

## Research

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# Skandinaviska Enskilda Banken AB (publ)

**Primary Credit Analyst:**

Pierre-Brice Helsing, Stockholm + 46 84 40 5906; Pierre-Brice.Helsing@spglobal.com

**Secondary Contact:**

Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@spglobal.com

**Research Contributor:**

Sophie Nehrer, Frankfurt; sophie.nehrer@spglobal.com

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# Skandinaviska Enskilda Banken AB (publ)

<b>SACP</b>	<b>a</b>		+	<b>Support</b>	<b>+1</b>	+	<b>Additional Factors</b>	<b>0</b>
<b>Anchor</b>	<b>a-</b>			<b>ALAC Support</b>	<b>+1</b>		<b>Issuer Credit Rating</b>	
<b>Business Position</b>	Adequate	<b>0</b>		<b>GRE Support</b>	<b>0</b>		<b>A+ / Stable / A-1</b>	
<b>Capital and Earnings</b>	Strong	<b>+1</b>		<b>Group Support</b>	<b>0</b>		<b>Resolution Counterparty Rating</b>	
<b>Risk Position</b>	Adequate	<b>0</b>		<b>Sovereign Support</b>	<b>0</b>		<b>AA- / -- / A-1+</b>	
<b>Funding</b>	Average	<b>0</b>						
<b>Liquidity</b>	Adequate							

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• Leading merchant bank franchise.</li> <li>• Strong risk-adjusted capitalization underpinned by resilient earnings and asset quality in a European context.</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure on revenue and asset quality stemming from the COVID-19 pandemic.</li> <li>• Concentration of relatively large single-name exposures.</li> <li>• Predominance of wholesale funding and corporate deposits in the funding profile.</li> </ul>

**Outlook: Stable**

The stable outlook reflects our expectation that Skandinaviska Enskilda Banken (AB) (SEB) will be able to comply with the requirements set by the FSAs to further improve its anti-money-laundering (AML) framework.

Furthermore, we expect the bank to maintain robust capitalization over the next 24 months, despite intensifying pressure on earnings and asset quality stemming from COVID-19. We expect that its asset quality will remain broadly in line with that of domestic peers. We also anticipate that SEB will continue building a considerable ALAC buffer in the coming years as it fulfils its minimum requirement for own funds and eligible liabilities, and that the ALAC buffer will durably exceed 5% of our risk-weighted assets metric by year-end 2021.

**Downside scenario**

We could downgrade SEB if its asset quality deteriorated beyond our expectations. In addition, we could lower the rating if we expected the bank's risk-adjusted capital (RAC) to fall durably below 10% because of profitability pressure, loan growth, and excessive dividends. Furthermore, we could downgrade SEB if future regulatory reviews highlighted serious control and governance weaknesses, or if the bank failed to comply with Swedish and Baltic FSA requirements to further improve its AML framework.

**Upside scenario**

We view the possibility of an upgrade over the next two years as remote, considering the uncertainties surrounding the pandemic's ultimate impact on the bank's business, asset quality, and capitalization and the work needed to complete remediation of the bank's AML framework further.

**Rationale**

SEB's long-term 'A+' rating is underpinned by the stable and low-risk operating environment in Sweden, where SEB mainly operates, as well as the bank's stable and well-diversified revenue base and leading position among large Nordic corporates. The rating rests on our expectation that SEB will maintain a robust capitalization and resilient earnings while ramping up its loss-absorbing capacity through 2022, despite mounting pressure on its revenues and asset quality as a result of the COVID-19 pandemic and subdued oil prices.

The rating also incorporates our view that SEB's identified AML deficiencies--while clearly a negative development--are in many ways less severe than those that regulators identified at, for instance, Danske Bank and Swedbank, and we believe SEB is well-positioned to remedy these gaps in the short-term.

We expect that SEB's funding and liquidity will remain neutral to its ratings, given our view that the bank will continue to have untarnished access to broad capital markets.

**Anchor:'a-' for Swedish banks**

The starting point of our rating on SEB is the 'a-' anchor stemming from the economic and industry risk scores in our Banking Industry Country Risk Assessment. For SEB, we use the anchor for banks operating only in Sweden, based on an economic risk score of '2' and an industry risk score of '3'. Since approximately 90% of SEB's lending exposure is to countries with relatively strong economic environments, namely Germany, the Nordic countries, and the U.K., and only around 8% to higher-risk countries in the Baltics, the blended economic risk score does not affect our anchor for

SEB.

