SEB Q1 2024 Financial Results

Wednesday, 24th April 2024

Introduction

Johan Torgeby

CEO, SEB

Highlights Q1 2024

Thank you very much, and good morning to our Q1 2024 quarterly results. As normal, we will refer to the pages that we posted on our website.

Starting with the highlights of Q1, we have seen a clear shift in tonality, probably over the last six months around the macroeconomic outlook for Sweden. We have, of course, pointed to several times that we have had a pretty rough ride when it comes to the picture of Sweden, and that has clearly had a change in this quarter, and this was partly reflected in improved market sentiment amongst our clients.

Asset quality remained robust and net expected credit losses are almost non-existent in this quarter. Return on equity of 17.2%, and that is on a capital ratio of 18.9%, which equates to a 420 basis points buffer above our minimum regulatory requirements. We continue and reiterate our cost target, but also our progress towards our capital target of being in the range of 100 basis points to 300 basis points by year-end 2024.

Swedish economy expected to have relatively strong development

On page three, we just double click with a few data points on this change in tonality, particularly regarding Sweden. We have had a tailwind coming now from the expectations of lower interest rates. The previous headwind of having such a large proportion of the Swedish mortgage book, 89% in floating rate notes, clearly is negative when rates go up as it immediately hits and it is quite invasive in anyone's personal economy to have that fast and dramatic interest rate increases. This has now, of course, in expectations turned that if rates were to come down, which is broadly expected, this would also have now a positive effect for households and corporates who have a large proportion of floating rate exposure.

This monetary policy, which is accommodative, can also be very well supported by fiscal stimulus. The Swedish government has a very strong position, and we can see also that the government debt to GDP is very low, and therefore, there are room in addition to monetary stimulus get fiscal stimulus in the budgets coming in the near future.

Looking at business confidence, the PMIs, we have, for the last eight months, had a better position when it comes to these surveys than Europe on average. And as you might remember, we had one of the lowest expected GDP growth rates in Europe up until now, where we now can see consensus forming of a pretty positive development for 2025, where I would characterise 2024 a year of transportation into '25. But clearly, expectations are more constructive on the activity level in the economy going forward.

A selection of recent events

On page four, a few events and developments during this quarter. First, the customer satisfaction surveys that we follow with surgical precision, and it was very encouraging to come out again as the number one choice for our customers when it comes to sustainability advice. Beneath this Nordic overall score, we actually had a grand slam and number one position, both in Norway, Denmark, Finland and Sweden. In fixed income, we came out at number two.

During this quarter, we have also had a credit outlook change by Moody's, where we are Aa3, where we have had a change to a positive outlook going forward. And we continue to develop new anti-fraud features in our different products, particularly on accounts. And this, if you have not noticed is a major seam in Sweden right now, where fraud has increased, and we, as an important sector needs to develop other capabilities to mitigate this very sad development.

A profitable, cost-efficient and diversified business

Once a year, on page five, we look through the international network of SEB. And first, I will just point out that we are a very well geographically diversified bank. This is large corporate and financial institutions. So retail banking is not relevant on this slide.

Our home markets include the Nordics, Baltics, Germany and the UK. We can also follow the decision to modestly grow our international footprint since 2009. And we just concluded that this has served us very well, where the international contribution with new clients coming into the bank over the last decade and a bit has grown in 2023 by 16.2% as a contribution to income, clearly above the average of the Group, should we have not entered into new geographies.

On the next page, we look at from where, what countries did this growth from new clients come. And to your upper left-hand quadrant, you can see there are Germany in top, then Denmark, Norway, etc. Beneath you also see at what capital efficiency, return on equity, have we been able to do this growth. And on average, the international expansion must be deemed to be successful, and it is clearly higher than the Swedish on its own with good contributing cost efficiency, and now there is a quite significant number of staff.

Big picture since 2010 to 2023, you can clearly see the geographical expansion working in our favour. As we last year booked the 50% being Swedish, we are now at 48% coming from Sweden on a SEK29.9 billion client income and just a bit more than half coming from international sites.

Increasing share of investment grade companies

On the next page, we will look at how this growth, which is, of course, also included a balance sheet expansion, has been conducted. This is the non-retail corporates, both for Sweden and for the international expansion that we have had. And in both aspects, this has actually been a growing balance sheet size at a falling average credit risk, namely, we have increased the proportion of investment-grade lending and we have decreased non-investment grade and let us call it, special credit type of exposure, which are particularly troublesome.

