Speaker's notes - Q2 press conference

Slide 1

Welcome to the presentation of our results for the second quarter of 2016. Today we present an operating profit of 5 billion Swedish kronor, excluding a positive one-off item for our membership in Visa via our Baltic operations.

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Market conditions have been challenging in 2016, both for our customers and for us.

1. The quarter was marked by increasing market uncertainty relating to the British referendum on the EU (Brexit), which put great pressure on equity markets and interest rates.
2. This contributed to customers becoming more cautious. This is reflected in the low propensity to invest and continued strong demand for risk management services.
3. We continue to have a strong balance sheet, and asset quality, even this quarter, is very good.

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Financial summary

Profit & Loss, (SEK m)	Underlying* H1 2016	Underlying* H1 2015	%	Reported H1 2016	Reported H1 2015	%
Total Operating income	20,838	23,436	-11	21,358	22,534	-5
Total Operating expenses	-10,748	-11,002	-2	-16,697	-11,002	52
Profit before credit losses	10,090	12,434	-19	4,661	11,532	-60
Net credit losses etc.	-581	-490	19	-581	-490	19
Operating profit	9,509	11,944	-20	4,080	11,042	-63

Key figures	Underlying* H1 2016	H1 2015	Reported H1 2016	H1 2015
Return on Equity, %	10.9	14.2	3.3	12.9
Cost /income ratio	0.52	0.47	0.78	0.49
Earnings per share, SEK	3.46	4.33	1.02	3.92
CET1 ratio B3, %			18.7	17.2
Leverage ratio B3, %			4.7	4.4
Credit loss level, %			0.07	0.06

* Note: Excluding one-off items: income of SEK -0.9bn in H1 2015, income of SEK +0.5bn and costs of SEK -5.9bn in H1 2016

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To make it easier to follow our underlying results, I would like to take up the one-off effects that we have had in recent quarters.

As we stated earlier, we will have one-off effects from the direct and indirect memberships in Visa Europe, which are now acquired by Visa Inc. in the US. In the previous quarter, the **Baltic** part was booked in Other comprehensive income, and this has now been realised in the income statement. This includes a positive one-off effect totaling 520 million kronor. In this quarter, we booked the **Swedish** component into Other comprehensive income, but it is uncertain which quarter this will be transferred to the income statement - most likely the beginning of 2017 at the earliest.

In the first quarter of this year, we had the impairment of goodwill of 5.3 billion and restructuring effects of 615 million.

During the second quarter of 2015, we had the negative effect after being denied the right to deduct withholding tax of 900 million in Switzerland.

For the sake of simplicity, I will continue to present results for the underlying operational result, i.e. excluding these one-off items.

In a challenging business environment, income decreased by 11 percent compared with the first six months of 2015. Costs decreased by 2 percent and operating profit fell by 20 percent compared with last year to 9.5 billion kronor.

Return on equity was 10.9 percent, and our Common Equity Tier I capital ratio increased to 18.7 percent (17.2 percent a year ago).

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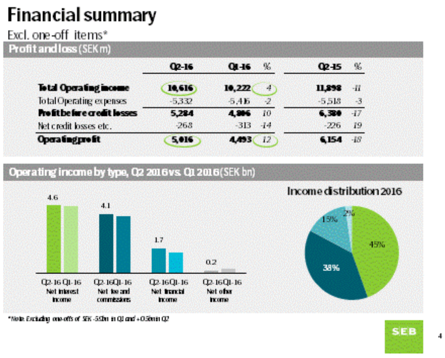

If we look at the second quarter isolated, income increased by 4 percent versus the first quarter of this year, costs were down by 2 percent and operating profit increased by 12 percent.

I will now briefly comment on the different income lines...

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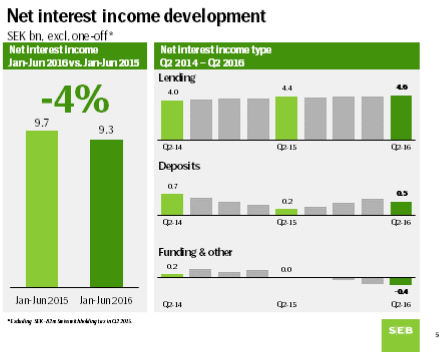

Net interest income decreased by 4 percent compared with the first six months of last year, but was unchanged from the first quarter of this year.

Customer-driven net interest income increased by 1 percent compared to the previous quarter, mainly due to higher lending volumes. Lending volumes increased in all of our customer segments by a total of 40 billion in the second quarter, despite continued low demand for investment-driven lending from large corporates. About half of the increase is due to the weakening of the Swedish krona.