Our assessment of low economic risk in Sweden balances the anticipated recession in the wake of the COVID-19 pandemic and elevated private-sector debt (vis-à-vis international peers) with our view of the Swedish economy as highly diverse and competitive, with demonstrated monetary and fiscal flexibility, and a historical focus on prudent management of public finances. We currently forecast Swedish GDP to contract by 5.8% in 2020, before bouncing back to 4.0% growth in 2021.

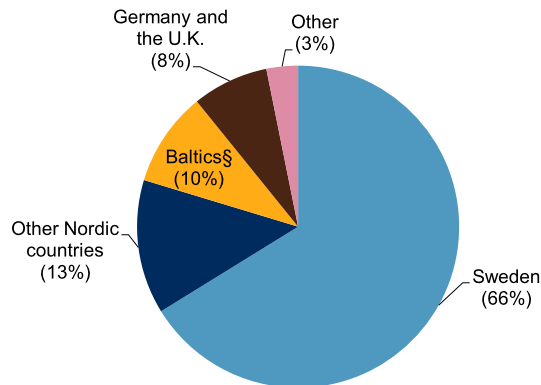
We expect the recession to negatively affect household consumption, investments, and exports leading to increased unemployment in 2020. We expect the domestic small and midsize enterprises sector will face challenges, given the country's small and open economy. That said, the wide-ranging fiscal, monetary, and regulatory support measures will, in our view, partially mitigate this sharp shock to the Swedish economy, and so support the stability of the Swedish banking system. Although we do not rule out a moderate price correction in the residential housing markets and commercial property in real terms, we believe the impact on banks to be manageable, given the cushion from household wealth and widespread social welfare schemes. In the corporate sector, we believe overall balance sheet strength among corporates will also mitigate the risks to the Swedish banking system.

Our assessment of industry risks for Swedish banks incorporates our view of a proactive banking regulation, a stable competitive environment with strong profitability, and robust capitalization of the banking sector. While we expect declines in profitability and capital ratios as a result of the economic stresses this year, we note the Swedish banking sector is operating from a position of strength in terms of profitability, asset quality, and capital levels vis-à-vis the European average. High levels of digitalization help Swedish banks operate at higher cost-efficiency compared with European peers. Banks in Sweden have long been on the leading edge of digital transformation including offering mobile payment, investment solutions, and, more recently, mortgages. Customer interactions are today mainly digital and we expect COVID-19 to accelerate this trend.

Sweden's banks continue to rely on foreign wholesale funding to a large extent relative to customer deposits, which remains in our view a key risk factor. That said, Sweden's deep debt capital markets and the government's willingness to ensure liquidity and a well-functioning domestic covered bond market mitigate this risk, in our view.

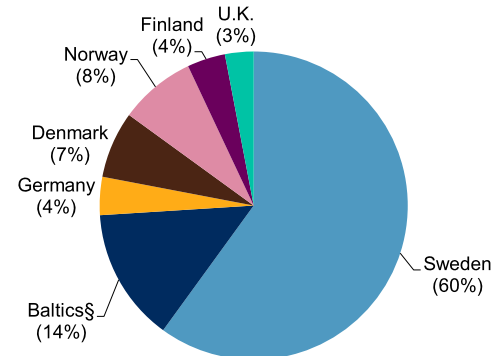
Our assessment for both economic and industry risk trends for the Swedish banking sector remains stable.

**Chart 1**  
**SEB's Lending Book, Geographical Breakdown\***



\*As of June 30, 2020. §Covers SEB's lending in Estonia, Latvia, and Lithuania.  
Source: SEB financial reporting.  
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**Chart 2**  
**SEB's Operating Profit Breakdown By Country\***



\*As of Dec. 31, 2019. §Covers SEB's lending in Estonia, Latvia, and Lithuania.  
Share of operating profit excludes items affecting comparability, as well as the international network and eliminations. Source: SEB financial reporting.  
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**Table 1**

Skandinaviska Enskilda Banken AB (publ)--Key Figures					
--Year ended December 31--					
(Mil. SEK)	2020*	2019	2018	2017	2016
Adjusted assets	2,909,284.0	2,531,686.0	2,289,746.0	2,060,169.0	2,199,086.0
Customer loans (gross)	1,623,392.0	1,614,765.0	1,496,109.0	1,433,111.0	1,367,806.0
Adjusted common equity	144,405.0	124,328.0	119,614.0	110,766.0	105,476.0
Operating revenues	24,089.0	50,134.0	45,867.0	45,610.0	43,251.0
Noninterest expenses	12,358.0	22,944.0	21,459.0	21,938.0	21,812.0
Core earnings	5,855.2	20,178.6	19,778.4	17,886.3	14,645.4

\*Data as of June 30. SEK--Swedish krona.