So this has been a very prudent or actually derisking of the average risk of the balance sheet exercise accompanied by growth.

Development of credit portfolio

On page eight, we look at the credit portfolios in the bank, and I will be very short. I would say the muted demand following the elevated interest rate levels continues. And also this quarter, adjusted for FX, we more or less experiencing a sideline movement. There are, of course, some light at the end of the tunnel, where the improved business sentiment clearly points to the activity level going up in the economy. And therefore, the activity-based banking services we provide may develop more positively than the balance sheet, the beta, the interest

rate dependent part of the bank, which we will come back to. It is, however, too early to say if this will actually crystallise in the near term into tangible revenues and income.

With that, I will hand over to our CFO, Masih.

Financial Review

Masih Yazdi

CFO, SEB

Financial Summary Q1 2024

Thank you, Johan, and good morning, everyone, on the call. I am on page 10 in the presentation.

So in the quarter, we have an income level of SEK20.7 billion, which is the second highest we have achieved in the bank. As you can see, net interest income is coming down for the second quarter in a row, but it is still up compared to Q1 last year. At the same time, fee growth is accelerating, up 9% compared to the same quarter last year. I will comment on some of the other lines here before I move into the more specific slides.

On net expected credit losses, as Johan said previously, almost non-existing at one basis point. We, as always, have a couple or a few new reserves, but we always have a few releases from previous quarters as well. What is happening now is that, we are in our macro forecast more and more rolling into the more positive development we expect or our economies expect for 2025. And as this happens, this leads to some reserves being released, driven by how the IFRS 9 models work.

In this quarter, we have had a release of about SEK120 million, driven by that. And if estimates for 2025 stay where they are, and as we move more into using the 2025 forecast in our expected credit loss assessment, this tailwind should continue for the coming quarters.

On the imposed levies, we have a new high level of more than SEK1.1 billion. We said in the previous quarter that this year imposed levies should on average per quarter to be in line with the Q4 level. As you can see in the numbers now, they are slightly up, but that forecast still stands. We expect imposed levies to start to come down from the current levels and mainly driven by the fact that imposed levies in Lithuania should drift downwards. And we expect the levies on average for the remainder of the year to be around SEK1 billion, a bit higher than that in Q2 and a bit less than that in Q4, still be a downward trend when it comes to the Lithuanian solidarity contribution.

And then finally, on income tax expense, it is a bit elevated again in Q1 at almost 23% compared to the normal level of around 20%, and that is mainly due to dividends being paid out of our Estonian subsidiary in the quarter.

Operating leverage

I move to the next slide, slide 11. We can look at the operating leverage we have achieved in the bank since 2011. As you can see on this slide, our income level is up by about 120% since 2011. At the same time, as the cost level is up by only 20%. And combined, this has led to the profit pre-credit losses and imposed levies almost tripling over the same period of time.

Net interest income development

So moving to net interest income, up 4% year-on-year but down in the quarter. We have a couple of technical effects. Q1 is a shorter quarter. The day effect is about SEK100 million negative. And we also have some FX headwinds in the quarter as the Swedish kroner on average in the quarter was stronger than other currencies.

We do have an underlying negative development as well, driven by the fact that deposits on transaction accounts are slightly lower in the quarter, as well as some customer behaviour that continues with people moving money from low-yielding accounts to high-yielding accounts.

At the bottom of the slide, you can see that when it comes to the interest income we have received in our lending book that is flat Q-on-Q, whereas deposit from the public and the interest expense related to that is up by SEK400 million. Now, this is not completely driven by changed customer behaviour. A large part of it is coming from the fact that in Q4, we have less financial corporate deposits as the balance sheet is a bit more optimised. And now the volumes of financial corporate deposits have gone up in Q1, which has led to higher interest expense. That money is typically placed in credit institutions, which is outside of the interest expense on deposits.

If you look at the interest expense on deposits from households, the increase Q-on-Q is only around SEK50 million. So the negative effects of changed customer behaviour is not as large as this number could suggest.

