Financial results Q2 2024

Tuesday, 16th July 2024

Presentation

Johan Torgeby, President & CEO, SEB

Good morning to everyone for the second quarter results from SEB. And as always, you can follow the slides that we are referring to on our website.

Highlights in Q2 2024

Starting with the highlights for the second quarter, we saw improved business momentum in several areas of the bank, including positive net flows in asset management. And that was also broad-based across divisions. We clearly saw a higher activity level within the investment bank and also signs of improving credit demand. And I'll come back to this with some data points in a minute.

Return on equity improved to 17.6%, and our capital buffer remained at a solid level at 430 basis points over the regulatory minimum requirements. And we have, together with the board, decided to increase the quarterly share buyback program now to 2.5 billion in the next period, resulting in an annual pace of SEK 10 billion per annum.

Improving business momentum

Flicking to the next page just to give a few data points on the improved business momentum. So first, on the net flows in asset management, after some time of muted numbers, we clearly have seen a gradual improvement with a very strong Q2. This has been predominantly driven by private wealth management and family offices. But it's also broad based where CNPC, retail funds, etc., all experienced a positive development. Hopefully. And I say hopefully this is a sign of the efforts that we have put in over the last couple of years in order to improve this very strategically important area for the bank. The investment bank has, of course, enjoyed a little bit of uptick because of expectations of falling interest rates and a fairly muted couple of years in terms of strategic and transformational transaction amongst our client base. This quarter, we noted a recovery from very low volumes last year, resulting in a 44% uptick in operating income for the investment bank. Pipeline remains strong and continues to build. However, as always, very difficult to predict how this and when this will convert into real business.

On the lending side, there has been some positive signs first on mortgages and particularly with mortgage commitments that are up 12% year on year in the second quarter, and, of course, positively driven by a recovery of economic activity and also a quite dramatic shift over the last four or five months in terms of house price expectations amongst the population. Also on the corporate side, particularly on SME and Mid Corp, both in the Baltics and in Sweden, there has been a marginal shift to more positive lending volumes. However, this has not been recorded for the large corp portfolio yet.

Development of credit portfolio

Flicking to the next page. Not too much to say, but looking at the second quarter, this is all about leading indicators and early signs of a different activity level that I've been talking about. But in the second quarter, all in all, we saw a sideline movement on lending and credit portfolio exposure during this quarter.

And just as a final reminder, all these signs are of course very early stage, is still very fragile, uncertainty is still around, but at least the hypothesis of um NII having some headwind and that should come from lower rates, which also means higher activity in the economy, which should benefit the being commissioned line. We talked about this in the last quarter. It seems to still be intact, albeit early days.

With that, I would like to hand over to Masih.

Financials

Masih Yazdi

CFO, SEB

Thank you, Johan, and good morning, everyone.

Financial summary YTD 2024

And on slide six we look at the year to date numbers. And as you can see on this slide, income is up by almost $2 billion year to date compared to the first half of last year, and with expenses up just over a billion, this means that the profit before expected credit losses imposed levies is up by 3% and with continued very low expected losses and some increase in imposed levies, the operating profit is up 2% so far this year. But as the income tax expense was elevated in Q1, the net profit is marginally down.

Return on equity is 17.3% so far this year, and expected credit losses at one basis point.

If we move to the next slide, slide number seven, and look at the Q2 numbers, you can see that income is marginally down. But it is the fifth quarter in a row where we record income of above 20 billion.

Net income comes down. We will come back to that later on. Just several comments here on net expected credit losses. As you can see very low levels of 44 million. As always, we have a few sort of new reserves for some exposures, as we always do. But this quarter that has been offset by macro updates by our economists, leading to a more positive outlook on the macro and the next 12 months, which has led to some reserve releases as well as some reduction of the portfolio overlays in the quarter. At the same time, portfolio overlays still stand at a healthy 2 billion going forward. And if the continued positive development of macro still stands, then you should see a continued gradual reduction of the portfolio overlays. However, it's difficult to say the timing and magnitude of those potential releases.

On imposed levies, it did peak in Q1, and it's coming down now, and it should continue to come down in the coming quarters. And we expect imposed levies to be just below 2 billion in total the second half of 2024.

Operating leverage

On slide eight, you can see the operating leverage slide. As you can see, so far this year, income is marginally up compared to 2023 on average on a quarterly level and with expenses marginally up as well. The profit before credit losses and imposed levies is largely flat. However, obviously in the very long term we've seen very good development here.

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Net interest income development

Move to slide nine and look at net interest income. So up 1% first half of this year compared to first half of last year. But it's down marginally in Q2 versus Q1. And we've seen some positive FX effects as the Swedish krona on average in the quarter was weaker compared to especially the euro. And we've seen some tailwinds on the funding side. And at the same time, mainly because of the rate cuts in May in Sweden, we've seen some margin pressure on deposit margins, especially within the corporate and private customers division, and continued margin pressure on the mortgage side, which quarter on quarter has led to slightly lower mortgage margins.

