



# **Q2 2021 Results**

Thursday, 15<sup>th</sup> July 2021

## **Introduction**

Johan Torgeby

*President and CEO, SEB*

### *Development in financial markets*

Good morning, everyone, to a 30-degree very sunny and unusually hot Stockholm. If I start on page two, just reflecting a bit around the financial markets in the second quarter, it has been, broadly speaking, a very supportive strong financial markets for the type of banking that we conduct.

Equity markets have continued to perform very well, to say the least, and we have seen new all-time highs on all the broader indices that we use as a leading indicator for our AUM business and the general sentiment in the financial market, as well as a continuation, albeit, gradual for investment grade credit spread and a quite noticeable continuation of credit spread tightening within high yields. Interest rates have been moving around a bit. So after this initial change in ever falling ticking up a bit, we have had marginally falling interest rates during the quarter.

### *Highlights in Q2 2021*

Page number three, we highlight just this quarter's performance in SEB. The first one is that we generate a 14.7% return on equity on a very well-capitalised bank with a management buffer of 860 basis points.

One highlight in the positive sense during this quarter was the strong net commission income, primarily driven by Investment Banking. And within Investment Banking, we had exceptional activity within Equity Capital Markets. We also had a contribution in the short run from payments coming from cards.

And thirdly, we had a very strong, robust asset quality development, where we now have seen the recovery in the economy where the clients of SEB has increased their activity and what we feared earlier this year is not happening as we see it today. And we have a very low credit loss level for Q2, which means that we now estimate to end up below our previously guided normalised level of 8 basis points to 10 basis points.

### *Development in credit portfolio*

On page four, we have the development of our credit portfolio. And as a reminder, this is the exposure, not the lending. And if you look at the corporate lending, we can clearly see the expected, call it, pause that we have been talking about for two or three quarters following the elevated levels that we experienced at the outset of the pandemic when many of the large corporates, in particular, asked and demanded much more credit in order to have security for a rainy day.

On the margin, this has held up better, so we are actually FX-adjusted 2% higher than we were last year, which was this elevated level, which is very similar in the broad perspective to what we would have expected, but on the margin, a bit better. We are actually writing the same amount of new lending today as we did a year ago, a bit more.

However, we have seen a clear acceleration in the mortgage market, mainly driven by an ever-appreciating and an acceleration in the appreciation of house prices. The last average price note I have is 18% increase year-on-year, and I believe that to be one of the highest in Europe and a clear outlier clearly driving an increased demand for mortgages. And we have seen a clear acceleration also in SEB with a 9% year-on-year increase. Nothing to report on the other lesser areas.

I would also say that as far as we can tell, we believe to have gained some market share, both within mortgages, but in particular, within the corporate space. It looks to be a little bit better than the data we can look at in Sweden.

*Historically high income from equity capital markets activity*

On the next page, I thought I would just highlight the exceptional performance and activity levels in the capital markets within equities. And we can just conclude that this is a broader phenomenon where the equity capital markets in the Nordic countries overall have seen a very strong development, both in the number of companies that goes to the market and the number of deals that is done, both secondary and primary, as well as the volume.

SEB is broadly in line with this market development. And we have, in the second quarter, recorded 2 times the highest ECM revenue as we have ever seen. So it is twice as high as the previous all-time high on Equity Capital Markets.

*Continued support to our customers in their sustainability transition*

Next page is a continuation of a slide we had in the last quarter to talk about this long-term opportunity, which is really now coming to become a short-term opportunity of sustainable finance.

We have updated the issuance of sustainable linked financing in the different categories. And we can see that the second quarter has maintained the twice the pace of last year. And we end up more or less at the same number for the first half this year as the full year number last year. So if this continues annualised, this would then be estimated to be close to a doubling.

More or less, the same goes for the Nordics. We maintain a strong position, and this is one of the areas, thanks to our energy bets and previous history within sustainable finance, that we really try to excel at. And I just thought this would be a big interesting data point when it comes to the market opportunity.

One year ago, 16% of all the debt financings that we did was in a sustainability linked format, that is a covenant package that somehow the issuer is linking to some type of relevant metric in order to perform from a sustainability perspective. This year-to-date, we have 40% of all the debt transactions that we do has now that type of connection.

This is clearly here to stay, and as we have talked about for a long time, it is a great opportunity for banks to play a positive role in the transition and help the markets and its clients for transitional finance and sustainability acceleration.

*With a selection of new launches and events in Q2 2021*

On the next page, we have some more concrete product launches and what we have done in the last 90 days. First, we have launched a sustainability-linked supply chain financing. And this is really a huge product in terms of the volumes in the world for supply chain financing.

And it allows a company to put criterias in for their suppliers and the supply chain that they will get incentives or disincentives depending on how they act and behave themselves when it comes to sustainability.

We have also launched a retail green savings account. So a deposit where the deposit earmarked in these deposit savings go for some type of energy efficient housing within the bank, so we have a commitment to what we all lend that money to. We have also launched our ninth Microfinance Fund. This is predominantly targeted to emerging markets to help people of lesser means to start businesses and entrepreneurship in the microfinance space.

We have also launched a web interface for sustainable metrics within private banking. And this is a tool where you can specify and you can see, in any given portfolio equity, and in the future, funds, what type of footprint does this equity portfolio have and make sure that it is in line with the client's own preferences on what one invests in.

We have also now had the first exit from our incubator in Norway, which is a sustainable entrepreneurship, clean tech green-tech entrepreneurship, where we, without any particular charge, allow companies to come into SEB and use all our resources in order to create a stronger momentum for their business. And this has been a very interesting journey for us as we are now complementing our fin-tech with clean tech and green tech as entrepreneurship is now exploding within this area. And it is important for financial institutions, such as SEB, to assist these companies, both in the financing, but also in the advisory using the network we have available for their benefit.