Net fee & commission income development

If I move to slide 13, the net fee and commission income development, up 9% year-on-year, very much driven by asset management-related fees, largely due to the fact that equity prices have gone up in the last year or so. We do have good development on lending fees as well, both driven by the fact that we have a larger balance sheet today than we had a year ago, but also that a lot of the new business we have conducted has been in areas where you typically have higher lending fees, such as infrastructure investments, structural finance and so forth.

Payments and card fees are running at a pretty flat level as inflation has compensated the fact that consumption is a bit lower now than it was about a year ago.

Net financial income development

On net financial income on slide 14, it was a strong quarter at SEK3.2 billion, up 35% from Q1 last year. We had a strong underlying development within our business, mainly within fixed income, but also continued good activity within FX.

In addition to that, we have positive XVA effect as credit spreads have narrowed during the quarter, and we have a positive development within the Group's Treasury business, as well as the Treasury business in the Baltics. And as always, we say that our best guidance for this line is in line with the average we have achieved over the last few quarters. And as you can see, for the last 16 quarters, the average is about SEK2.2 billion.

Capital buffer development

On slide 15, we will look at the development of the capital buffer. It is down 20 basis points compared to year-end. We continue to generate good profit, adding 57 basis points post 50% of the profit being reserved for dividends. But we have a large headwind from FX in the quarter.

So despite the fact that the kroner was stronger on average during the quarter, it was weaker at quarter end compared to quarter end in Q4, which is leading to this headwind on capital.

Then post the optimisation of the balance sheet at year-end, you have a rebalancing of the balance sheet, leading to the risk exposure amount driven by asset size, also leading to some headwinds in this quarter.

Strong asset quality and balance sheet

On slide 16, looking at the few key ratios. Deposits up significantly in the quarter. This is again driven by the year-end effect that that has been normalised in the quarter. So a lot of this increase is coming from financial corporates, but we also see an increased deposit level from large corporates as well.

Liquidity ratios all look very good. And the total capital ratio is up in the quarter as we have issued a Tier 2 instrument.

SEB Group financial targets

Finally, reiterating our financial targets, dividend payout of 50%, around 50% of earnings per share; capital buffer of 100 basis points to 300 basis points and on return on equity that is competitive with peers. Obviously, we are at 17.2% in the quarter. We have a long-term aspiration of 15%. We still continue to believe that we have everything in place when it comes to our franchise and business mix to achieve this long-term aspiration, even if rates are a bit lower than they are today.

With that, we end our presentation and can open up for Q&A.

Q&A

Rickard Strand (Nordea): Starting off with a question on loan demand. We have seen natural statistics pointing to a decreasing demand for corporate lending. Still, your large corporate book grew quite handsomely in the quarter. Can you talk about, if there is any temporary effects here or if you see sort of a pickup in demand from your clients?

Johan Torgeby: No. Rickard, we have noted the same data point. There is no temporary effects. There is not a single event or anything like that, that has explained this. I do want to remind you that the top line is driven to the 0.3%, 0.4% on FX, so that could explain something. However, the underlying is still flat to up 1% or so, and that is definitely us maintaining relevance in the marketplace on the margin. I think these are quite small.

Masih Yazdi: If I just add, Rickard, as Johan showed in one of his slides, only 48% of our corporate exposure is today in Sweden. We are doing 52% of the exposure in other countries. The statistics Sweden numbers on corporate lending is obviously becoming less and less relevant when it comes to Norwegian orbit[?].

Johan Torgeby: Particularly [inaudible].

Rickard Strand: Then one of your peers this morning commented that there has been an increased demand from their clients to raise deposit rates. Do you see the same pressure? And how do you prioritise between volumes and margins ahead here into 2024 when rates are expected to be lowered.

Johan Torgeby: Yes. I mean we have clearly increased deposit rates way more than we have increased our lending rates on retail factories. We are now talking about C&PC in particular. We have not seen any major change this quarter. As Masih pointed to, there has been somewhat of a continuation of low yielding accounts losing some of the volumes to higher yielding accounts, but it has been less pronounced in Sweden during this quarter.

However, it has been a slow moving, but a bit more pronounced in the Baltics. So both of those two, but it is not really pricing changes or anything like that. And it has been quite stable, the deposit volumes.

Rickard Strand: Then a final one your loan loss buffer. Loan losses remain very low. What do you need to see to do larger releases from the buffer? And how should we see the timing of this into 2024 and potentially 2025?