In the other division, so LC&FI and the Baltics, the net interest income is largely flat. We see some positive effects in the Baltics coming from effects. And there is a one off there that is offset by a negative effect in Treasury. So together that's pretty much neutral. We've said previously that net interest income should slowly drift downwards assuming no rate cuts. And that's been based on the fact that we've seen for volume support and migration to savings account with higher yields. We do see some volume support now as we see some lending growth, especially some deposit growth. And we see no further migration to savings accounts with high yields at this point. And so had we not had any rate cuts, that slow drift downwards would probably not happen going forward. But obviously with expectations of rate cuts, there will be pressure on net interest income in the coming quarters.

Net fee & commission income development

Let's move to slide number ten and look at the net fee and commission income, which is up 7% year to date. Here in the quarter we see positive developments across the board mainly coming from asset management. We've seen a value increase of SEK 36 billion in the quarter when it comes to assets under management. But more importantly we've seen SEK 63 billion of inflows. And as Johan said before, most of this is coming from private wealth management and family offices. But we also see positive inflows within CNPC as well as the Baltics. And we can see that the monthly savings within CNPC are now increasing for the first time in two years. We do see a positive development within advisory fees, mainly related to investment banking, as well as lending fees and payment and car fees continue to move in a positive direction. So all in all, a good development when it comes to fee and commission income.

Net financial income development

So move to slide number 11 and look at the net financial income development. We record an NFI number of 2.7 billion inches the quarter. We've seen very healthy activity in the underlying business, especially within LCSI and especially within fixed income. But we do see solid momentum within FX and commodities as well. We've seen a more negative valuation effect on this line this quarter compared to previous quarters, and that is mainly related to the developments in June, with the elections in France leading to some spread widening. And this had a negative effect on the XDA[?] as well as the liquidity portfolio in Treasury. As you can see now with this quarter, the average level for the last four years is 2.4 billion per quarter. And this continues to be the best guidance we can give when it comes to this slide going forward. So the average over the last couple of the last four years.

Capital buffer development

So move to slide 12 and look at the capital development. So the capital buffer is up ten basis points this quarter compared to Q1. We've continued to see good profit generation adding 51 basis points after reserving half of the profit for dividend. We've deducted 5 billion from the capital base because that's the level of the mandate we have from the FSA to do share buybacks for despite the fact that we're executing on half of that during Q3. And then we have some positive effects coming from FX. So all in all, capital levels are pretty stable despite the fact that we've deducted 5 billion for share buybacks.

Pension scheme surplus has increased equity and lowered ROE

And then this quarter we have a couple of more thematic slides on equity and capital. I'm going to start on slide number 13, looking at the pension scheme surplus we have seen improve over the last two years. This is part of the equity base of the bank. It's the development when it comes to the pension scheme. Assets minus liabilities is reported under other comprehensive income. As you can see mainly 2021, we saw a very positive development here as the values on the asset side increased and as interest rates went up, the market value of the liabilities came down significantly, leading to a large increase in the surplus we report here. And today we have about 30 billion of the equity base, that is within the surplus within the pension scheme, which on a reported level means that return on equity is much lower compared to in the case where we wouldn't have this surplus. Most of this surplus is not included in the common equity tier one capital. About two thirds isn't included in that. So at this point in time, we have a large surplus here. And assuming that equity values continue to be stable or grow up and interest rates stay where they are, this surplus will stay where it is. Over time, we are able to make compensations from the pension scheme into the parent bank. We can do that up to about 3 billion on an annual basis. And if we do that, it means that the CET1 ratio of the bank will improve by an equal amount. So up to 3 billion. And then obviously if that is distributed to shareholders, it means that over time that will have a positive effect on the return on equity. So we just wanted to highlight that there is a maybe to some extent hidden value in the bank with this big surplus we have in the pension scheme that over time will lead to a stronger capital generation for the bank and improvement of the return on equity.

SEB's CET1 ratio significantly higher when applying European standards

And then if we move to slide 14, a bit more focus on the capital. And obviously as you know, we report a strong CET1 ratio of 19% in the quarter, which stood at 19.1% at year end. This CET1 ratio is calculated based on the requirements we have in Sweden when it comes to risk rate floors, and other types of requirements we have been used to working with. Here we are trying to explain how this CET1 ratio would have looked had we been on the same average regulation as an average European bank. And so if you remove, for example, the risk rate floor on commercial real estate, on residential real estate and on mortgages, then that CET1 ratio would be five percentage points higher. And then more importantly, had we had the same level of conservatism as an average European bank when it comes to calculating our probability of default ratios in our IRB models, then you would see an additional improvement of 600 basis points when it comes to our CET1 ratio. And a bit more focus on that sort of conservatism in the IRB model. So on the right hand side of the slide, you can see our probability of default ratios for different intervals. And comparing that to the actual losses for

those exposures over last five years. For example, if you look at the interval zero until 0.15%, in terms of PD, we have an average PD ratio for that interval that is six times the observed defaults we've had over the last five years. Whereas for the other Swedish banks on average and for European banks, that is actually the observed defaults are actually higher than the PD ratios they use. And if you look at this slide in totality, you can see that on average we have been very conservative in calibrating the input variables in our IRB models.

