now. So there is a risk-adjusted margin, I don't think it's very different regardless.

If you look at the outright, yes, it becomes a little bit derisking because many of this particular sector, the generation and transmission of power a strong 1 in credit quality, refining, distribution, E&P, they have a larger proportion of companies that are weaker in credit.

Now – and then on the green, the more cyclical comment is that you – I would agree, there is margin pressure on everything that is sustainable. It doesn't matter where we are? It's 1 of the areas in finance. Everyone is very, very in pursuit of and I think we need to be very careful not to compromise asset quality, profitability because you are so keen to do more of green or sustainable.

I would also go as far to say, I think there is a risk we are starting to have a bit of an asset price bubble in certain areas of sustainability and green financial products.

Andreas Hakansson: Yes. No, exactly. It was my word that people are so keen on getting the volumes in that they are willing to compete on price, but it sounds like that's the strategy that you're going to be pursuing, right?

Johan Torgeby: No, absolutely not. And I also want to point out just the magnitude of what we're talking about. The brown portfolio is around 4 percent, a bit more than 4 percent of our loan book. The green lending is about the same, slightly less. So we are talking about 90 percent in the middle, which is, of course, these are fairly small numbers when you think about the average margin on the balance sheet being deployed for corporates.

Operator: And your next question comes from the line of Nicolas McBeath from DNB.

Nicolas McBeath: So a question on your priorities here. So in the cases where there is a conflict between sustainability and shareholder value. Could you elaborate how you will prioritize in these situations? And yes, I mean, are you looking to sometimes forgo returns and shareholder value to benefit the transition and the sustainability progress of the bank?

Johan Torgeby: Thank you, Nicolas. I mean short-term income, you can certainly forgo, but you cannot – you need to prioritize shareholder value. So I'll say it that I would like to worry. The transition is a very important sustainability super mega trend that we want to take part in.

There is another more basic sustainability question, and that is that we are a bank and this bank needs to be around tomorrow to even have the prerequisite to be able to partake in any transition. That comes first because if we don't have our house in order and that goes to risk capital and profitability. We don't have the opportunity to talk about these things.

So in the greater scheme of things, we cannot and we are not here to transform the world to the detriment of the bank. But we do have a lot of freedom degrees within the framework around what risk do we take and what short-

term income do we pursue. So within that framework, certainly, we can accelerate these things from time to – from time to time.

Nicolas McBeath: OK. And then a second question. So how do you make sure that the targets you set out do not simply become an exercise of just classifying projects and collateral to your credit portfolio to make them not being brown or being green.

So yes, I mean, I guess there could be a risk that if it becomes a matter of classifying certain things in a certain way that doesn't necessarily contribute to genuine intrinsic changes in the corporate customers, operations and climate footprint. So how do you think about that?

Johan Torgeby: Let's see if I understood your question. When it comes to classifying the Brown, our methodology is pretty simple. If it is a fossil type of exercise, it's classified. So we do not enjoy the luxury for someone who would replace a coal-fired plant with the gas wired, it will still be in there. You need to go away from what we call the carbon exposure to be excluded. And that has no other bearing on anything else. That's simply that.

On the green, it's a matter of definition for sustainability-related lending. So that's, of course, typically the green loans, but we are expanding this area as we speak. And as I've shared with you guys before, it's growing very, very rapidly. We are looking at 2021 with 100 percent growth in sustainability-linked lending in the world. Right now, we have a green bond outstanding.

So there's no kind of an easy way to just fuel the system. We need to comply with what we have publicly stated is part of the framework. This might change over time. We might do another bond deal in the sustainability area. And this is, of course, key performance indices. So we will be very transparent when we change definitions, if that would be the case.

When it comes to classifying the companies, that is very much – that's much less of a KPI in the sense we can spear with it. It's more that we need to also make sure that we classify companies forward looking, not only what they have today. And this is the method we haven't published today.

We just published the methodology, what we call this the climate classification matrix that very color for little metric. And we soon we have way down and during '22, we'll do that. And to me, that's – I don't see how I can answer your question better. Did I miss your point?

Nicolas McBeath: No, that's fair. I just thinking like if we look on the sustainability-related lending, you currently have around SEK 100 billion you mentioned. But do you think that you could expand that volume significantly, just looking at how the lending portfolio is today just by reclassifying other parts of the lending portfolio as being green, so to speak, or yes?

Johan Torgeby: No, not at all. I think it's virtually impossible to do that trick. That's the trick that has been done in IM. You can, in IM, have a portfolio that you can tweak it and you can use the same for a loan that's not possible. So for a loan, we need to do a new one with a new set of terms and conditions that stipulates all the required things. But it's not like within IM, we own the product, so to speak.