Johan Torgeby: Yes. What I would like to see is just a better world. Geopolitical risk is coming down, uncertainty coming down that we have a soft landing as we think and that the companies and the households that we bank continue to pay their bills.

On timing, I do not have any particular guidance other than, if you were to look at our economists' projections, of course, all these reserves, just because of the macro assumptions and the model, how it works, of course, it would be a tailwind for us going forward should this materialise, but uncertainties are still significant.

Bettina Thurner (Exane BNP Paribas): I had a question on capital. So you said that you are planning to or reiterated that you are planning to get within your target range by the end of the year. Could you just remind us what capital headwinds you are seeing until that time or even beyond that? How much of the current capital base needs to be reserved for those headwinds to come, please?

Johan Torgeby: Yes, I will take that. We do not really see any capital headwinds over the course of this year. There are no regulatory changes to our knowledge that will impact the capital this year. We have the closing of the acquisition of AirPlus that has now been changed to sometime during the second half of the year that will consume some capital, but obviously not related to any regulation.

There is probably a decision taken on Basel IV this afternoon in EU, but that is being implemented on 1st January 2025, which is the most likely date. However, that is obviously beyond this year. That is a potential headwind, but that is coming into the numbers next year. It does not impact the development this year.

Bettina Thurner: Okay. Just to clarify, so there are 300 basis points target range should be reached in numbers, so not excluding then any headwinds that will take place beyond that timeframe?

Johan Torgeby: I would say, including any headwinds. Regardless of what happens, it is the 300.

Magnus Andersson (ABG Sundal Collier): The first one is on operating leverage. Since you were appointed CEO, Johan, total income is up around SEK35 billion from SEK17 million to SEK23 million, while costs are up only SEK5.5 billion. Cost-to-income ratio down from 48 to 34. With this in mind, if income growth would stall or even turn negative, let us say, from SEK25 million or so with lower short-term interest rates, would you consider taking short-term

efficiency in housing in measures to offset this? Or would you take a longer-term view and stick with your investment and cost plans until 2030. That is the first one.

Johan Torgeby: I think the answer is both. I do not know exactly. But first, I would like to say that when you get beta and not alpha. So beta in my book is things you cannot control, working for you or working against you, you as a business leader needs to be careful, so you do not do a mistake. You can over-invest or you can under-invest, but it is outside your control. Alpha is kind of where you run your firm towards and how many bankable clients do you add, what geographies do you work in, and what products do you support in developing and further into your clients. That is really what we want to do.

We want to reinvest in SEB, that is unchanged. However, obviously, that is the strategy. Tactically, you need to adapt to whatever gets in your way. However, I think about it like this, we have had a couple of years here now where no one could dream of that uptick elevated level of income coming through NII, because we had this very dramatic shift in interest rates.

Now we are going to normalise that. It does not change our picture strategically on where we want to take SEB. Obviously, if you do not have income supporting an expansive strategy, we will, of course, look at that in the future, should it be required to try to adapt the cost base as well. However, for 2024, we reiterate the cost target, which has a meaningful reinvestment in the bank in it and take all the information we get during this year before we come back for 2025. Both of them are legitimate questions and areas one needs to adapt.

Magnus Andersson: Okay. The second one just on deposit migration. Perhaps you are right about it in the report. I have not had time to read everything yet. However, if you could tell us about geographies there, it looks like your NII is down quite significantly quarter-on-quarter in the Baltics, while it is fairly flat in the other business areas, slightly down in large corporates. Is it primarily the Baltics we are talking about there in terms of migration that has impacted the quarter? Yes, that is my question.

Masih Yazdi: Yes, Magnus, I will take that. There are a few different factors. You should have in mind that the day effect and the FX effect is larger in the Baltics than in the other division. So that is having a more negative effect in the Baltics than elsewhere. When it comes to the Baltics, there is some migration happening. It is not a massive amount, but there is some still in the quarter. It is also the case that in Q4 we introduced interest rates on transaction accounts in the Baltics. In Q1, you have the full quarter effect of that happening. So that part is obviously not related to migration, but rather related to the fact that we increased deposit rates in Q4, and now have a full quarter effect.

In the C&PC division, you do not see much more migration to term deposits on private accounts. However, what is happening this quarter is that we have fairly large outflows on corporate deposits in the C&PC division. That is very much a seasonal effect related to tax payments by these corporates. Typically, Q2 is a pretty good deposit quarter both from SMEs as well as private households. So we do expect some of this to come back in Q2.