Assessment of future regulatory effects on SEB’s capital buffer

And based on that, if you move to the next slide, here we're trying to show you the total effect of the regulatory changes we can foresee for the next, let's say, 12 to 24 months. On the 1st of January, 2025, we will have the introduction of BASELIV, where we estimate a day one effect of around minus 50 basis points. This is mainly due to the fact that we will move into a non-risk based model for operational risk, compared to the risk-based model we use today, which will have a negative effect. Then, at some point in time, we will have updated IRB models that will have been approved by the FSA. And given what we calibrate in those models, and given what you saw on the previous slide with the conservatism we have today in our models, we expect the net effect of these model approvals to be around zero. Today we have a capital add on in pillar two as these models haven't been approved yet. And obviously when they are approved, this capital add on of around 100 basis points will be removed. And then post 2025 there will be other implementation of BASELIV, including FRTB, if that comes into force that we think will be neutral to marginally negative. So if you take all of these changes we can foresee in totality, we expect it to be largely neutral. Obviously there are some uncertainties here, both when it comes to update the IRB models as well as the further implementation of BASELIV, especially related to the fundamental review of the trading book. But nevertheless, this is the best estimate we can do today in terms of the regulatory effects on capital in the next couple of years.

Strong asset quality and balance sheet

Final slide. Slide 16, or second final slide. Just a few key ratios. We've seen a good deposit development in the bank, especially in Q2. Some of that is seasonality, but it seems to be an underlying better development when it comes to deposits, especially for non-financial corporates. We have stable liquidity ratios with a net stable funding ratio at 112%. We've done about two thirds or 70% of the funding needs for the full year already in the first half of the year; and the capital ratios, as we've discussed, are pretty stable as well. Then finally, group financial targets 50% dividend payout ratio of EPS, capital buffer of 100 to 300 basis points. We're still committed to reaching that interval by year end this year. And we want to have a return on equity that's competitive with peers, with the long term aspiration of 15%. That's it. And we can open up for questions.

Q&A

Operator: Thank you. To ask a question, you will need to press star one on one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. We will now take your first question. One moment please. And your first question comes from the line of Magnus Anderson from ABG Sundal Collier. Please go ahead.

Magnus Anderson: Yes. Good morning. First of all, I would like to know how you think about jaws in 2025, '26, i.e., income growth versus cost growth in an environment with falling rates and that pressure you talked about, Masih. And secondly, related to that, we are seeing that at headcount continues up, what we should expect there? And finally, perhaps on costs, have you taken any integration costs yet for the AirPlus deal that you have in the current cost base?

Masih Yazdi: Thanks, Magnus. I can start. When it comes to jaws, so operating leverage whether income will grow faster than cost in '25 or '26, obviously, it's difficult to say as we don't know how much rates will be cut. What we do know at this point is that we have invested a lot in the bank in the last 5 to 7 years, and at this point, we'll come back to the cost target for '25 at the later stage this year. But from a planning perspective, we are seeing next year as a year of consolidation, So we will not see the same kind of increase when it comes to the cost line, as we have seen on average for the last 4 or 5 years. And so you won't see a large cost increase next year. On the income side, it's so much dependent on where rates go and to what extent we can offset a potentially falling net interest income with other lines improving, as we saw in Q2. And obviously these comments are sort of excluding the acquisition of AirPlus, which could change it to some extent. When it comes to the headcount, there is an increase of about 200 people in Q2. A large part of part of that is related to summer interns. So the underlying increase isn't as large as it shows. And if you compare it to last year, for example, I think the Q2 headcount increase was about 400 people. So it shows that there's been a clear slowdown in the headcount increase. And as we've said before, FTEs will increase clearly less this year if you look at the yearend numbers later on this year compared to last year. On AirPlus, there will be integration costs related to the transaction when it closes. But obviously we've had some costs related to that transaction already. Maybe in total since it was announced a couple of hundred million, which is more related to all the due diligence you have to do and so forth. So we have taken some costs, but there will be clearly additional integration costs when we close the transaction.

Magnus Anderson: Okay. Crystal clear. Thank you.

Operator: Thank you. We will now go to your next question. And your next question comes from the line of Jens Hallén from Carnegie Investment Bank. Please go ahead.

Jens Hallén: Hi. Yes, thank you for taking my questions. I just have one very quick one and it's to do with your slide 15. When we're looking at in your estimates for 2026 to 2029, so that has also incorporates sort of the ramp up of autostore[?]. And you think that would be somehow you can um negate that effect?