So we dictate what it invests in and we can change that. But alone is a bilateral legal contract, you need to do a new one with new terms and conditions that governs the use of proceeds differently.

So it's not a matter of moving from one bucket to the other. And I can tell you, an Article 9 fund is also not something you can easily just pick one fund you have and rebrand it as non-compliant with Article 9. So these are new kind of investment that needs to be available to our clients.

Operator: And your next question comes from the line of Sofie Peterzens from JPMorgan.

Sofie Peterzens: Here is Sofie from JPMorgan. In your initial government, your Chairman talked about the sustainable innovations make it or are made possible through digital transformation. I was just wondering if you could elaborate what he really meant like are you (inaudible) you have any products where you've got a far tracking your clients?

How much kind of CO2 remission they have? Or do you have any kind of innovative products that are really kind of differentiate from other banks when it comes to sustainability?

Kind of SP06 I understand the classification of the product or the clients that you have but I'm more interested in understanding if you have, for example, that e-truck, how much they CO2 emissions your clients that use on a daily basis or if there are any other products like that, that you have?

Johan Torgeby: Yes. It's a good question, a bit hard for me to answer because there are 3 sources of information that we can take on to make a classification. And to me, this is very much similar in the future to equity analysis or credit analysis. We do sustainability analysis.

And 1 is, of course, not to be – to be underplayed information from the client. They have all the information and the data gathering is twofold. We are, of course, very close because this is like the 80-20 rule. It's 20 percent of our clients stands for the majority of the exposure. So it's not the whole world for us to talk to a few tens or hundreds of large corporates in the energy sector that particularly are exposed to this debate.

However, we also need external information partly to validate and there is now multiple interesting opportunities out there to get sustainability data. I think we have teamed up with a couple. We can buy them in the future. We're developing some. I think we even invested in some of these companies that do these classifications almost like you get a second pair of data set and a different cut on this.

Then when it comes to the mid – sorry, the small and mid-cap space. We have not come that far. It's not that important for this discussion but for the next one, we need definitely quantitative models. And a small company with 10 employees, they don't have a sustainability officer or we had no chance to comply with the type of information requests that is required from a large company for us to satisfy.

So this is – I know that there's a lot of things happening here. But I don't – and I don't know if this is what the Chairman meant because you have that in the question. Did this answer your question?

Sofie Peterzens: Well, fortunately, I was kind of just more maybe wondering what the kind of fast between sustainability and digital transformation. I know some of the other banks that I cover, for example, they are tracking every client, how much CO2 they use kind of based on their credit card spending. So I was just wondering if you have any initiatives like that or anything out of following the product or services side that would be kind of quite innovative and differentiating SEB from other banks?

Johan Torgeby: No, I wouldn't say we have. On the tracking of CO2, that's actually what we do in the classification model. So this is more of an in-depth analysis of assessing the CO2 footprint of a client, which becomes our type of scope. What you are talking about now, I've heard a lot about. I know there's a lot of things happen.

And for me, that's in the mass market, where you keep proxies like credit card spend or number of sales items or other KPIs to do proxies of what that could mean in terms of negative effect on the climate. But we have no digital initiatives that are cutting edge or something that is there. We are looking for other providers to help us on that front.

Operator: And your next question comes from the line of Riccardo Rovere from Mediobanca.

Riccardo Rovere: And I apologize if this question has already been asked was kicked out a couple of times in this call. When it comes to volumes, when you say to 6x to 8x, eightfold ambition to increase the average activity. What part of that is cannibalization or let's say, business that you would have done in any case, but 1 different, how can I say, umbrella. So because these 8– 6x to 8x eightfold cannot be brand new business, right? This is the first question.

And the second question I had, given that there is no common taxonomy, I don't know how to call it. Could it be the case when that if you decide to disengage from some kind of operations, someone else will takes business, not

because they are doing things in a bad way, but just because they're following rooms that are not common to anyone?

Johan Torgeby: OK. I think when you look at sustainability-related lending, and when you look at sustainability-related capital markets transaction, in the short run, there's quite a large degree of cannibalization. A company that comes to us today. and said I would like to borrow EUR 1 billion.

They can choose to say just normal, please or they can choose to say, "I'd like to do it in a sustainability-linked format. It does not mean that you can add them up. They will not do EUR 2 billion. And therefore, you can, in the short run, see quite a large portion of this is instead of general corporate purposes. I have a very clear purpose with the use of proceeds into some type of positive impact ambition.

In the long run, we are talking about a huge net increase of some type of investments to read the infrastructure and the capital formation of companies to redo everything in a better way. So there is definitely a net positive, and I don't have a better answer because I don't know what the net versus the gross will be.