The migration effect is less and less pronounced. It is more about sort of other factors right now. Then obviously, if we do get rate cuts now in Q2 as the market expects, then we will see what happens to deposit pricing, driven by competition as well as obviously on the lending side, especially mortgages and what competition will do with margins there.

Johan Torgeby: I would add one more, and that is also dividend season. A typical corporate bank will see a build-up of cash in January. And then dividends will start also push SMEs to February, March, April, that is the typical dividend season. You see that outtake and then that comes back in later Q2.

Magnus Andersson: Okay. This is interesting as the other bank reporting this morning, quoted significant migration as a reason for the weak NII quarter-on-quarter. However, you are saying you are not really seeing competition picking up significantly in Sweden quarter-on-quarter, which has triggered any weaker NII.

Masih Yazdi: I think competition has been really high on deposits for the last 18 months or so. I think we have seen most of that increase in competition already happening. If you look at how migrations to term deposits have developed since Q1 2022, you have seen a dramatic change. I would not say that competition is picking up. Competition is continued to be high but to the extent that people want to optimise how they save their money in different types of deposits, a lot of that shift has already happened.

Johan Torgeby: And Magnus, I get a very good pointer from IR here that we have a new disclosure on page 30 in the fact book, where you can see it more specifically by account, how things have moved around in C&PC.

Magnus Andersson: Yes. I see that.

Sofie Peterzens (JP Morgan): Just staying with net interest income, could you maybe talk about how we should or what your rate expectations are for freight costs in Sweden? And how we should think about the potential impact on SEB's net interest income from lower rates? What are the key drivers for net interest income growth going forward? And especially in the Baltics, should we expect low rates mean basically a symmetrical decline in NII compared to what we have seen run rates went up. That will be my first question.

Then my second question would be on your below SEK29 billion gross target that you gave with the fourth quarter results. You say that it still holds. However, could you just remind us, what FX adjusted cost number now is?

Masih Yazdi: Thank you, Sofie. I can start. Our economists believe that the first policy rate cut in Sweden will come in May and then they have a couple of more cuts. They are doing a revision of their estimates as we speak. We will see exactly how they come out. However, I think they have rates going down to around 2% or just higher than 2% by end of 2025.

As we have said previously, we do not dictate how competition evolves. Therefore, it is difficult to say exactly what the sensitivity on NII is. If I reason around it, the immediate effect will be on the fact that we have more assets on our balance sheet and liabilities, i.e., we have our equity, which we do not pay an interest rate on. So there is going to be a negative effect on that. That is SEK220 billion around or so of equity, where you will see a negative effect from rate cuts.

In addition to that, you have some deposits that are in transaction accounts where we typically pay low or zero on those type of deposits, and you will have a negative effect there as well, as we will not be able to compensate for lower rates on the lending side with cutting those deposit rates as they are already close to zero.

Then we have a couple of potential offsetting factors. The main one is mortgages, where we know that margins are extremely depressed. And the question is, at what pace and when will mortgage margins start to improve? That is going to depend a lot on competition and a lot of demand. If rate cuts do lead to higher demand, that is more likely to lead to a recovery of mortgage margins going forward.

The second one I would mention is the card business. We have had about a SEK1 billion of annual headwind on net interest income in the card business, as we have not been able to increase the interest expense on the cards as much as rates have gone up. When rates go down, we are likely to recover some of that. Thus, net-net, rates hikes was positive, rate cuts will likely be negative on the net interest income line.

The question is obviously, to what extent and obviously, how many rate cuts you get. What we are hoping for at the same time is that the activity part of the bank, mainly fees and commission income will have a more positive development as the rates are cut and the economy is having a higher activity level. We are seeing signs of that in Q1, but it is too early to say to what extent that will recover and what the pace that that will be.

Then on your cost question, the FX adjusted target is still SEK29 billion. So FX did not change that much in Q1 this year, so it is still 29%. In Q1, the cost level is slightly elevated, mostly driven by technical factors related to fact that pension cost is going up as interest rates last year did not continue to move up compared to the previous year at the same pace. It is a technical factor having effect on the accounted pension cost. Then we have had higher variable salaries to all employees in the bank decided in 2023, which has had a negative effect in Q1 2024, as well as the share price going up in Q1, which has had a negative effect on the variable cost in Q1. It is a bit elevated.