**Business position: A universal bank with a leading Nordic commercial banking franchise**

We expect SEB to preserve its sound Nordic franchise, supporting stable revenues across a broad range of business lines. With assets totaling Swedish krona (SEK) 3.2 trillion (approximately €312 billion) as of June 30, 2020, SEB has a long commercial banking tradition. The bank's leading position among large Nordic corporates generally enables it to generate steady profits from a variety of services.

The diversity of SEB's revenues is further supported by a broad retail strategy, mainly in Sweden and the Baltics. In the first half of 2020, SEB derived around 37% of its revenues from fee and commission income, a greater share than its Nordic peers, due to its significant private banking and asset management businesses (SEB had SEK1.909 trillion of assets under management in June 2020). That said, we consider SEB's business and geographic reach to be less diverse than some of its international peers, and this constrains our assessment of its business position.

SEB's management has maintained a stable business strategy focusing on a steady return on equity, which, over the longer term, is aspired to equate to 15% (8.6% in first half of 2020). The bank's business plan for 2019-2021 focuses on

operational efficiency while strengthening its advisory offering and digital integration with surrounding ecosystems. Increased scale and efficiency improvements led to a reported cost-to-income ratio of 47% in the first half of 2020, which is comparable with SEB's Nordic peers and well ahead of most European banks.

SEB's focus on its core operations has served the bank well, leading to asset-quality improvements and efficient operations.

Pursuing digital transformation is at the core of the bank's business strategy, focusing on areas such as increasing end-to-end automation (with today about 95% of transactions automated) or building on data analytics and AI to improve, for instance, advisory services, market analysis, and risk management. Besides its own innovation lab, SEBx, the bank is leveraging on a range of partnerships to improve its technological positioning, from fintech players (such as the aggregator, Tink) to cross-industry collaboration Combient Group (network of 30-largest Nordic corporates).

SEB's founding family, the Wallenbergs, has been a major shareholder since 1856. Investor AB--which today owns a 20.8% stake in SEB and is the bank's largest shareholder--provides ongoing stability.

**Table 2**

Skandinaviska Enskilda Banken AB (publ)--Business Position					
	--Year ended December 31--				
(%)	2020*	2019	2018	2017	2016
Loan market share in country of domicile	N/A	14.4	14.1	14.2	14.4
Deposit market share in country of domicile	N/A	16.3	16.0	15.6	15.7
Total revenues from business line (currency in millions)	24,090.0	50,134.0	50,391.0	45,610.0	43,771.0
Commercial banking/total revenues from business line	44.3	41.1	36.4	40.2	43.4
Retail banking/total revenues from business line	46.0	43.8	39.6	42.9	41.9
Commercial & retail banking/total revenues from business line	90.3	84.9	76.0	83.1	85.3
Insurance activities/total revenues from business line	5.4	6.6	7.1	N/A	13.1
Asset management/total revenues from business line	4.6	8.3	8.0	13.4	N/A
Other revenues/total revenues from business line	(0.3)	0.2	9.0	3.5	1.6
Return on average common equity	7.4	13.3	15.8	11.4	7.5

\*Data as of June 30. N/A--Not applicable.

### Capital and earnings: Resilient capitalization despite earnings pressure from COVID-19

We expect SEB's capital and earnings to remain a key rating strength, despite income pressure linked to the COVID-19 pandemic and materially higher credit losses through 2021. This reflects our expectation that the bank's RAC ratio will remain stable at about 10.0%-10.3% over the next 18-24 months from the 10.2% it registered at year-end 2019.

Our forecast assumptions for 2020-2021 include the following:

- Revenues around 6% lower in 2020, followed by a rebound in 2021;
- Pre-provision operating income of SEK24 billion-SEK26 billion in 2020-2021, from about SEK27 billion in 2019;
- Increased but still moderate credit losses at 36 basis points (bps) in 2020, close to S&P Global Ratings' estimate of normalized losses on SEB over the cycle, followed by 18bps in 2021; Growth of S&P Global Ratings' risk-weighted assets of about 5% in 2020, driven by increased corporate credit demand, followed by 3% in 2021;

- After its board proposed no dividend payment on 2019 earnings, we expect the bank to resume distribution later this year, in line with its policy to pay out at least 40% of net profits.

Due to its merchant banking focus, we anticipate that SEB will support the real economy through increased corporate lending, which is likely to mitigate more muted demand from the household sector. Combined with our expectation of some margin widening on corporate loans, we believe this will counter pressure on net interest income through 2020-2021.