And lastly, it has now been announced the 28 banks, of which SEB is one, who has been named primary dealers for the EU NextGeneration programme, which if you remember correctly is an €800 billion green financing bond programme, and we will be one of those primary dealers to take part in that.

With that little short update on recent events in the quarter, I hand over to Masih, our CFO, to go through the financial results.

## **Financial Performance**

Masih Yazdi

*CFO, SEB*

### *Financial summary Q2 2021*

Thank you, Johan. So let us move to page number nine and dig into the Q2 numbers. As you can see compared to the previous quarter, income is marginally up, but it is marginally down compared to Q2 2020.

The composition of income has clearly changed, whereas both in Q1 and Q2 last year, the net financial income line was a bit larger, whereas in this quarter, we see an improving trend in net interest income and net fee and commission income.

Expenses are well managed, just slightly up compared to last quarter and the previous year. We can see that the cost-to-income ratio in the quarter is at 0.42. The capital has improved to 21.1%. And as Johan mentioned before, the return on equity is 14.7% in the quarter.

*Financial summary YTD June 2021*

If we move to the next slide, slide number 10, and look at the year-to-date numbers. Income is up 12%, whereas expenses are up 1%. And here, one should have in mind that looking at the income in the fixed currencies or looking at the FX effect, we can see that income has had a negative effect of about 500 million compared to the first half of last year, whereas we have a positive effect on the cost line. So costs are about 200 million lower because of FX moves.

Nevertheless, with strong income growth and largely unchanged expenses, we can see that profit before credit losses were up 22%. And with much lower expected credit losses this year, the profit is up 80% year-to-date. Summarising the first two quarters, we can see that return on equity is at 14.2%.

*Net interest income development*

Moving to slide number 11 and the net interest income development. It is plus 6% so far this year compared to last year, that is mainly driven by volume growth, mainly within mortgages and corporate lending within the Corporate and Private Customers divisions. We also see tailwinds from funding costs first half of this year compared to first half of last year.

If you look at the quarter-on-quarter development, net interest income is up around 3% or around 170 million. This can be explained by mainly three factors, contributing about 50 million each, that is from lower funding costs, from volume growth and the fact that we had one extra day in Q2 compared to Q1. And the remaining 25 million is coming from lower regulatory fees.

We also note that the markets related net interest income is still at the elevated level that we had in Q1, which is about a 100 million higher than the long-term average. You can also see in the numbers that there are some swings between Treasury and the divisions, whereas last year when credit spreads were higher, Treasury was paying more for deposits to the divisions. And now when credit spreads have come down, that compensation for deposits have come down. And therefore, you can see an improved net interest income within Treasury and the corresponding negative effect within divisions. Obviously, this has no impact on the Group net interest income.

*Net fee & commission income development*

If we move on to the next slide, slide number 12, we can see a 12% increase of net fee and commission income year-to-date that is mainly coming from Asset Management from the Investment Banking business and the Life business. And this is partly offset by lower lending fees so far this year and markets-related fees.

Quarter-on-quarter, fees are up 11% or around 500 million. About 60% of this or 300 million is coming from the Investment Banking business. And we have about 100 million each from higher card fees and from higher Asset Management fees. On the card side, we can see that when it comes to the income from private cards, that is now slightly above the pre-pandemic levels, whereas on the corporate cards side, we have seen a small improvement from the low levels we had during the height of the pandemic. But there is still a lot of improvement needed to go back to the pre-pandemic levels.

On Asset Management, we have lower performance fees this quarter compared to the last quarter. And if you look at the base commissions, those are up 8% quarter-on-quarter.

On Investment Banking, obviously we have had a very good quarter. We think that the pipeline still looks good for the second half of the year. It might be more tilted towards M&A for the second half versus what we have seen in the first half, which had been more tilted towards Equity Capital Markets and IPOs.

I think it is also encouraging to see that the net inflows in the bank has improved to 25 billion in the quarter, fairly well spread across the different businesses, so Asset Management sales to institutional clients within Private Banking and also within the C&PC division to private customers. And we can see an improvement when it comes to advising on savings when we advise on mortgages. And that the monthly savings are going up fairly rapidly compared to the levels we saw a year ago.

#### *Net financial income development*

If we move on to the next slide, net financial income, up 42% year-to-date, very much due to the negative numbers we reported in Q1 last year at the height of the pandemic. Quarter-on-quarter, there are some movements. NFI is down, and that is mainly due to the underlying business within fixed income, currencies and commodities, which has had a better level in the last few quarters. And now due to lower volatility, we can see a negative effect quarter-on-quarter of around 300 million. At the same time, the NFI within Treasury is lower than it was a quarter ago.

We also, obviously on this slide, have some valuation effects comparing to Q1, but the contribution from the strategic shares as well as the XVA effects are combined about 500 million less than it was in Q1. At the same time, we have reported the valuation gain on Tink, given the sale and the exposure we have had there, of about 500 million. So that is compensating for the negative Q-on-Q effects from the strategic shares and the XVA effect.

#### *Operating leverage*

Next, slide 14, operating leverage. So far this year, with income up around a billion per quarter and with expenses largely flat, we can see that the pre-provision or pre-credit losses income is up around a billion per quarter. Let us see how the year ends.

#### *Capital development*

Moving to slide 15 and the capital development. We have had a very good contribution from the net profits in the bank during the quarter, 86 basis points or 43 basis points after 50% accrued dividend. We have also seen a more normalised level of market risk exposure amounts, which has added 36 basis points to the capital base, and then some tailwinds from FX. And altogether, we can see that the management buffer has moved from 780 basis points to 860 basis points compared to the current minimum requirements of 12.5%.

One should note here that from Q3, the Pillar 2 guidance will be added, and we right now expect that our capital requirements will by Q3 go up by between 100 basis points to 150 basis points.