The challenges with negative interest rates on deposit margins and within Treasury remain. We now see that risk for operating in a more protracted period of negative interest rates has increased after the Brexit referendum.

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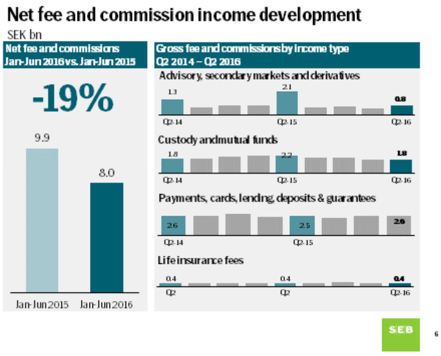

Net fee and commission income fell 19 percent for the first six months but increased 5 percent from the previous quarter.

The reason is primarily that both asset values and business activity are lower this year compared to the first half of 2015.

In addition, our income from securities lending declined, as we have adapted to new liquidity and capital regulations.

Asset under management increased marginally during the quarter, and we had net inflows of 14 billion.

Aside from a few IPOs, there has been little activity within corporate segments, and large loan transactions have again been lacking in this quarter.

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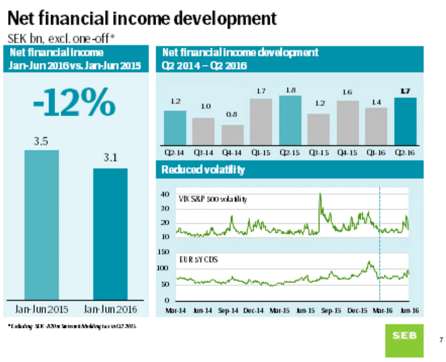

Net financial income fell 12 percent versus the first six months of last year. The main reason is that we have had mark-to-market valuations, or the so-called letter combinations, working against us this year. During the first six months of last year, we had positive mark-to-market valuation effects of 476 million kronor while the corresponding period this year was negative 358 million. The difference is thus 800 million.

However, the result increased by 24 percent versus the first quarter of 2016. The quarter was marked by concern and large volatility, both before and especially after Brexit, which meant that customers were active within fixed income and foreign exchange.

This is proof that our customer-driven business model shows good results amid volatile markets even though volatile markets often lead to lower business activity (investments and M&A), which negatively affects fees. This is a clear example of the importance of our well-diversified business mix.

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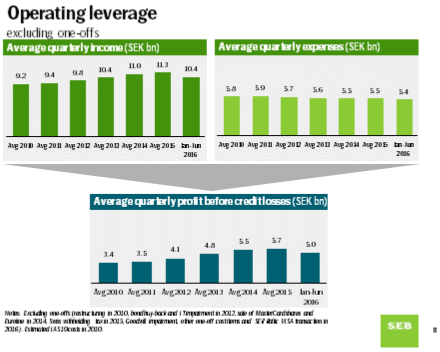

The first six months of our new three-year plan has been challenging, as market conditions have changed. We closely follow developments both in the world economy and how our clients are acting. Depending on the outcome, we review our assumptions and will also look at measures to compensate.

The business plan that we announced earlier this year remains intact, as does our cost cap.

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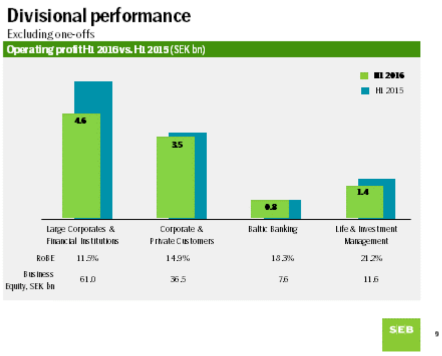

I will now briefly comment on the divisions.

If we look at **Large Corporates & Financial Institutions**, the result is down by 24 percent compared with the first six months of last year, excluding one-off effects. In addition, the negative mark-to-market valuations I mentioned earlier also impact the division's result.

Client demand for risk management services was strong across all asset classes. However, the number of corporate transactions has been few, and credit demand has been held back by uncertainty, just as in the first quarter.

Among financial institutions, client activity was high, driven in particular by concern before and after Brexit.

Earnings for the second quarter amounted to 2.3 billion kronor, which was 26 percent better than the first quarter of this year.

The **Corporate & Private Customer division** in Sweden was adversely affected by negative interest rates as well as new rules on card interchange fees. Operating profit drops by 5 percent versus the first six months of last year, but is up 3 percent from the previous quarter.

On the corporate side, we continued to see both the number of customers and loan volumes increase.