However, we factor that negative value adjustments will maintain the bank's net financial income lower than in 2019, and foresee increased pressure on net fee and commission income, such as from lower card activity levels in the wake of the COVID-19 pandemic or lower non-performance-related fee income from custody and mutual funds as a result of the equity market contractions registered in the first half of 2020. That said, we expect the bank to maintain its high cost discipline, and that non-interest expenses will increase only marginally in 2020, still very close to the 2018 cost cap of SEK23 billion.

We expect that the RAC ratio will be further supported by SEB's commitment to maintaining a buffer above the Swedish regulatory capital requirement of around 150bps of common equity tier 1 (CET1) capital. At the end of June 2020, the excess CET1 capital was about 410bps over the regulatory capital requirement of 13.7%, factoring a reduction of the Swedish countercyclical buffer to 0% from 2.5% in March 2020.

**Table 3**

Skandinaviska Enskilda Banken AB (publ)--Capital And Earnings					
	--Year ended December 31--				
(%)	2020*	2019	2018	2017	2016
Tier 1 capital ratio	19.7	20.8	19.7	21.6	21.2
S&P Global Ratings' RAC ratio before diversification	N/A	10.2	10.6	10.3	9.9
S&P Global Ratings' RAC ratio after diversification	N/A	9.8	10.4	10.2	9.6
Adjusted common equity/total adjusted capital	91.2	89.9	88.7	88.8	87.7
Double leverage	N/A	42.7	45.8	48.3	49.9
Net interest income/operating revenues	50.8	45.8	45.8	43.6	43.3
Fee income/operating revenues	37.3	37.3	40.0	38.9	38.4
Market-sensitive income/operating revenues	10.9	14.1	10.6	11.3	11.9
Noninterest expenses/operating revenues	51.3	45.8	46.8	48.1	50.4
Provision operating income/average assets	0.8	1.0	1.0	0.9	0.8
Core earnings/average managed assets	0.4	0.7	0.8	0.7	0.6

\*Data as of June 30. N/A--Not applicable.

**Table 4**

Skandinaviska Enskilda Banken AB (publ)--Risk-Adjusted Capital Framework Data					
(Mil. SEK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government & central banks	378,533.1	21,555.1	5.7	7,892.1	2.1

Table 4

Skandinaviska Enskilda Banken AB (publ)--Risk-Adjusted Capital Framework Data (cont.)					
Of which regional governments and local authorities	45,137.9	10,302.5	22.8	1,870.5	4.1
Institutions and CCPs	237,110.0	54,058.7	22.8	57,607.4	24.3
Corporate	1,057,506.7	363,730.3	34.4	775,274.7	73.3
Retail	727,231.8	86,638.8	11.9	237,739.7	32.7
Of which mortgage	619,710.3	43,581.5	7.0	160,800.0	25.9
Securitization§	11,468.5	1,062.2	9.3	2,814.1	24.5
Other assets†	11,980.3	11,515.6	96.1	13,408.2	111.9
Total credit risk	2,423,830.4	538,560.7	22.2	1,094,736.3	45.2
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	7,087.2	--	34,940.9	--
<b>Market risk</b>					
Equity in the banking book	6,201.2	6,201.2	100.0	49,189.6	793.2
Trading book market risk	--	49,512.5	--	89,446.7	--
Total market risk	--	55,713.7	--	138,636.3	--
<b>Operational risk</b>					
Total operational risk	--	47,813.0	--	111,215.4	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings RWA</b>	<b>% of S&amp;P Global Ratings RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	765,508.0	--	1,379,528.9	100.0
Total diversification/ Concentration adjustments	--	--	--	58,278.0	4.2
RWA after diversification	--	765,508.0	--	1,437,806.9	104.2
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings' RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		142,146.0	18.6	136,435.9	9.9
Capital ratio after adjustments‡		142,146.0	18.6	136,435.9	9.5

\*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK -- Sweden Krona. Sources: Company data as of June. 30 2019, S&P Global Ratings.