However, if we look at how we invested, we are still at the trajectory of reaching our guidance for the full year. So we are not concerned about the cost level.

Nicolas McBeath (DNB Markets): Starting with a couple of questions on the NII. If I look at the NII bridge quarter-on-quarter, I cannot see the positive impact that I would have thought you got from reversal of the negative SEK162 million on the NII from related to tax issues in Q4. Just to confirm, is that still a negative impact on NII in Q1, or is it somewhere baked into the NII bridge that you provide?

Masih Yazdi: Yes, Nicolas, I will answer that. You are correct that we did flag a negative one-off effect on NII in Q4 of around SEK160 million. That is correct. But in hindsight, looking at the numbers, we did also see that in Q4, we had a few smaller positive one-off effects that in total, was pretty much in line with the negative effect. So the reported number in Q4 was in line with the underlying number if you adjust for both the negative and positive one-off effects.

Nicolas McBeath: Okay. Could you comment anything on the NII outlook that you see for Q2? I guess, some tailwinds related to FX and the day count, but would you expect the underlying headwinds to subsume those, or do you see potential for stabilising NII in the near term?

Masih Yazdi: It is a good question. Difficult to say. I mean, Q1 was a bad combination of the kroner being stronger on average, but weaker at quarter end, but that is weakening of the kroner quarter end. If that stays where it is, that is going to feed into a tailwind on NII in Q2.

Typically, Q2, you have a better deposit development than in Q1. That could be another tailwind. Throughout the course of the full year, we do expect some tailwinds on funding costs, as we are expected to do less funding during this year, especially short-term funding that was elevated last year.

We have a few tailwinds. Then we have the normal headwinds in terms of some migration. And obviously, the big outstanding issue is, whether we see a rate cut in Sweden on I think 8th May. And if that happens, that is obviously likely to lead to a headwind going into the second half of Q2. What this means all in all, it is very, very difficult to say. However, surely, we have some tailwind going into the quarter. That is sort of what I can say for now. And then we will see if that is enough to compensate for potential rate cuts.

Nicolas McBeath: All right. Then just a quick question on AirPlus. If there is any particular reason for the delay for the completion of the acquisition and if you have any updated assessment of financial impact that you could share, I am thinking particularly on the P&L impact maybe for year one and two, please?

Masih Yazdi: Yes. The delay is mainly driven by the fact that we have a lot of milestones and things that need to be in place before we do a closing of the transactions. And there has been a slight delay in one or two of the milestones by a couple of months, which is, I guess, pretty normal in these kind of transactions. That is leading to the delay. And we are expecting it to be closed during the second half of the year.

On the financial impact, we do not have any updates. We will come back to all the financial impacts, as we announce the closing of the transaction.

Markus Sandgren (Kepler Cheuvreux): I was just coming back to your mortgages. I agree on that it is a really compressed margin. However, I saw one of your competitors lowered their mortgage rates the other week. What are you reading into this and when it comes to the competition and the landscape for the coming quarters?

Masih Yazdi: Yes. Thanks for that question. I have not seen that. I am assuming it is related to the fact that credit spreads have come down to some extent on corporate bonds. I do not know whether they have lowered the three-months variable. Obviously, the three-months variable mortgage is largely driven by the three-months STIBOR, which is already pricing in a large likelihood of a rate cut in May as it is a three-month forward-looking rate.

Three-months STIBOR is already down by 10, 15 basis points from the levels we saw a few months ago. That is leading to lower funding costs on the three-months variable mortgages, and therefore, you can cut that. I would not see that as a signal of increased competition on mortgages. We will see.

I mean, mortgage margins are extremely depressed, which is largely driven by the fact that you have a lot of supplies. You have many banks offering mortgages. Banks are well capitalised. And then in addition to that, there has been low demand. What is likely to happen with rate cuts is that demand goes up. You have seen very few transactions over the last 24 months. You should assume that there are many people out there that want to move into something that is more suitable for them. They have postponed doing that, as they have been uncertain about the price levels. Now if that stabilises, you should see more transactions. Therefore, higher mortgage lending growth going forward. That typically should support the

margin development if that happens. More likely to see margin improvements on mortgages than further margin pressure on mortgages, I think is a base case scenario for us.