Masih Yazdi: Thanks. No, it does not include the effect of the autostore[?], as we see that being a an effect that will have a restriction on us post 2029. At the same time, there are a lot of requirements on us as a bank when it comes to our current capital requirements, that is a sort of a Swedish finish in terms of systemic buffers and so forth and countercyclical buffers. And we keep hearing comments from the Swedish FSA that they believe that we are adequately capitalised at this point. So we think that those comments sort of signal that if and when the autostore becomes restrictive for us, there could be some changes to the Swedish requirements to make sure that those autostore effects are neutralized. So at this point in time, we would like to guide on the things we are more certain about, which is the sort of next 1 to 2 years, rather than looking into 2029 or up until 2032. But obviously if the autostore is introduced or when it's introduced, that will have a negative effect, and we'll have to see to what extent that will and can be compensated by reducing some of the capital add-ons we have today from the Swedish FSA.

Jens Hallén: Okay, perfect. Thank you very much for that. And then actually, I have another question on slide 13. Very interesting slide with the pension scheme surplus. And can I ask for clarity, the other comprehensive income that you have here, and you also mentioned that you have the opportunity to transfer 3 billion roughly per year to the parent bank. Has that been done? Is this the net after that is that something that you could do in the future if you wanted to either make that transfer to the parent?

Masih Yazdi: Well, we have done so in the last few years, never up to that full amount that we could do. Obviously, this surplus has been built more recently. As you can see, just prior to 2021, the surplus wasn't as large. And obviously we are a conservative bank. We always like buffers so that we feel comfortable. But given how much the buffer has increased over the last three years, and the fact that we feel much more comfortable with the surplus we have today, it's much more likely going forward that we will do the contributions from the pension scheme to the parent bank that are sort of at the top range of what we can do, but we haven't done that in the past. So we've done some contributions but at much lower levels.

Jens Hallén: Okay. Perfect. Thank you very much. That was all my questions actually today.

Operator: Thank you. We'll now take the next question. And your next question comes from Namita Samtani from Barclays. Please go ahead.

Namita Samtani: Morning. Thanks for taking my questions. Firstly, how should I look at your core tier one go to target in 2025? Like, is it 18.7? Because BASEL IV could be up to 100 bps, or is it 17.7 because you expect BASEL IV to be offset by the IRB model add on? And when do you exactly expect this pillar to add on to be removed? Secondly, on AirPlus, it's basically been EBIT-negative since 2018 according to the Lufthansa annual reports; so what gives you confidence you can turn this business around once it gets integrated at Seb? And also, I think it's about $250 million of revenues in euros. But on the cost base, like, you know,

even if I put extreme cost synergies in there, I get about €150 million cost base. So that's like SEK 1.6 billion added to your cost base next year. Am I in the right ballpark? And lastly, you guys spoke about less competition on deposits and the Baltics versus Sweden last quarter. Is this really true given the rate cut we've just seen, it's been like 100% pass through in Sweden, whereas in the Baltics there's been virtually no cut on transaction accounts or savings accounts, at least in Estonia. And the only Baltic country where there's been around 100% pass through on term deposits is Lithuania. So just curious on your thoughts there. Thanks.

Masih Yazdi: Okay. I can start Namita, on the capital. So again, I think we've said this a few times, but I'll say it again. So the target we have being within our target intervals of 100 to 300 basis points. That target stands for the Q4 report, which had a cut off date of the 31st of December, 2024. So BASEL IV is a day after that. So you should look at the capital comment we have at that point and add 300 basis points. So that will more sort of lead to towards your 17.7% target rather than the 18.7% target. The add on removal will happen when the IRB models are approved. We don't know when that's going to be, but those two should be simultaneously happening. Whether that's going to be first half of next year, second half of next year or earlier than that, we don't know at this point. But those should happen simultaneously.

Masih Yazdi: On AirPlus, I mean, the business case we've done on that acquisition is based on what we think we can do with that asset in combination with our current card business. So it's important to say that to the extent that we see value creation, it's not just within AirPlus, it's the combined entity that would drive that value creation. And obviously the combined entity just would have much more scale, about twice the scale as we have today in our card business. So when you do your numbers, and obviously we'll come back to the exact business case when the transaction has been closed, but you should sort of combine the two entities rather than try to find income or cost synergies in one of the entities. And so that's the sort of guidance I could give at this point. But as I said, when the transaction has closed, we will come back with more guidance on the value creation from that asset going forward.