### Risk position: Expected impairment increase as a result of COVID-19 and intense work to remediate AML shortcomings

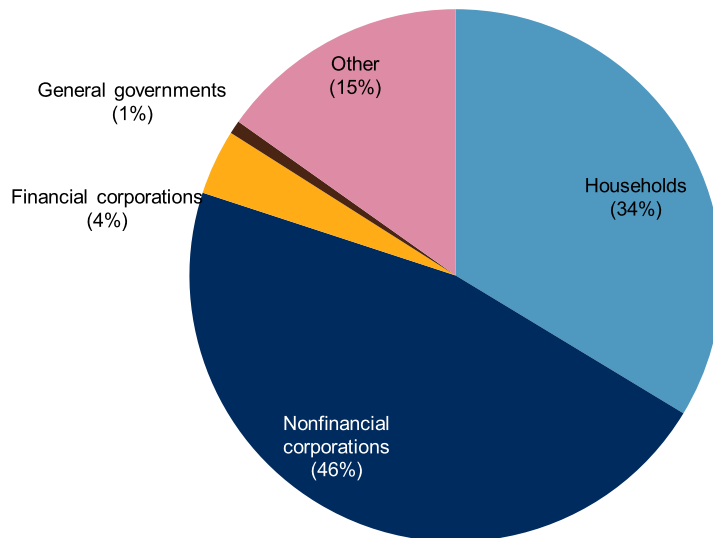
We expect that SEB's capitalization and risk profile—considered together--will remain a rating strength. The bank will not avoid pressure on its asset quality in the current environment, and the economic impact could be worse than we anticipate depending on the depth and length of the COVID-19-induced recession. Still, under our base-case scenario, we expect that, like its Swedish peers, SEB's asset quality stress will be less acute than in many other European markets and that the bank is well-placed to absorb a stress scenario. Furthermore, we consider the bank well-positioned to remediate the AML deficiencies identified by the Swedish and Baltic regulators in the short-term.



Despite SEB's merchant banking profile—with corporate lending including property management representing about 57% of the lending portfolio as of first-half 2020—we expect in our base case that the bank's focus on long-standing relationships with large, credit worthy, and often globally active Nordic corporations will provide resilience against the economic consequences of the COVID-19 pandemic.

**Chart 3**

**SEB's Loan Book Composition As Of 30 June 2020**



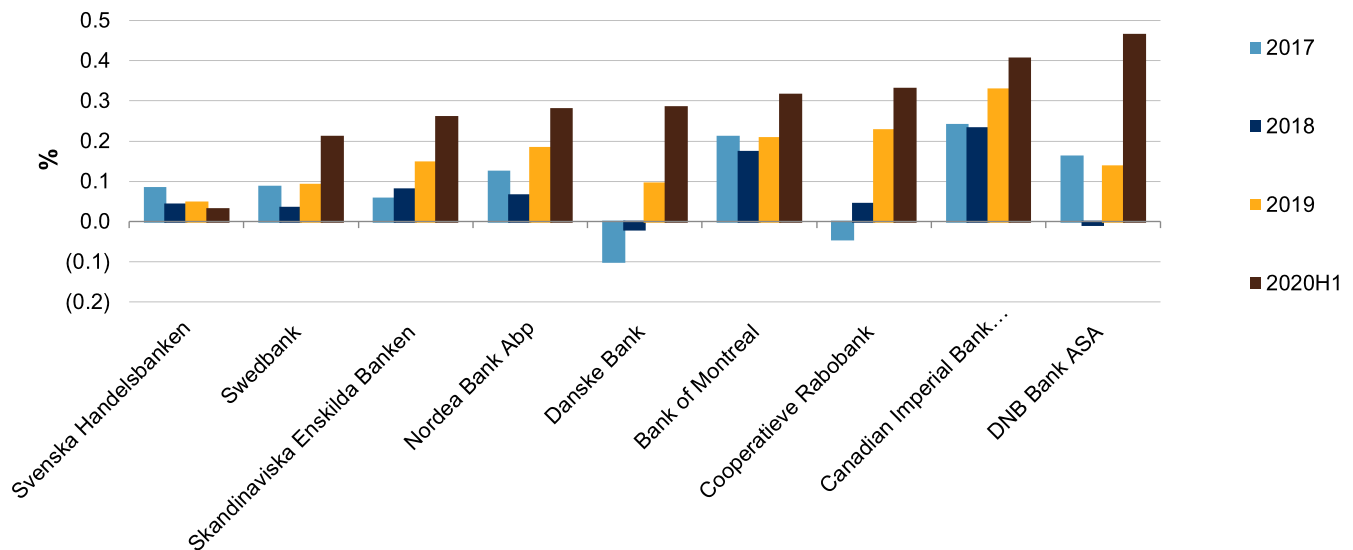
Source: SEB financial reporting.

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Still, we expect broad and sustained economic pressure on SEB's books, in particular in sectors such as oil, gas, and mining (about 2% of lending) or services to households and corporates (11% of lending). In our base case, we expect the bank's new loan loss provisions to reach about SEK6 billion or 36bps of loans in 2020. Although elevated against the 9bps average registered in 2016-2019, this level is within the average of the bank's peer group, similarly to the provisions already posted in the first half of 2020.