Markus Sandgren: Okay. Have you said anything about how much of your mortgage book that is on three-months and versus fixed?

Masih Yazdi: It is around 70% that is on three months. If you look at the new mortgages that we did issue, it is clearly above 70%. It is 80-85%. So yes, it is a large chunk of the book.

Shrey Srivastava (Citi): It is another one on the Baltic mix shift. If you look at the disclosure, which you quite helpfully provided, the first quarter of 2009 saw savings with private customers, constitute 60% of total deposits with transaction accounts contributing 40%. Now that is obviously changed significantly, but the proportion of savings accounts still significantly lags what it was 15 years ago. I would like to ask, have there been any structural changes in the market that would justify this, or is there by that analysis, a significant potential for continued mix shift in the Baltics going forward?

Johan Torgeby: Yes, it is a good point. We have looked at the numbers as well, when it comes to how much you had in different types of accounts, a long time ago, as we have to look a long time back to see positive rates last time. We do not know to what extent this migration will happen. I would just say, in general, it is less competition on deposits in the Baltics than it is in Sweden.

If you look at, for example, the loan depo ratio in the Baltics, it is clearly much lower, so you have clearly more deposits than lending. And we have continued to see deposit growth over the last couple of years in the Baltics. Competition is less in the Baltics. And it is not heating up to a large degree, I would not say. By saying that competition is less, I think the likelihood for being able to adjust deposit pricing downwards when you get rate cuts from the ECB is probably higher in the Baltics than it is in Sweden.

What you do not have in the Baltics is that you do not have as depressed mortgage margins. It has been more difficult to compensate potentially lower rates by improving mortgage margins. However, on the deposit side, competition is less fierce than in Sweden.

Shrey Srivastava: Now, that makes sense. If I may quickly follow-up. How do you reconcile the deposits being less in the Baltics with the fact that mix shift is continuing there versus in your own words tailing off in Sweden?

Johan Torgeby: I think it is mainly due to the fact that the flows of the migration to term deposit in the Baltics started later than in Sweden. The adjustments in Sweden were made faster. I think maybe to some extent, related to more competition on deposit in Sweden, so more niche banks, smaller banks offering high term deposits; maybe to some extent, to financial literacy, people adjusting a bit faster to the new environment.

Riccardo Rovere (Mediobanca): Three, if I may. On NII, the feeling is that when you look in general for Nordic banks, you got the feeling that the recent rate hikes not really brought any particular benefit to the margins. Sweden, which is supposed to be not that competitive market, when you look at the number of banks operating in the country in respect of other countries proving much more competitive than Italy or Germany, which are supposed to be much more fragmented.

The question here is, when rates will start coming off, given that recent rate hikes has not brought any particular benefit or it seems to be? Is it fair to say that this could work exactly the other way around, at least for the first cuts, if operators behave rationally? That is the first question.

The second question is on trading revenues. Now before anything else, you are a corporate and investment bank, you help your clients hedging against movements in rates, FX, whatever. This is part of your day-by-day operations and that is booked under the trading income line. Now your guidance here, Masih correct me if I am wrong, if I remember well, is couple of billions per quarter excluding XVA/DVA cuts-off. Now, when you look at the past 20 quarters, the number of quarters below SEK2 billion or actually above SEK2 billion are 70% to 80% of the quarters are well above SEK2 billion.

I was wondering, does that guidance still stand? Or given that the business in the meantime has grown, got market share and blah, blah, blah, that guidance is a bit conservative, because SEK2 billion never happens basically?

And the very final question is, probably for Johan. Rates one day will get down, and this is supposed to be a negative for banks in general. In your mindset, Johan, is capital management gaining more and more relevance in an attempt to maintain or maybe improve the returns of the banks when maybe revenues will suffer more than they are today?

Masih Yazdi: Okay, Riccardo, I will start with your first two questions, and then Johan, can take the question pointed at him.

You are right in the sense that it seems like the last couple of rates hikes didn't have a large positive effect on NII. Whether that means that the first few cuts will have a less severe effect? Well, I think it is likely that the first cuts will have a less severe effect, just due to the fact that you have a lot of deposits on accounts where you can adjust the rate when rates are cut. So if rates stay at above, I do not know, 2% or 3%, then the impact from rate cut is likely to be less than if rates go down to where they were before as close to 0%. When you are at that level, you just do not have that many deposits to compensate with by cutting the rates on that. Yes, I agree with the first cut being less severe.