Masih Yazdi: And then finally on competition. I mean, I guess you were referring to the deposit rate cuts with the first policy rate cut in Sweden, and compare that to the ECB rate cut. The reference we have done on competition has been more in general where it looks like. And obviously that could differ from the effects on the first rate cut. I would just say in general that there has been more competition in Sweden. You have many more niche banks offering very competitive rates in the Swedish market than you have in the Baltic market. And because of that, there is more competition in Sweden. That's our view, but obviously we will see what happens in the future and what's going to happen to deposit rates in the different markets when policy rates are further cut down the line. But yeah, a number of factors, number of competitors are more in Sweden. And we've seen more competition there over the last two years.

Namita Samtani: Thanks very much.

Operator: Thank you. We will now go to the next question. And the question comes from the line of Nikos Macbeath[?] from GMB. Please go ahead.

Nikos Macbeath: Thank you. So first, a question on costs. So if we analyse the cost in the first half of 2024, we end up at around 29 billion, which is the cost target. And normally the second half has higher cost than the first half. So, could you please maybe explain what measures you intend to take to bring down costs in the second half to meet the cost targets? Will you roll more investments and costs into 2025?

Masih Yazdi: Thanks, Nikos. Yeah. You're correct. We are slightly on the high side on the cost line. If you compare the outcome so far this year compared to our plans, I'll admit that's the case and it's a challenging cost target, which it should be. We've seen some cost inflation in the first half of the year due to the share price going up, and then some FX movements that have been negative. So we just need to repeat what we did in the first half, really the second half. And compared to the previous years, we've invested a lot. You've seen this sort of increase of the cost base, the second half versus the first half, whereas this year we are not ramping up to the same extent as we've done in previous years. So it's a challenging target. We're obviously extremely committed to it. We've had cost targets since 2009 and we've met every one of them, and the intention is obviously to do that again. But yeah, it is a challenging, but that's the way it should be.

Nikos Macbeath: All right. And then just following up a bit more on the pension surplus slide. So, if you could say anything more about the timing of the 3 billion, are those going to be taken out in any particular quarter? And also is the 3 billion, is that kind of a regulatory cap, or is that your own assessment on how much you think it's prudent to take out? Also, just to clarify, I think you mentioned that only one third of the surplus is included in your CET1. So if you take out 3 billion on an annual basis, should that add 2 or 3 billion to the distributable capital?

Masih Yazdi: So the potential contributions are completely discretionary. So that's going to be a decision we take on an annual basis, and it's usually more likely to happen at the sort of closer to year end than any other timing. If we do take the maximum amount and it's not a regulatory requirements, but it's you can only compensate yourself for the costs you have related to pensions. And since the annual cost we have related to pensions is about 3 billion, that's the total amount we can take contributions for. So that's not a self-imposed limit. It's just how the foundation works and what you're allowed to compensate yourself for. And if we would take contributions of 3 billion, then that would add 3 billion to the CET1 ratio.

Nikos Macbeath: All right. And should we think about the surplus as something you want to bring down towards zero, because you also as we know you minded your conservative bank, would you still like to operate with some kind of surplus or do you think that should go down to zero over time?

Masih Yazdi: We always like to operate with buffers and surpluses that we feel comfortable with. So no, you shouldn't expect that to come down to zero.

Nikos Macbeath: Okay. Perfect. Thank you.

Operator: Thank you. We will now take the next question. And your question comes from the line of Sofie Peterson from JP Morgan. Please go ahead.

Sofie Peterson: This is Sofie from JP Morgan. I had also a couple of questions. So I think you mentioned in the presentation that there was a one off in net interest income this quarter. Could you just clarify how much that one off was? And then my second question would be on the Baltic net interest income. When I look in the report, it was up this quarter, even though if I look at the arrival rates, they've come down from 4% to 3.6% in the past six months. So what drove the improvement quarter and quarter in the Baltic net interest income? And then the final question would be the Swedish FSA, I believe, ordered SEB and two other Swedish banks to address some of the shortcomings in the payment infrastructure end of June. How does this affect SEB at all and what they need to do? Does this mean any additional investments or should we think about any additional costs from this? Thank you.

Masih Yazdi: Thank you. Sofie. Yes, as I said before, there is a one off in the Baltic division NII, which has which is related to a loan repayment, but that's one off is reversed in Treasury or not reversed, but it's mitigated in Treasury. So there's a positive effect in the Baltics, a few tens of millions Swedish krona. But you've seen an offsetting negative effect in treasuries. So on a group level, there's no effect of a one off. If anything, I would say there is a slightly lower net interest income within LC&FI in the quarter. And that is typically more volatile. So if anything, we've had a slightly negative effect on the net interest income line from so-called one offs. And that is one of the reasons why the Baltic's NII is up. So there are two reasons really why it's up. The first one is FX, where you've seen a weaker Swedish krona on average during the quarter supporting the Baltic NII, and the fact that you had this one off for them on a divisional level that was offset within Treasury. The underlying development, if you exclude this loan repayment as well as the FX effect, is a decline of NII. I think in local currencies, NII was down about 1%, and if you remove the loan repayment, it will be down 2% or 3%. So it is marginally coming down, obviously related to what you mentioned with Euribor coming down. And so that is the trend in the Baltics. On the FSA, you want to take, Johan?