For private customers, the trend is clear in terms of how people interact with us at the bank - customers want more contact with us and in new ways. Customer interactions with our mobile banking solutions are now almost four times as high as via our internet bank.

Since last summer, we have grown more slowly on mortgages. The new amortisation rules introduced at the beginning of June already largely reflect recommendations that we introduced several years ago (in 2011). Other market actors have also followed us and started applying debt-to-income caps.

Looking at the savings area, we see how customers are choosing to reallocate. People are generally reducing the equity portion of their savings to the benefit of savings with lower risk, such as traditional insurance, deposits as well as mixed funds (*strategy funds, which had a positive performance YTD while equity markets are down).* We continue to be active in our advisory to customers. Within Private Banking, we continue to attract new net inflows of capital, 13 billion so far this year.

Life and Investment Management reports a lower result, down 19 percent versus the first half of 2015. Equity market downturns hit asset values here, and both base commissions and performance-related income decreased (amounting to only 20 million kronor in the quarter). The Stockholm stock exchange (OMXS30) the past 12 months has fallen by 14 percent. Life operations show stable results compared with the same period last year, and the weighted new sales within Life have amounted to 27 billion to date in 2016. New sales of traditional insurance have now reached over 1 billion and are appreciated by customers in this uncertain economic environment.

Baltics also shows slightly lower earnings compared to last year, but we see continued increase in loan demand - now in all three countries. Credit quality remained good and we made write-backs this quarter.

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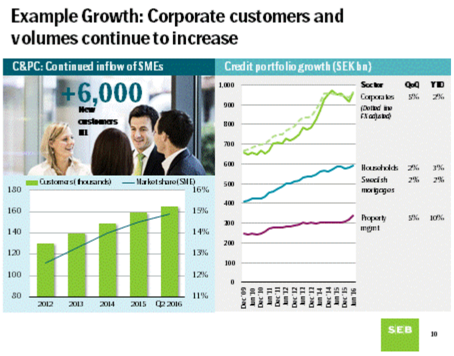

When we presented the new business plan, two important elements were "Growth" and "Transformation".

An example of **growth** is our investment within the corporate segment in Sweden. We continue to strengthen our position as a corporate bank in Sweden. In recent years, we have increased our market share from 13 to 15 percent among small and medium-sized enterprises.

In just the last six months, we have attracted a further 6,000 new customers. And in the last 12 months, we have increased lending to small and medium-sized companies by 23 billion kronor.

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And the other area of our business plan – **transformation** – is about improving the customer experience at all levels, simplifying, digitizing not only customer interfaces but also automating our processes, and further investing in our staff, as you can see in examples on the left in the picture.

During the quarter, we made a number of launches and initiatives. Two worth talking a bit extra about are:

1) The investment in personal finance app Tink, where we both embarked on a partnership and took an ownership stake. Our customers will be able to keep even better track on their finances as we integrate Tink's functionality into our own mobile banking app in autumn.
2) The second example is the launch of our youth app, aimed at everybody under 18 years old.

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Strong asset quality and balance sheet

	(SEK bn)	2009	2015	Jan-Jun 2016
Asset quality	Non-performing loans	28.6bn	8.0bn	8.0bn
	NPL coverage ratio	65%	62%	64%
	Net credit loss level	0.92%	0.06%	0.07%
Funding and liquidity	Customer deposits	750bn	884bn	944bn
	Liquidity resources	>10%	~25%	~25%
	Liquidity coverage ratio	N.A.	128%	129%
Capital	CET1 ratio (Basel 3)	11.7%	18.8%	18.7%
	Total capital ratio (Basel 3)	14.7%	23.8%	23.5%
	Leverage ratio (Basel 3)	N.A.	4.9%	4.7%

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If we go over to the balance sheet, it has been further strengthened during the quarter.

Credit quality remains very good and the credit loss level is 7 basis points.

We still have around a quarter of our balance sheet in liquidity reserves.

Our Common Equity Tier I capital ratio was 18.7 percent compared with 17.2 percent a year ago and 19.1 percent last quarter. The ratio decrease between quarters due mainly to risk-weighted assets going up in the quarter - credit volumes grew in part because the Swedish krona has weakened against the euro and the US dollar.

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So, to round up before we take questions:

Customer expectations and behavior are changing rapidly. Our starting point is always to have relevant products and services for our customers. We want satisfied customers who feel we are creating value for them.

During the first half of the year, market conditions have been challenging, both for our customers and for us. Brexit was not expected, and came to greatly increase the volatility in an otherwise fairly quiet quarter.

In the current climate, the need for resilience increases. We have that resilience and are well-positioned to support our customers.

With this I now open the floor for questions…