On the trading revenues, as we showed on our slide pack, we have averaged SEK2.2 billion over the last 16 quarters on average. We cannot give you a better guidance than we should be able to achieve the same kind of average level going forward. Whether that is conservative enough, we do see that we have been a bit above that level in recent quarters but it would also be volatile.

What is conservative or not; we have increased the guidance over the years. A few years ago, we did guide for 1.5% to 1.7% and now we are staying around SEK2 billion or just north of that. I think we have adjusted the guidance to also the fact that we have been taking market shares and have been growing our markets business.

I will just comment on one of the first things you said as well, you said that it feels like competition in Sweden is less. I do not think you should conflict profitable banks with less competition. I am pretty certain that competition in Sweden is more severe than most other countries. You do have a few large banks, but you have a lot of smaller banks offering both mortgages as well as saving accounts, and you have a very literate public sector, corporate

sector, as well as household sector. I think competition here is extremely fierce. But fortunately, we also have well-functioning banks up here.

Johan Torgeby: Riccardo, then on your capital management question, I now speak not formally from SEB just personal reflection. I do think you are right. I do think, we do very, very well. If you can have a little bit more capital than not and still generate a very healthy return on it, it gives you the benefits to be a little bit further away from the edge.

For me, capital is always this balance between surgical precision on having the exact capital you want to maximise return on equity, do not carry too much and do not have an inefficient balance sheet versus having a long distance away from running into a capital problem. You want to be the last bank in the queue when things go bad if you need to deploy it.

Banking is always a tale of two stories. We have had one for two years, which has been low activity, strong financial performance. To me, this is the pivot in this quarter. I talked about it last quarter, that will have a tail of financial headwind. And we have activity-based tailwind. That is banking, and they go up and down, and they are communicating with each other over the medium to long term always.

When you go into this, capital of course does become more of an issue, but that is not to say that I foresee or guide that we will change our target. The core in this bank is, of course, to have ample capital to be the last bank that cannot serve these customers in really distressed scenarios. Thereafter, we have the minimum capital requirement, which, you know better than me, is one of the highest in the world and a healthy buffer to that one. That is a regular choice. It is not a business consideration. It is just that we need also to have a good cushion with any potential problems with the regulator. And we will continue to triangulate these things when it comes to capital.

I also just point out, which I think is beneath your question, it has been quite clear that there is a positive correlation between share prices and professional capital management, if I say it that way. That is something, of course, we take very seriously and into account when the Board and management discuss capital planning.

Riccardo Rovere: Very clear. Maybe a quick follow-up. Given that early 2025 is getting closer and closer, is that of course something we should be worried about? I am not sure you have given a number for that, maybe not?

Johan Torgeby: I am not worrying about it. I am actually thinking 2025, there could be a little bit of a good time for banking. We will have, of course, the rates against us. So I do not know exactly why would you worry.

Riccardo Rovere: Just referring to Basel IV, the implementation of Basel IV, if that is a problem or we should be worried about that.

Johan Torgeby: Well, the main reflection is that, in our view, is incentivising low-risk taking and incentivising high-risk taking as you're standardising risk weights. That is a more long-term concern with this regulation that low-risk banks like us will be incentivised to conduct low-risk business. We will continue to do that, but it is unfortunate that regulation goes in the other direction.

Masih Yazdi: And then, if I may, Riccardo, add one point on NFI, you probably do not remember, because we have a lot of things to think about. However, we did a graph some

time ago, where we tried to look at how much of the total NFI trading generated in the relevant part of the world where we operate, as an accumulated number is out there and how has it developed and what is our proportion.

I do not know about guidance. It is a very tricky thing to guide, but I can tell you that was very clearly concluding that the proportion of fixed income commodities, interest rate hedging, FX that we do compared to the overall NFI is increasing, which is the best data point I have that you can show that we have continued to be very committed to trading of securities and financial instruments and hedging, and this has been an area which has not been focused on for years. It has been so much NII, and we have, of course, a proportionately much larger share of our DNA in NFI, but also in fee and commission. We might dust that off for next quarter. Otherwise, I refer you to the one we showed some time ago.

Johan Torgeby: Thank you, everyone, for participating today, and hope to see you soon. Thank you.

[END OF TRANSCRIPT]