Chart 4

## New Loan Loss Provisions/Average Customer Loans



Note: 2020H1 data not annualized. H--Half.

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On June 25, 2020, the Swedish FSA issued findings and a SEK1 billion sanction on SEB following its review of the bank's AML controls, particularly with regards to its Baltic businesses. The regulatory findings highlighted historical deficiencies in SEB's AML framework that the bank aims to resolve in the short-term. While clearly a negative development, in our view, the findings are in many ways less severe than those identified at, for example, Danske Bank and Swedbank, and we see SEB as well-positioned to remedy these gaps (For more information, see "Sweden-Based SEB Affirmed At 'A+/A-1' Despite Regulatory Criticism Of Anti-Money-Laundering Governance; Outlook Stable", July 3, 2020).

Table 4

Skandinaviska Enskilda Banken AB (publ)--Risk Position					
--Year ended December 31--					
(%)	2020*	2019	2018	2017	2016
Growth in customer loans	1.1	7.9	4.4	4.8	6.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	4.0	2.5	0.4	2.6
Total managed assets/adjusted common equity (x)	22.3	23.0	21.5	23.1	24.8
New loan loss provisions/average customer loans	0.5	0.1	0.1	0.1	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.9	0.7	0.5	0.6	0.6
Loan loss reserves/gross nonperforming assets	63.5	60.7	65.4	54.1	62.7

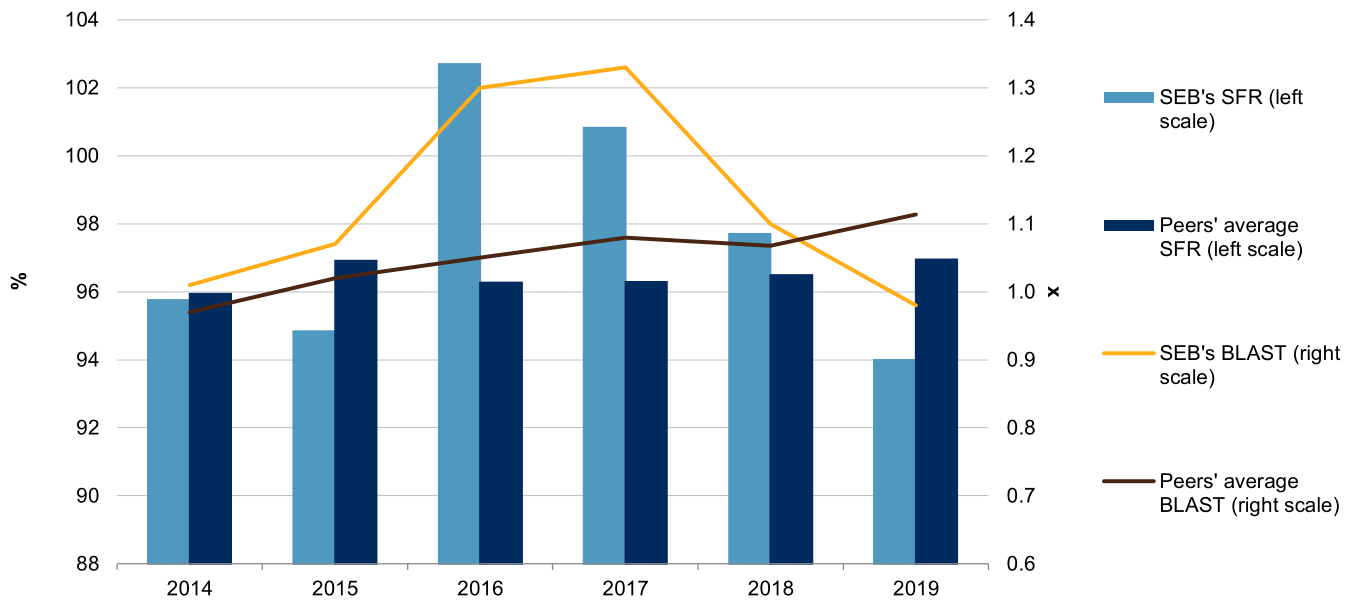
\*Data as of June 30. N/A--Not applicable.

**Funding and liquidity: Less dependent on wholesale funding, due to stable corporate deposits**

SEB's funding profile and liquidity position is broadly comparable with its Nordic peers. As of Dec. 31, 2019, our adjusted stable funding ratio for SEB stood at 94%. We note that SEB is less dependent than its domestic peers on wholesale funding, owing to its stable base of corporate deposits. Core deposits overall formed about 51% of the bank's funding base at year-end 2019, and short-term wholesale funding formed 26.7%.