Johan Torgeby: Sure. So this is the wire transfer regulation, which is a technical specification, what information that needs to go from the sending payer in the infrastructure of the payment system. And the order of correction that has been issued by the FSA has come predominantly to the three largest banks in Sweden, but it is a little bit of a special case. This is namely not predominantly us, but it is the joint owned bank GIRO. So the common owned infrastructure for payments that needs to make some technical changes in order for the wire transfer regulation to be satisfied. It is very clear that the three of us, we are the main owners, and therefore it is practical to ask us three as shareholders, of a more significant nature of this company that we co-owned together with many others to make sure that it happens. And we have a good amount of time to fix this. We feel confident that that we can do this. It didn't come with any additional type of requirements right now. But this is actually a development that will benefit all banks. So right now, no banks in Sweden are compliant with this regulation. And once we fix this, all banks will be compliant. This will not be, in my book, any meaningful cost that we need to flag about. It's going to most likely be some investments in the bank GIRO. We of course, contribute through equity investments in the bank, should that be the case. And they are working it through right now, what is required. This has been on the agenda for some time, but it's a quite a difficult thing. It sounds easy, but it's quite difficult thing to fix. And now I think it is a was it a year and a half, two years that we have to fix this once and for all.

Sofie Peterson: Thank you. That's clear.

Operator: Thank you. We will now take the next question. And the question comes from the line of Shreya Srivastava[?] From Citi. Please go ahead.

Shreya Srivastava: Hi. Thank you. Hi. Thank you very much for taking my question. My first is relating to [inaudible] and specifically, what sort of reaction have you seen by the large corporates to the first rate cut in most of your geographies? And secondly, on Sweden, this is a sort of more long term strategic question. As rates come down to presumably more normalized levels, how are you seeing the competition from the niche banks that you mentioned earlier developing? Should this presumably be a tailwind for you relative to what we've seen in the hiking cycle, with them taking share from all the incumbent banks?

Johan Torgeby: Let me try to repeat what I think I heard. You have a very bad line. Was the first question how large corp has reacted to the first rate cut, and the second question around competition in Sweden, particularly around niche banks? Did I understand it correctly?

Shreya Srivastava: Yes, yes.

Johan Torgeby: Okay, so if I start with large corporates, I think it is very welcomed. You have seen the PMIs which is predominantly large corporates steadily and surely recovering

over the last eight nine months. Of course there will be some hiccups like last month but it's definitely something that indicates that the relative interest rate sensitivity of the Swedish economy, it's bad on the on the upside, when rates go up, and it's pretty positive on when rates go down. However, it's early days and large corporates tend to work a little bit with the lag. But you do see it in terms of a little bit light at the end of the tunnel macroeconomic indicators are pointing to the more positive tone, rate cuts expectations are firmly anchored. And that does create a little bit of confidence. So the leading indicators are good, although we haven't seen much happen yet. And that is probably easiest to think about when you look at corporate finance and corporate banking that you see that there are things moving around now, but not yet translated into to hard P&L.

Johan Torgeby: On competition, I would argue, regardless of where it goes, it is very fierce. So the Swedish market on retail and SMEs is kind of the one area where all the large banks want to perform and where the niche banks that do represent something like 15-20% of the banking sector in Sweden and, of course, is their home turf. So, lower rates will typically mean that higher yielding lending is more popular. And that has been, of course, a struggle lately with credit quality deteriorating more visibly in smaller banks and in niche banks. And of course, that's of course now a little bit history and we'll see where we end up. It was a very stark and welcomed reminder around risk to have both Covid and this sharp increase in inflation and interest rate hikes because business models have been more visibly strong or weak. You have some new information if you've seen the last couple of years. But overall, competition is fierce and I would not assume it's to go away at all.

Shreya Srivastava: That's good. Thank you very much.

Operator: Thank you. We'll now take the next question. And the question comes from the line of Ricardo Rivera from Mediobanca. Please go ahead. Oh, just to advise, the line has disconnected. I will move to the next one. One moment please. Your next question comes from the line of Piers Brown from HSBC. Please go ahead.

Piers Brown: Yeah. Good morning. Um, I was a little bit late dialling in, so apologies if you've already covered this, but could you give a guide on full year '25 imposed levies? I think you said the Lithuania solidarity contribution has been extended by a year. So should we just be assuming that the Delta is now just the Swedish resolution fund dropping out of the numbers in full year 25, you could just give us a steer on what sort of number we should be looking at in totality for '25? thanks.