But you're absolutely right to point out that when we say that we hope to have, call it, (SEK 1,000 billion) or so in 10 years. That's not just to be added. Much of this will be a transformation from general corporate purposes or brown into a purposeful led use of proceeds for the corporates.

The last question you have to repeat.

Riccardo Rovere: Yes. Given that there is no – and you pointed out that the rules here are basically do not exist, OK? And you are building an example, you are building your internal way you've seen sustainable lending and so on. Some other competitors may.

Let's say, that you refuse some business, you disengage from some of your clients. Some of the banks, just because they have a different way of seeing what is sustainable and what is not sustainable might bring this business on board.

So I was just wondering, is that – is there a risk that you see that just because you don't have a common rule, everyone at the end of the day can decide what is green and what is not green? And if you are particularly strict, you may lose business opportunities that some other may eventually grab?

Johan Torgeby: It's a very good, I guess, observation with the question. In lacking a common framework, there is no clear answer to your question today, what is green, what is brown, what's desirable not. I would say it's not a risk. It's a fact that every institution right now has to define for itself, where they want to be and where they don't want to be. The natural consequence of what I just said is that comparability is lousy, is very difficult if you take this thing and you try to outside and try to deploy these in someone else.

And you're correct. This is our best honest attempt to say to you guys, this is how we think about it. We think we have these 4 particularly important business lines for the green, and we think we should follow a very stringent path defined by others when it comes to helping our clients to reduce their exposure to the brown.

There is definitely going to be a, call it, opportunity shift depending on where you choose. So I'm pretty – I'll just take 1 example, I'm just making this up now as I'm thinking about it, gas. Gas is highly debated in the current taxonomy. We don't know where we will end up.

Some people argue very forcefully and very elegantly that gas must be allowed as a transition type of vehicle for countries to support their energy transition. Others say, yes, but you should get no benefits from that until you go to full links and replace it with nonfossil or even better something renewable. And of course, there will be very different bank strategies, how one want to play there.

Just because we have in this presentation today, chosen they call it hardest stance that it doesn't matter if you replace coal with gas. We still won't get it out of the brown doesn't mean that we won't be able to, in some shape or form, support it because it might be desirable to close those.

And maybe you listen today to the panel debate between myself and Marcus Wallenberg, where I think he described that journey that they are at Fontem now trying to close down was it 2 or 3 coal plants much more accelerated than previously, but you can't do it unless you get some type of gas solution for now because nuclear is not an option, and I think this was in Germany. So that would, of course, be an opportunity.

And also thinking about the globe, this is very Nordic, very European. There's very little America. We know the energy sources in the U.S. and Southeast Asia and China, it's very, very different. And banks that are exposed there, I think, needs to have a different set of goals on how they want to how they want to conduct themselves. But we are fairly small and narrow here in the Northern Europe. So this kind of fits all the business that we currently do.

Operator: And your next question comes from the line of Namita Samtani from Barclays.

Namita Samtani: I've got 2 questions. Firstly, are these sustainability targets in terms of getting rid of the ground, increasing the green included in your other key management and business heads KPIs?

And secondly, you said earlier, it's not that easy to label a fund Article 9. So could you elaborate a bit more why that's why it's not really that easy?

Johan Torgeby: Sure. On the sustainability targets, we have a page in the annual report of the existing ones. And yes, they are aligned with the KPIs for myself, et cetera, and the management and then cascaded down. The ones we've presented here will become – this is going to start by year-end. So we have just launched the concept and shared with you where we stand, and these will be now added.

With the Article 9, I have a colleague here. I don't know if Javier could help me out here. But I'll – I have my first assessment. Article 9 is to qualify for that, it's a more limited number of investment that can be considered. It needs to be for the purpose of sustainable investment. Articulate, the less stringent categorization is more allowing pursuing something that might be less bad.

And of course, in SEB, we are closing in on 90 percent of our total AUM classified according to some, ESG criteria. But the Article 9 is a more tough area. Hence, it limits you much more as you cannot – there's many things that will be excluded from that.

And I'll have Caver have from Investment Management to our CEO. And I'll just ask her if he wants to add something to that.

Male: No. I think you explained it very, very well, Johan. Maybe just to add that we do have an ambition increase the amount of every year. We have 2 to 3 this year. And the ambition is to keep that base even for the coming years.

Johan Torgeby: So more client inflow and more products is the simple strategy to increase Article 9 funds.

Operator: There are no question at this time. Please continue.

Johan Torgeby: Well, thank you, everyone, for participating on this call, and I hope to see you soon. Have a good evening.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

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