**Chart 5**

**SEB's Liquidity And Funding Development Versus Peers\*, 2014-2019**



\*Peers include Swedbank AB, Svenska Handelsbanken AB (publ), Nordea Bank Abp, Danske Bank A/S, and DNB Bank ASA. SFR--Stable funding ratio. BLAST--Broad liquid assets/short-term wholesale funding. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect SEB to maintain adequate liquidity. SEB's liquidity reserve, which we valued at SEK470 billion on Dec. 31, 2019, is primarily invested in high-quality liquid assets, including Nordic and German government, state-guaranteed, supranational, and covered bonds, to ensure a low-risk profile for the portfolio. As such, these assets contributed to SEB's one-year liquidity ratio--which compares broad liquid assets with short-term wholesale funding--of 0.98x as of Dec. 31, 2019. We anticipate SEB will maintain coverage above 1x, supported by regulatory requirements. However, the Swedish FSA has in March 2020, as part of its policy response to COVID-19, temporarily allowed banks to fall below their liquidity coverage ratio (LCR) requirements for individual currencies and total currencies (100% of USD and EUR currencies, and 75% for other significant currencies, including SEK). As of June 2020, SEB reported a regulatory liquidity coverage ratio of 138%, which is in line with the EU definition, from 218% at year-end 2019, and we expect the bank to continue steering its liquidity to maintain its LCR in excess of 100%.

Table 6

Skandinaviska Enskilda Banken AB (publ)--Funding And Liquidity					
--Year ended December 31--					
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	54.8	50.6	53.7	56.5	52.5
Customer loans (net)/customer deposits	120.3	146.3	140.8	144.2	143.1
Long-term funding ratio	76.2	75.2	78.8	84.0	81.5
Stable funding ratio	N/A	94.0	97.7	100.8	102.7
Short-term wholesale funding/funding base	25.4	26.7	22.9	17.4	20.0
Broad liquid assets/short-term wholesale funding (x)	N/A	1.0	1.1	1.3	1.3
Net broad liquid assets/short-term customer deposits	19.2	(1.3)	4.4	10.8	11.7
Short-term wholesale funding/total wholesale funding	55.5	53.3	48.7	39.2	41.4
Narrow liquid assets/3-month wholesale funding (x)	2.2	2.3	1.9	2.1	2.2

\*Data as of June 30. N/A--Not applicable.

### External Support: One notch of uplift due to expected build of ALAC buffers

We include one notch of uplift in our long-term rating on SEB because we expect the bank will build up meaningful ALAC through 2024, thereby protecting senior bondholders. With the implementation of the EU's Banking Recovery and Resolution Directive (BRRD) in Sweden in 2016, and the formal decision on MREL by the Swedish National Debt Office at the end of 2017, we view government support as uncertain and consider that the country now has an effective resolution regime.

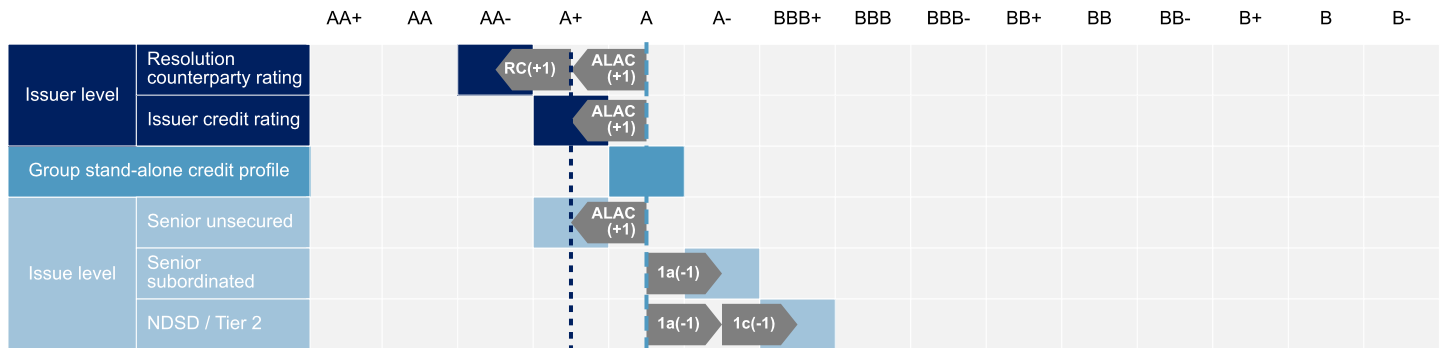
As of June 2020, SEB's MREL requirements amounted to 22.4% of the bank's risk exposure amount (REA), of which 12.2% of REA represents the recapitalization amount, to be met with subordinated liabilities by the amended 2024 deadline. We expect the bank to issue approximately SEK90 billion of senior nonpreferred instruments through 2024 to achieve its current requirements. We hence anticipate that SEB will ramp up its ALAC buffer to durably exceed 5% of RWAs by year-end 2021, compared with 2.1% as of year-end 2019.