Masih Yazdi: Yeah. Thanks, Piers. We haven't guided on imposed levies for 2025. What I can say is that just because the Lithuanian solidarity tax has been extended, it doesn't mean it's going to be the same amount as in 2024. So just because of the fact that it is expected that NII in Lithuania is lower in 2025 than it's been this year that should lead to a reduction of that imposed levy. So it depends on your estimate of net interest income really? But there's an

extension of the tax, but the normal amount will be less in '25 than it's been in 2024. We'll have to come back to this at later stages this year. Also when it comes to the resolution fund fee, because again, obviously it depends on whether that fund is filled or not by year end. But nevertheless, the only thing we can guide for at this point is that imposed levies for the second half of 2024 will be slightly below 2 billion. That's what we knew at this point.

Piers Brown: Okay. So if I'm looking at consensus, it has about 2.5 billion for full year 25. Is that a realistic number or do you think that probably needs to be a bit higher because it probably assumes Lithuania drops out entirely?

Masih Yazdi: So Lithuania is about a billion this year. Swedish krona, we'll see depending on NII, but maybe 300 million next year. So that's a 700 million tailwind. And then it obviously depends on resolution fund fee, whether that's going to drop out or go up or down. And obviously both the bank tax in Sweden as well as the resolution fund fee is dependent on the balance sheet growth we have. So I can't say whether that number is too high or too low. But imposed levies all in all should be clearly lower in '25 than '24. Then the question is how much lower, which depends on whether a [inaudible] fund is full or and whether the balance sheet grows or not.

Piers Brown: Okay, great. That's something to work with. Thanks very much.

Operator: Thank you. We will now go to the next question. And your next question comes from the line of Hugh Morehead from Berenberg. Please go ahead.

Hugh Morehead: Good morning. Thanks very much for taking my questions. Two from me, please. Firstly, just circling back onto the timeline for the model implementations. Do you expect the retail and corporate models to be approved sort of almost simultaneously? And adjacent to that, does the ECB have any role to play in the model approvals or are your Baltic models already on IRB for example? And then secondly, on the wealth management piece, can you just give a bit more detail about the strong net inflows this quarter; for example, are those coming from a couple of high net worth individuals or are you seeing more broad-based inflows? And also geographically, are they in Sweden or perhaps from some of your more recently opened offices across Europe? Thank you.

Speaker: Yeah, thanks. I'll start with the model implementation then. I think Johan would like to take wealth management. You can take [inaudible]

Masih Yazdi: Okay. On the model. So what's outstanding for us is predominantly the corporate models. Our retail models have to a large degree been approved already. So the effects[?] we show you it's actually a combination of both the probability of default estimates

as well as the loss given default estimates, largely due to the corporate exposures we have. And that's what we can sort of refer to at this point. We don't know when these will be approved. So we don't know the timing yet. We just have a sense of what the impact should be based on the numbers we've done and the applications that we send in. And the ECB is definitely involved in the process of approving the models. They don't have jurisdiction on the parent pack as such, but they are very influential in the collaborative work they do together with the Swedish FSA. On the wealth management, there are 63 billion of inflows. A large part of that is coming within the private wealth management and family office business. And obviously that's related to a few individual customers that have transferred their savings to SEB, hopefully because they feel that we give a good service and a good performance. We actually had have had a very good performance within both our asset management division as well as private wealth management, where a large share of our mandates, discretionary mandates beat their benchmarks. So hopefully that's been one of the reasons why we've seen these inflows. But it's broad based in the sense that we've seen about 1 billion monthly so far this year of net inflows within CNPC. We see an improvement of monthly savings and we've seen inflows in the Baltics. We don't expect the 63 billion to be the new quarterly run rate. We don't we don't sort of dear -- they're hoping that would be the case. But obviously when you do have client acquisitions within private wealth management and those are wealthy customers, then you could have sort of these large bulks of inflows some quarters, but obviously it won't repeat itself every quarter. And I would say at this point, the inflows are not coming from the newly established offices in Nice[?], for example. So it's coming from the home[?] markets we've had previously.

Hugh Morehead: Great. Thank you very much.

Operator: Thank you. Once again, if you would like to ask a question, please press star one on one on your telephone keypad. We will now go to the next question. And your next question comes from the line of Bettina Turner from BNP Paribas. Please go ahead.

Bettina Turner: Yeah. Hi. Good morning, and thanks for taking my question. I just had to clarification questions, please. The first one is on your slide 15. If I just look at the simple numbers, and you mentioned a neutral effect in the near to mid-term, but shouldn't it be positive given that the removal of the pillar two add on would be 100 bps or outweighing the BASEL IV day one impact? Or is it just because there is still a lot of uncertainty that you'd rather stick to the neutral effect for now? And then the second one, maybe a follow up on the inflows into asset management and how you see that developing going forward, also because in our deposit mix shift in Sweden slowing or maybe even troughing and then in the Baltics now as well, do you already see private customers thinking about or already moving money they have on savings accounts into mutual funds, or more risk on kind of savings instruments? Thank you.