#### *Strong asset quality and balance sheet*

Moving to slide 16, a few key ratios. Obviously, much lower net expected credit losses so far this year. We have seen a very strong growth of customer deposits of almost 300 billion. About two-thirds of this is coming from financial corporates. And we note that now the core loan-to-depo ratio in the bank is down to 103%.

We have a very stable funding situation in bank and liquidity. As we talked about before, the capital and solvency ratios looked very promising.

I think I will stop here. And we can open up for Q&A.

## Q&A

**Andreas Håkansson (Danske Bank):** Two questions. First one, if we think about buybacks, have you had a discussion with the Swedish regulator about buybacks for the fourth quarter or for any time? And is it possible to say how long it takes for the regulator in Sweden to approve a buyback once you would ask for one? That is the first question.

**Masih Yazdi:** Yeah. Andreas, I will take that one. We discuss our capital position with the regulator all the time. Just when it comes to the formality of buybacks, I think in general when it comes to these kind of things, the FSA has around three months to approve such a mandate.

**Andreas Håkansson:** Three months from when you actually ask them then I guess?

**Masih Yazdi:** You have to send in an application and then they have maximum three months to do that. Yeah.

**Andreas Håkansson:** Have you sent in that application already?

**Masih Yazdi:** I cannot comment on that.

**Andreas Håkansson:** Okay. Next question then. You said that P2G would add around 150 bps. That is roughly the same as what you normally say about your management buffer. Should we look at that as one covers the other one?

**Masih Yazdi:** Not the way we look at it. I mean, Pillar 2 guidance is a soft capital requirement. But then, as a bank, if you breach it several times, it could become a hard requirement. So I think the way we operate, we are going to see Pillar 2 guidance as part of the minimum requirements and then add our management buffer on top of that.

**Nick Davey (UBS):** Two questions, please. First, on the strategy review that you are mentioning in today's release, I can see the words of invest, investing, investment frequently and a bit of a discussion of cost income ratios in the future. So I understand it is on the summer plans. But can you just share any early thoughts about where some of these investment needs are? How big they might be? How much of a change you might see in the future plan versus what we are used to? And second question, just following up from Andreas really on this question of capital return. Just then a broader question of if restrictions are loosened, how should we prepare ourselves and investors prepare themselves for what your intentions are in the second half? Thanks.

**Johan Torgeby:** Okay. I will start, and I will ask Masih to complement. The strategic review is in the process of being halfway conducted within the bank. So we will take this year and conclude, and then we will come back to you on our findings. You did get a little bit of a teaser in the kind of reasoning we have very much from an external perspective in the CEO comments in today's report.

And the areas are very, I hope, clear what we are considering there. It is an increasing activity and future need for being relevant in Corporate and Investment Banking. It is very much aligned with our DNA, and we have definitely both a quarter and a year behind us that I think supports that point.

We can also see an internationalisation of the Nordic and Northern European companies. We will definitely have an ambition to continue to invest in and have a very wide and nice capability for our clients in the broader world. The mega trends of sustainability, regulatory compliance and digitisation will remain. And if anything, they will be accentuated.

And yes, I agree. Maybe the word is frequent on invest, but it is not like we have not in the past. We have just done it under a prerequisite of a falling cost-to-income for a decade or more than a decade.

So to your last point on what to expect in terms of investment when it comes to the financials, it is very much aligned with our previously guided new divisional targets. And what is very hopefully clear when we went out with that a few quarters ago is that we kind of think that the current cost-to-income of around the 45. We have gone from 0.64, I think, we point to this level. It is about where we think it is an appropriate level not to go down to 0.35. You start having the risk of underinvesting. And you do not want to go up to the 0.55, which is more the average of Europe, because we do not think that is necessarily an easy income play.

So where we are today, we are kind of reasoning around allowing this cost efficiency, very prudent and targeted resource allocation to be around this level, which of course is a quite big difference from what we have said for many, many years, which has been a nominal cost cap regardless in order to make the bank more efficient. Masih, anything to add?

**Masih Yazdi:** I think that was perfect. I have nothing to add to that. I can try to respond to your second question on the capital return and how you should prepare yourself. We are still awaiting the guidance from the regulator here. I am sure that in the next couple of months we will hear more. And one has to admit that right now the base case, given the recovery in the economy, is that the dividend restrictions will be lifted or be looser than they are today.

And we have said in the past that given the capital position we have, we will come back to the market with some kind of a response or communication around how we deal with this. It is going to be a combination of share buybacks and dividends. And exactly what comes first and what comes later, we have not fully decided. And we will do that and communicate to you as soon as we know.

What I can say generally is that this is not something that will change from one day to another. So on 3<sup>rd</sup> September, you cannot do dividends. And on 1<sup>st</sup> October, you can do as much as you want. It is going to be a gradual process. That is how we look at it. The uncertainty about the pandemic, the uncertainty about the economy will be a gradual process. And therefore, our optimisation of our capital base will also be a gradual process, whether that means it is going to take a year or two years or six months or 18 months, we do not know yet. But just prepare yourself for a gradual process.

**Nicolas McBeath (DNB Markets):** So first, a question on asset quality. So it seems like now that some of the scenarios and the loan loss provisions you took early on in the pandemic may have been on the high side. So I just wonder, if you have any thoughts on



whether this has impacted your view on the resilience in your credit portfolio, if you think about that differently, if you think the pandemic has been a good stress test? And if so, if the resilience we have seen so far would make you think differently about the risk appetite in the future, if you think it could be value enhancing to take on a bit more higher credit risk, if that also would be potentially ROE supportive?

**Masih Yazdi:** Yeah. Thank you, Nicolas. I do not think we have been that surprised when it comes to resilience of our asset quality. But at the same time, I think at this point, you have to be fairly humble. We know that there has been a lot of government support, fiscal and monetary support. And it is difficult to know exactly how the economies and our balance sheet will behave at this point when those support measures are pulled back.