### Resolution counterparty rating

The 'AA-/A-1+' resolution counterparty ratings (RCRs) on SEB reflect our assessment of Sweden as an RCR jurisdiction, and its relevance for SEB. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution.

RCR liabilities identified in Sweden are listed in "Resolution Counterparty Ratings Jurisdiction Assessment For Sweden Completed", June 29, 2018.

## Skandinaviska Enskilda Banken AB: Notching



### Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.

AT1--Additional Tier 1. NDS--Non-deferrable subordinated debt.

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We rate SEB's nondeferrable subordinated debt instruments 'BBB+', two notches below the bank's stand-alone credit profile (SACP), since the debt (a tier-2 instrument) is contractually subordinate to other obligations and the BRRD, in effect, represents a contractual write-down clause. We rate the bank's nonpreferred senior instruments 'A-', one notch below the bank's SACP, due to its contractual subordination.

## Environmental, Social, and Governance (ESG)

We see ESG credit factors for SEB as broadly in line with those of the industry and country peers.

The historical deficiencies in the bank's AML framework highlighted by the regulatory findings issued in 2020 are serious from a governance point of view. Yet, they are in many ways less severe than recent material deficiencies that regulators identified at, for example, Danske Bank and Swedbank, and we expect SEB to remedy these gaps in the short-term. As a result, these issues are not currently weighting negatively on our rating on SEB.

SEB is as one of the leading banks in the Nordics and, due to changing customer preferences and increased regulatory focus on banks' business conduct, social factors are essential. We see the maintenance of a sound corporate governance as critical for SEB, and it is a priority for the management team and shareholders, in particular its long-term owner Investor AB and the Wallenberg family. SEB has overall a stable senior management team and business strategy, and exhibits disciplined execution and operational control. A majority of its board is composed of independent directors.

Like peers, SEB is exposed to energy transition risks in its retail and corporate portfolio and is working to reduce its direct and indirect environmental footprint. During 2019, SEB's own share in green bond underwriting was about 4% by its own estimate, making it the world's 7th-largest player, and the Nordic leader. The bank has been a local pioneer on green mortgages, and continues to expand the share of its investment activities managed with sustainability criteria.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Banking Industry Country Risk Assessment Update: July 2020, Jul 29, 2020.
- EMEA Financial Institutions Monitor 3Q2020: Low profitability Lingers On, July 24, 2020
- Sweden-Based SEB Affirmed At 'A+/A-1' Despite Regulatory Criticism Of Anti-Money-Laundering Governance; Outlook Stable, July 3, 2020
- COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, June 16, 2020
- EMEA Financial Institutions Monitor 2Q2020: Resilient But Not Immune To COVID-19, May 14, 2020
- How COVID-19 Is Affecting Bank Ratings: June 2020 Update, June 11, 2020
- Sweden-Based Bank SEB Affirmed At 'A+/A-1' Despite Allegations Of Money Laundering In Estonia; Outlook Stable, Dec. 3, 2019
- Nordic Banks' Capital And Earnings Can Weather The Weakening Credit Cycle, Nov. 14, 2019
- Tech Disruption In Retail Banking: Swedish Consumers Dig Digital--And Banks Deliver, May 14, 2019

- Banking Industry Country Risk Assessment: Sweden, April 11, 2019
- Europe's Banks Must Step Up To Crack Down On Financial Crime, April 18, 2019

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of September 3, 2020)\*

#### Skandinaviska Enskilda Banken AB (publ)

Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+

#### Issuer Credit Ratings History

02-Dec-2015	<i>Foreign Currency</i>	A+/Stable/A-1
20-Nov-2012		A+/Negative/A-1
01-Dec-2011		A+/Stable/A-1
02-Dec-2015	<i>Local Currency</i>	A+/Stable/A-1
20-Nov-2012		A+/Negative/A-1
01-Dec-2011		A+/Stable/A-1

#### Sovereign Rating

Sweden	AAA/Stable/A-1+
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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