Masih Yazdi: Yeah. If I start with the capital FX, I mean, yeah, sure, if you take the numbers we actually disclosed on that slide. So around -50 basis points around zero and around plus 100. That's a positive effect. And then you have this sort of dashed box where you have a marginally negative effect. I mean, it could in the end be a few tens of basis points positive. But we see that as largely neutral because, I mean, our capital buffer moves up and down by up to 50 basis points per quarter. So we think basically everything up to a 50 basis points is pretty much neutral, especially if you relate it to the capital generation we have, which is about 400 basis points per year. So even if it's sort of ends up at being slightly positive, we see that as largely neutral. So we'll see exactly how it ends up. But the message is really that in the medium term, we think that the regulatory changes we expect will be largely neutral. That means it could be marginally positive as well. On the inflows, I mean, here you have to make a distinction between the general market development and then our performance. We can see that in terms of our performance when it comes to how our mandates are performing, we have done significant improvements in the last couple of years. So both within asset management as well as within PDMFO[?], we've seen much better performance, we've seen good product launches that attract a lot of attention and inflows. But then obviously depending on how equity markets move, you could see more or less interest from investors, both retail as well as institutions. And then obviously, depending on when rates go, the relative attractiveness of investing in risky assets goes up and down. So that's a sort of very non-clear answer. But I would say that we are hoping and we think we're seeing a better performance for us in this part of the business finally. But then depending on equity markets, you will see a more or less positive development in general. We are hoping that our relative performance will improve going forward. But in absolute terms, it's difficult to say. I mean, what I could refer to before was that monthly savings have now gone up, and that's probably related to the fact that inflation is coming down significantly. So real household disposable income is improving, which means that people have more excess savings. And as rates are coming down, maybe a larger share of that will be invested in risky assets. So hopefully that's a trend that will go on.

Bettina Turner: Perfect. Very clear. Thank you.

Operator: Thank you. We will now take our final question for today. And your final question comes from the line of Ricardo Rivera from Mediobanca. Please go ahead.

Ricardo Rivera: Thanks for thanks for taking my questions. I don't know what happened before, the line dropped suddenly. Anyway. Just couple if I may. On capital return, you have disclosed today that your core tier one goes down includes SEK 5 billion buybacks. Half of that will be executed in the third quarter. But your capital, but your common equity remains 19%. AirPlus maybe will give you, in inverted comma, 'help' a little bit in solving the problem. But at the very end, if the buyback card has been played, there is only one alternative that is left. So the question here is, are you completely free to bring the payout ratio cash above 100% to bring the 19% to a number closer to 17.7? And whatever the whatever the capital requirement is going to be in '25 and '26, in your mindset, aside from financing growth, is

your idea, let's say, to keep the capital around that level, around the, let's say, 100, let's say, 300 basis points above whatever the requirement is going to be, also in '25 and '26? And the second question I have, just want to be 100% sure I understood it correctly, because the market on these things really, really freak out. You stated that there was a one off in NII in the Baltic Division, but positive if I understood it correctly; but there was another one off, not related to the same one, but another one off more or less of similar size in the Treasury Department, and it's not clear to me, Masih, when you mention something related to LC&FI if there is anything, also that not clear to me whether that was positive or negative, it's not clear. So if you can please clarify, because we know how the market is sensitive to anything related to NII. Thanks.

Masih Yazdi: Thanks, Ricardo. I understand that, so let's revisit that once again after I've taken the capital question. So, we will steer towards our target interval of 100 to 300 basis points. We have commitment to be there at year end this year. Beyond that, that's the target interval. So we will steer towards that interval, with share buybacks and dividends, and depending on how much our balance sheet is growing, that then it means more or less share buybacks or dividends. So it's not more difficult than that. We will look at the requirement. We will add 100 to 300 basis points and that sort of what we're going to steer towards. It doesn't mean that we guarantee to be at exactly 300 basis points each point in time. It could go above that. And but it is we have that interval so that investors know what we're steering towards. And obviously the commitment we have at this point in time is to be within that interval at year end this year. That's pretty much the only guidance I can give. So on NII, so there is a one off with a positive effect in Baltics with a corresponding negative effect in treasury. So group level, no effect; Positive Baltics, negative Treasury. And then historically we have typically said whether the net interest income derived from the market business is elevated compared to the average level historically. The only reference I had there was that this quarter is actually slightly below the historical average level we've had in the markets business. I don't want to call that a one off, but since we've discussed that previously and sometimes refer to that when we discuss NII, I just wanted to make that reference again, that if anything, the NII in LC&FI is marginally negatively affected this quarter by a reduced NII in the markets business. Hopefully that was clear enough.

Ricardo Rivera: Yeah, that was that was definitely clear enough. Thank you very much.

Operator: Thank you. There are no further questions. I will hand the call back for closing.

Johan Torgeby: Thank you very much for attending today, and we wish you a very nice summer break when times come. Thank you.

[END OF TRANSCRIPT]