So even though we do report zero credit losses in this quarter, we have kept all the model overlays we took last year intact. We are likely to keep them intact as long as there is still some uncertainty on what is going to happen with asset quality beyond this period.

When it comes to risk appetite, I mean, we go through that all the time. And obviously, with the strategy work we are doing right now, we are going through the risk appetite as well. So if there are any changes there, we will come back to in conjunction with the presentation of the new strategy of the bank.

**Johan Torgeby:** May I add one thing, please? Just to differentiate between credit risk in quantum, that is the number of credit risk units you have and the migration out on the risk curve. And right now, there is definitely an opportunity in banking, as I have talked about many times on sustainability in future. And this means that in order to generate growth, there will definitely be in allowing us to search for opportunities. We also announced previously to dip our toe outside our current home markets in Austria, Switzerland, et cetera. These are small, but definitely there is no problem when it comes to asset quality to do more business.

We are very careful in going out on the risk curve. And by design, we are not loosening underwriting standards or having a strategy where we should go into other type of riskier asset classes.

**Nicolas McBeath:** And then just a question on the NII. I think you had some positive impacts in the quarter from lower funding costs from the large deposit inflows. If you could just please comment on the outlook for funding costs in the future? And also, what you are seeing on the margin side on both corporate and mortgage lending, please?

**Masih Yazdi:** Yeah. On the funding cost, we have seen this positive development for a few quarters now. I think most of it is behind us. But hopefully, if credit spreads stay where they are, we have a bit more to go. But absolute maturities, behind us.

On the margin side, there is a lot of competition on mortgages, especially new issued mortgages. So we see some margin pressure there. At the same time, when it comes to the renegotiations of old mortgages, that is fairly stable. So this intense competition on new mortgages does not have a meaningful effect on the average margin of the whole mortgage book.

On the corporate side, it is fairly stable. In Q2, we have done more lending to areas where you typically have slightly higher margins, so that has impacted the margin composition of

the core book slightly positively. We can see that there is an improving margin trend. It is very slow and gradual on commercial real estate, maybe 1 basis point to 2 basis points per quarter. I think that is linked to the fact that we have had this risk-based floor that was introduced about a year ago. Otherwise, it is fairly stable on the corporate side as well.

**Magnus Andersson (ABG Sundal Collier):** First of all, a follow-up on the strategic question earlier from Nick. When I look at your long-term five-year aspirations for the divisions that you released in conjunction with the Q4 report, we can see now you aim for a cost-to-income ratio below 45. And adjusted for one-offs, I think you are at 43 now in the first half. But when I look at the divisions, I mean, you are at 42% in large corporate and financial institutions. Your target is below 50%, while you are 44% in corporate private customers, you target below 40%. And you are at 40% in Baltics, you target below 35%. So obviously, I mean, you expect to stay at around this cost-to-income ratio level in the coming five years. But it is obvious that you expect a much higher cost-to-income ratio in the large corporate and financial institutions than today and vice versa lower in the other divisions. So you talked about investments in merchant or previous merchant bank and large corporate and financial institutions, primarily in the Investment Banking area. You previously in the last quarter talked about international expansion. Is that it? Because it is a pretty large cost-to-income ratio expansion we should expect there in the coming five years. And in addition, what are the main drivers you see for the cost-to-income ratio reductions in corporate and private customers and the Baltic? If you can say something about that without front-running your three-year plan.

**Johan Torgeby:** Hi, Magnus. Thank you for that question. It is a difficult one because it is so affected by the timeframe. And the practical side of me wants to say that this. And do not read too much into it. When we went out with the medium term, long term, the five-year targets, it is an indication for our best assessment where we think cost efficiency is balanced with pursuing client satisfaction and profit maximisation.

So we want to have the most profits we can on a very prudent type of business, both when it comes to risk and characterised by cost control, et cetera.

Now, half of the cost-to-income number is, of course, or actually twice—two-thirds of it is income, which we do not dictate. So when we have a very strong quarter, the cost-to-income will go down, as you of course, understand. It does not mean anything for us. It is still in the strategic consideration, cyclical consideration, does not come into play immediately. You need to see the cyclical consideration become permanent, then one could change that kind of outlook.

So you have to expect a fairly large variation around those five-year medium-term aspirations just for the fact of income. It does not mean that we will change the whole investment programme right now to be more accelerated because we can, because this quarter have lower cost-to-income for us to signify. And the opposite is also true. Even if we would have an income drop because of cyclical or share market stock prices go down, we would not change the strategic direction of the Group. We do not take that into consideration in the short term.

When those things are more permanent, of course, they affect. So we will, in this plan, given the cost-to-income guidance, have income and profit maximisation, shareholder creation as a

guiding principle with a more kind of fixed cost-to-income, where costs and income are related to each other, rather than the last 12 years, where we have completely disconnected costs from income. So regardless of income, we have said what the cost should be.

But in practical terms, we will still use in the future cost targets, yearly cost targets. We will be very stringent on costing what we are supposed to and then income will be one way. What we are seeing today is not what we did last quarter. It is what we did years ago. So what we are doing now, we can evaluate in some years. So it is nice to have in our book an unusually solid and robust result, but it is the fruit of many, many years of work that we see here today. So we will not change the costs next quarter or tomorrow because we come up with these numbers today.

Masih, do you want to add something?

**Masih Yazdi:** Yeah. I mean, I can just add on your question on C&PC and the Baltics. When it comes to those type of operations, they are typically more scale-based in the sense that if you add Swedish mortgages to the C&PC division, the marginal cost of doing that is not that large. So we do see that with the sort of current set up we have, we can add more scale, which over time will drive down the cost-to-income ratio.

We also see a scope, given how customers are behaving on changing their behaviours to take down—over time take down the physical presence within both Baltics and C&PC. So I think those two combined will take down the cost-to-income ratios over time to the aspirations we have set.

Just a sort of a CFO reflection on what Johan said. So we typically—if you look at the business we conduct, we have two input variables. We have labour and we have capital. Labour, you can see in the P&L line. Capital you see on the capital consumption. We have to look at how we optimise the usage of both these two to maximise the profit generation and the client satisfaction.

And if you look at the LC&FI division, we have been very hard on them on their utilisation of labour in the past, but being fairly loose on their utilisation on capital. From a financial steering perspective, what that leads to is that you do a lot of lending, but you do not do that much advisory, because advisory costs a lot of labour and lending just costs a lot of capital.

And we want to find the perfect balance here that after 10 years of being loose on capital and hard on labour, you might want to have a slightly different mix to optimise the return and the profit generation of that division. So this is another way of looking at it.

**Magnus Andersson:** I think we will come back to this probably along the way and not least when you present your three-year plan. Secondly, just on capital, following up there. You talked about the gradual process, and obviously, you do not know what the FSA is going to say. But what do you think realistically? When do you think that you can be down below or within your management buffer range of 100 basis points to 300 basis points?

**Masih Yazdi:** It is a very difficult question. A lot of things can move around. I mean, we typically do not do acquisitions. But what if we would do one of those? That would consume some capital. There are so many moving parts. But a way of looking at it is if you look at share buybacks, which in the future will be a part of our capital distribution, there is obviously

a limit to how much you can do in a certain year. You have to look at the turnover of the shares. Maybe a certain percentage of the market cap is the maximum of what you can do.

But I think, both from a practical perspective, but also in terms of that the uncertainty in the markets around the economy, the pandemic, will not go away from one day to another. So both, from a practical perspective and from that perspective, it is going to be a gradual process.

But in the end, it is the shareholders' capital that we are holding. If it is on our balance sheet, we will do the best to utilise it. And otherwise, will be paid out to shareholders over time.

**Magnus Andersson:** But do you think it will be there in three years or—because as it looks now, you are obviously also on a fully loaded basis, way above the 300, even if I take negative things into account.

**Masih Yazdi:** We would not plan for that. But obviously, if we generate more capital than we are planning to distribute, the buffer could increase, even though we are planning to optimise it. So it is a very difficult question to answer. But I think, at this point, the only thing we can say that we will over time optimise the capital structure in the bank. We will do that gradually.

**Magnus Andersson:** Okay. Just on capital. Again, I think we all got the impression after the Q—or at least I did after the Q4 report that share buybacks would be a preferred tool or definitely one of the tools you would use. Could you consider using already during the autumn this year if the restriction would be lifted? Has that changed your view? Does it changed in any way, or did I misinterpreted you in relation to the Q4 report?

**Masih Yazdi:** I think post when dividend recommendations are changed, both options are available. So after the 30<sup>th</sup> September, both options are available.

**Johan Ekblom (UBS):** If I can just come back to the cost-to-income outlook thinking over the medium term. So you are saying you are already below 45, which is kind of where you want to be. Historically, I think you said over the cycle, you deliver something like a 5% revenue growth. Should we expect a similar level of cost growth? And I think also if we think longer term, god forbid interest rates ever go up, certainly that would be come with no additional expense. So how should we think about that? I mean, it would seem that sticking with 45% in an improving macro would give you very large rooms for investments. Is that really needed?

**Masih Yazdi:** Yeah. I mean, first of all, thank you, Johan. The cost-to-income ratio is not sort of explicit targets. The target here for us is to have a good enough profitability. And the target we have set or the aspiration we have set is 15%. And we want to have a good profit growth in the bank.

And then we think about how do we optimise those two, at what efficiency level or what cost levels. And with the current business we have and the current anatomy, we think the appropriate level is around 0.45. That could change. If the composition of the bank changes that could change. And if competition changes, that could change as well.

In terms of sort of if income growth is 5%, does that lead to 5% cost growth? Well, not necessarily. We would not do investments we do not need. And we are doing this strategy

work right now. And based on that, we believe there are investments we will do in this bank that will take up the nominal cost level of the bank, but still keep the cost-to-income ratio at around 0.45.

If we are surprised by larger income growth than we planned for, then obviously we would not automatically reinvest in a higher cost base. We will only do that if we find investments we think are necessary.

**Rickard Strand (Nordea Markets):** Starting off with a question on corporate lending. Just wondering if you could share any insights to the demand there during the first half of the year, if you have seen any indications of improvements and also read sort of improvements during the last couple of months? And if there are any read into that into the second half of the year?

**Johan Torgeby:** Yeah. I can take that. It is kind of been as we expected, a bit muted in the first half of the year. It is not a reflection of low activity amongst our client base. It is a base effect. So when I say muted, I am thinking, of course, of the delta of the exposure, which is flattish in the last six months, which is quite actually good if you compare it to other cycles where this is a very normal pattern. Once we have an external shock, companies are acting very swiftly and very forcefully to make sure they have financial stability that then tails off.

So what is happening here and now is that the things we did between March and July last year, they are, of course, maturing. Many of those things are shorter in nature, one year. And we are, call it, positively surprised in this muted environment that we are still holding at the level. One-third of the loan book needs to be written every year in order to keep it constant. So this is a very, very active quarter in order to keep it 2% higher on an FX-adjusted basis than the elevated level we saw last year.

Of course, there is no growth. But still without growth, that is a pretty good business. You are very active in it. But also, you can see on the fees and commissions line, loan fees is actually a drag in the delta this quarter, whilst the equity-based and other investment banking fees are the drivers.

Now going forward, it is a very difficult question. We don't know. That is the truth. But we can see that optimism, and we are following all the same leading indicators as everyone else, it's actually on elevated levels. So there is a higher degree amongst CFOs who get asked in all these surveys around expansion in the future. We can see capacity utilisation is going up. We see the fight for labour is going up. We see that GDP is now upward revised from already high levels. So there is some type of air of optimism around reopening of the economies and facing a normalised world. And we can clearly see it in the client activities in most areas.

So it feels like we are getting through it. I would say that it is too early to say that the broader based growth of debt increase in the corporate space is here and now, but let us see. And then there are two other factors away from this kind of broad statement, and that is M&A and its sustainability. And I showed in the presentation the enormous growth. It is not necessarily net growth. It is a lot of what we call replacing what was previously non-sustainability-linked loans, but it is very relevant for your market share. And as far as we can tell, we have gained a bit in most areas there as well. So there is, of course, a little bit of growth independent of what the market does, if you perform relatively well.

And then on M&A, which is, of course, we are clearly lacking. There has been a very heavy Equity Capital Markets activity. And as Masih said, the pipeline actually looks very constructive. But it is, of course, a more slowly moving business lines. You need the volatility to be reduced under a longer period of time for large-scale M&A to happen. And they needed to, of course, often be associated with resets of the capital structures in those companies. And that is, for us, a very large potential growth driver.

**Rickard Strand:** Then just coming back to your improved inflow into AUM, just curious to hear, sort of if that is on the back of a strong market, or if it is anything related to your sort of the initiatives you highlighted in Q4 and onwards about working on improving the AUM inflow?

**Johan Torgeby:** Yeah. I can tell you, it does not feel like we get anything for free. So I would not say it is on the back of a strong market. And also, all the relative comparisons with peers clearly show that it is not for free that we get this.

I would be very humble here, and say that we come from a pretty dim history lately, where we have not had any kind of net flows to be proud of. We can clearly see over the last three, four quarters that there is slight tendencies. I do not want to be stronger than that. That has changed. And this quarter was the best one from a very low level we have seen in some time, where both institutional side, which we called AMS, private monthly savers, which is, of course, a super strong annuity type of savings product linked very closely to mortgages, IMs own distribution channels and also the market share for our Life business, all of them performed, including Private Banking.

But the number in the quarter was still at only 25 billion. It is a clear shift from what we have seen lately. But I think it is too early to say that we can see that the efforts that we have put in, which are significant to change this. It is too early to say that they are working. But at least we have no reason to believe they are not.

**Rickard Strand:** Then finally, just on the Tink divestment. If the deal goes through, if you could quantify the effect you expect in the coming quarters from that on other income?

**Masih Yazdi:** Yeah. We have not communicated that. We do have a haircut on the valuation we have done in Q2. So if the deal does go through, there will be an additional effect coming at that point in time. But we have not quantified externally how large that is going to be. But it is not a massive number.

**Sofie Peterzens (JP Morgan):** I was wondering in the retail customer or personal customers and corporate customer division, net interest income was quite weak, down 6%, but you had very strong mortgage production. But you mentioned that it is all due to the internal transfer pricing of deposits. How much of that should we expect to reverse in coming quarters? And how should we think about the net interest income here? And then my second question would be going back to the capital return potential. I realise that you want to be a little bit vague here. But how should we think about SEB potentially paying out more than 80% to 90% of profits? Do you think this is a reasonable assumption? And also, could you remind us what the process is for any interim dividends? Can you pay interim dividends? And would you consider paying any interim dividends? And then just finally on capital. I recognise you have the 100 basis points to 300 basis points management buffer. The Pillar 2 G is going up. We have some litigation cases. But what kind of Core Equity Tier 1 ratio would

you be comfortable running, with taking kind of the Basel IV into consideration, the German litigation into consideration, Pillar 2 G? So yeah, that is it from my side.

**Masih Yazdi:** Okay. Thank you for those questions, Sofie. We start with net interest income within C&PC. This impact from IFCP, you should expect that to continue throughout this year. So you will see that on the divisional side, they will continue to be compensated less for deposits in the coming quarters, even compared to Q2. So you will see some swings in the second half of the year, further swings from the divisions to treasury. For the divisional level, they have to sort of run fast just to stay still.

It does not really have an impact on the Group. It just means on divisional level, NII will look a bit worse. But on Treasury, it is going to look a bit better. I would just say that maybe 2020 was an outlier year if you look at the compensation of net interest income between Treasury and the divisions, whereas 2019 was more normalised. So we should go back throughout this year, if credit spreads stay where they are, to a more normalised composition of NII between Treasury and the divisions.

On the capital, in terms of the payout ratio, which I think your question was about, we do not look too much on that to be honest. So there is no restriction we put on ourselves when it comes to the actual payout ratio. We have the policy of 50%, and then we will, over time, gradually make sure that we go back to the optimised capital position. And whether that leads to a 70% or 100% payout ratio, it is not an important factor, and to my knowledge, not something that the Swedish FSA really looks at. They look at where you stand in terms of your capital, what the requirements are, and then they are typically fine with whatever you decide to do. So that is not an important question.

On your last one, so we have discussed this a few times before. So we have a current minimum requirement of 12.5%. We know that the Pillar 2 Guidance will be introduced next quarter. And then, we expect over time that the countercyclical buffer will be increased again, back to the levels it was at prior to the pandemic. So if you take all of this into account, our minimum requirements will likely go up to around 15%.

And then we say that we want to have a buffer of 100 basis points to 300 basis points above that. So we will operate in the interval between 16% and 18% in the longer term, the way things look right now.

Basel IV, it is way off. It is very difficult at this point to say exactly how that is going to be implemented. We know the proposal from the Basel Committee, but very little in terms of the implementation. So we really we look out for it, but we do not really incorporate it in the short to medium-term capital planning. We do not incorporate any litigation process either because we do not know of any that the bank is under.

**Sofie Peterzens:** And just going back to the payout, you mentioned that you target 50%. And you kind of mentioned that it is less important and the Swedish FSA does not really look at the payout level. But I mean, if you wanted to be over 100% of your profits, would you need any special approvals, or you can just pay over 100%?

**Masih Yazdi:** It is not exactly clear. There is one regulation saying that if you want to reduce the CET1 level, you might need to have an approval. The interpretation of that is not fully clear. So it might be. But we have paid more than 100% before. If you look at how

much we paid versus the reported numbers. We had, I think, in items affecting comparability a few years ago, which led to the payout ratio going up to, I think, it was 113% back then, and that was not a problem.

**Antonio Reale (Morgan Stanley):** Lot of my questions have been answered. I have got one left please, and it is just anecdotally if you could share what you are seeing on the network some of the easing in restrictions also in Sweden earlier in the month. And I am interested in understanding how you are seeing spending patterns change and how that will affect your composition of your fees and P&L more broadly? What's the outlook for fees in the second half of the year? And related to that, when do you think we might start to see a recovery in corporate cards?

**Johan Torgeby:** So if I understood your question correctly, it is the businesses that are clearly affected by the national response to shutdown and reopening and fees and commission. Is that the outlook for fees. Was that correct?

**Antonio Reale:** Yes. Correct. Basically in the pandemic, we have seen a big surge in saving and obviously a significant drop in spending, and that is now reversing. So I am wondering how you position the bank to benefit from that, especially on the fee line?

**Johan Torgeby:** Yeah. I mean, in a way, we kind of automatically positioned to benefit from it, regardless of what we do. And that is that the only big upside that is still left on the payments side is really from the corporate travel and corporate card business, which is in our bank as the disproportionately large business lines. So we have less private cards compared to corporate cards, if you compare us to our peers and as we are predominantly corporate bank.

There has been no meaningful recovery, almost not noticeable. But the big shift now is no longer a percentage drag. So it has stabilised on these very low levels, and it is not more difficult than this. When you and I meet next time, we are probably going to be over it. So we need to start travelling again, and that will automatically, because it is predominantly hotel and flights and representation on those cards.

It is a little bit earlier in the recovery when we now see the economies opening up on the domestic corporates. Smaller corporates, who predominantly work in the local arena, they are already travelling around now because there is no restrictions really affecting them anymore, but it is fairly small. We need the foreign travel and the business representation to pick up.

On the Investment Bank, I would assume that the accommodative monetary policy, ever increasing asset prices is of course turbocharging the ECM business and all the AUM businesses. So I think that is related to your macro outlook and how will the asset prices develop from here. And I think it is not too much to say that I think we need to have a little bit of a cautious approach in thinking that house prices and equity markets cannot grow to the sky.

We are also very well positioned in Private Banking as it takes years for these things that happen so quickly to actually go through the whole bank. And we have seen a very high inclination to save and also wealth being created as anyone who has any assets, more or less, have more of them today than they had in the past.



But there is, of course, a risk in there too, and that is that the propensity to consume will increase rather than save. And I think I could see that quite clearly in the US reports now that spending is up. It is less credit demanding spending. So I saw the credit card stats in US is typically a little bit of a leading indicator, not easy to compare. But also our macro economists pointed out to us quite recently that the savings ratio had peaked. We are not going to go up from these levels, and that means that the propensity to consume of your disposable income is going to be flat to increase.

I think those are actually good things in the end because there is so much savings anyway and also for the structural changes in the pension system, et cetera, that we see a pretty good underlying growth in the savings areas regardless of these cyclical considerations.

And then, back to the M&A point. So the M&A is, of course, an upside in position. If this is stabilising at these very high levels, we would expect the M&A pipelines to also materialise rather than just being pipelines and discussions. And the organic need for expanding your business, given the capacity utilisation, is increasing. And also the surveys we look at and referred to earlier, there appears to be an increased appetite from corporates right now to start thinking about expanding their businesses. And then sustainability, which is, of course, coming regardless of cyclical consideration. Did I address your question somewhat okay?

**Antonio Reale:** Yeah, very clear.

**Adrian Cighi (Credit Suisse):** I have two follow-ups on NII and capital utilisation. So on NII, one of the benefits you have seen is from a change in mix on your funding side where you chose not to replace some of the funding that matured in the quarter. Is that a development that you see reversing in the coming quarters, or can you do more of this and potentially provide further tailwinds to NII from this dynamic? And then secondly, on capital utilisation. You have in passing mentioned M&A as a potential. And assuming that this would imply a bolt-on as opposed to a transformational type of acquisitions, where do you see some of your gaps in terms of capabilities? Are these product line gaps, or do you consider M&A as a potential way to speed up gaining that geographic toehold outside of your current footprint?

**Masih Yazdi:** Thank you very much for those questions. On the NII question, the change in mix, as I mentioned before, I think most of this is behind us. As you can see in the report, the loan/depo ratio is now down to 103% if you look at the core loans and core deposits. And the senior unsecured funding has come down a bit compared to what it was about a year or two years ago. And there is some more to do here, but not that much. So I would not expect too much from funding costs coming down even further in the future.

On the capital utilisation, I should not have mentioned M&A. It sounds like maybe we have any plans on that in the immediate future. We do not. It is just a way of trying to answer the question about that it is difficult to know exactly when and how you can consume your capital. But obviously, M&A is part of the strategy work we do in the bank. We look at that as an option to accelerate or transform businesses that we might need help doing so, or you can feel where you are subscale, you need to add scale to become more efficient and improve your customer offering.

So to the extent that this will be part of the strategy, we will come back with that presentation around year-end.

**Namita Samtani (Barclays):** I have got three questions, please. Firstly, I think we have heard quite repeatedly the need to invest. Yes, when I look at IT expense, which I guess is what is called data costs and the fact for the first half at 6% lower year-on-year. So just wondering why that is the case. Secondly, just a comment on Investment Banking pipeline tilted more towards M&A versus ECM and IPOs in the second half. Is that a way of saying IBC will be lower in the second half compared to the first half? And lastly, a bit of a bigger picture question. Do you think the 15% ROE target is achievable before 2024 because you said yourself you do not have anything close to 15%. So just wondering what we are missing here, if anything at all.

**Masih Yazdi:** Okay. Thank you. I will start with the IT expense question. I do not know exactly why it is down, 6%. I think you have to look at FX effects and those kind of things. It is not a reflection, I would say, at this point on how much we invest in IT. I am assuming that you are referring to the P&L cost, and obviously IT expenses. If you accelerate those, you might not see it in the P&L. You just see more capitalisations. But in general, I think there is a small reduction in consultancy costs, for example. But it is not a big move and there is no change in the IT spend strategy of the bank.

On the return on equity target, I will take that and then you can take the Investment Banking one. Yeah, well, achievable. We have said 15% in the medium term. And we define that as three to five years away. So 2024 is obviously within that bracket. 15% depends on so many different things that we cannot dictate at this point, interest rate level, asset prices. But obviously, we are planning for moving into that direction. And whether that is going to be reached by '24 or later, it is difficult to say. But yeah, depending on market conditions, it could be achievable at that point. It could take longer. It could be faster as well.

**Johan Torgeby:** And on the Investment Banking fees, we are not saying you should expect any lower fee contribution in the second half. What we are saying is that the mix has been very dependent right now on ECM. But it does not mean that you replace necessarily ECM with M&A. They are unrelated. But we would foresee that the pipeline conversion into real deals have been very high on the ECM side and very low on M&A.

So it is actually something that could compensate for a somewhat lower ECM activity, but there is no sign that it will be lower in the short term. Everything I see here and read and feel is that this continues right now to be a very, very active market.

And then on Investment Banking fees, you also have the debt fees, the loans and the bonds and the sustainability financing fees. And none of those are really contributing to growth right now. So I think that picture I am trying to paint is probably a quite constructive picture for second half as well.

**Robin Rane (Kepler Cheuvreux):** So two questions. Firstly, I would just be interested to hear your reflections on the Vipps-MobilePay merger, and how do you look at Swish in light of that? And then secondly, on the salary costs, I mean, we have had super strong fees and income growing year-over-year looking at the half year results. But salary costs are not up near as much. Could we expect salaries to catch up later in the form of variable pay, et cetera?

**Johan Torgeby:** Okay. I will start with reflection, and that is really the key word here. It is not my place to talk about Vipps. But it was interesting to see that it is a clear testament to

the idea of cooperation across nations, across the borders in the Nordics, which we have, of course, all the prerequisites to do. And they have created a pretty large, if not, one of the most noticeable European mobile payment companies through that.

I never have experienced it myself, but I am hearing they are very good. These are good capabilities. Of course, we know Swish as a part owner very well. And this is very much in the future strategy, I think, for payment as a whole to look at cooperation and collaboration and partnerships. So I am not talking on behalf of Swish as we are only a part owner, but I definitely see this is the future type of discussions that is going to go on in order for combining.

Now the ownership structure between Vipps and MobilePay in Denmark and the Finnish, it is very much different from the Swish one, which is more of a cooperation amongst all the major banks in Sweden. So there is also, of course, a different governance. But I think it is an interesting development. I think it is a true effort for the incumbent banks to use new technology and innovation to support the clients with the functionality that we all need. And it is pointing to that we can do it, too. The banks are actually quite good in innovation as well.

**Masih Yazdi:** Yeah. Robin, on your second question on salary costs and any impact on variable pay. When we set the cost targets for 2021 of 23 billion, we did at that point also say that we wanted to have flexibility of up to 200 million upwards or downwards, mainly depending on the fact that we do not know exactly how the bank will perform three years from when we set the target. And we want to have flexibility to be able to compensate the employees of the bank if we are performing well.

Now just looking at the first half of this year, we have seen that performance has been very good, mainly within right now Investment Banking, but also other parts of the bank. And we have variable compensation to some staff but also all employee programme that can go up and down, depending on the client satisfaction and the performance of the bank relative to our peers.

So just obviously if the year continues the way it has started the first half and we keep reporting these kind of numbers, there is absolutely a possibility that we have to utilise parts of that plus 200 million in flexibility that we gave ourselves.

**Riccardo Rovere (Mediobanca):** Two or three, if I may. The first one is with regard to the COVID overlay that you charged in 2020 and that you are keeping intact for the moment, for how long can they stay intact without being allocated to single exposures? Is it something that you have to do by the end of this year, by the end of next year? How should that work? And related to that, in considering that GDP in Sweden, just in Sweden, again, in 2022 is expected to be above the levels of 2019, considering the COVID overlay, considering the deposit growth in your balance sheet is outpacing big times the one-off of the loan book, which means that your clients are accumulating more savings than debt. Is that madness, complete madness, to assume that risk cost could stay close to zero for two years in a row? I am just asking you if that is complete madness, okay? I am not asking of any particular guidance. And on the NII very, very quickly, the 100 million contribution that you have from markets, why should that disappear? If that is related to the current level of rates and rates are assumed to stay where they are, why should that all of a sudden disappear, provided I

am getting it correct. Last thing I wanted to ask you is that, with the return on equity basically in this quarter aligned to your long-term target of 15%, the difference is minimal, what is the financial advantage of a buyback instead of cash dividends to use the capital?

**Masih Yazdi:** Okay. Thank you, Riccardo. Very good questions. If I start with the first one on the model overlay provisions we have taken, that typically is sort of to the extent you can keep them on portfolio group level, it is very much a discussion with the accountants, to be honest. You discuss what the uncertainty is about the future, whether that uncertainty is on counterparty level or whether there is a general uncertainty in the market where you cannot really say for what exposures you need the provisions.

So it is going to depend on that discussion also. Obviously, our view and their view on the uncertainty, and whether you can say that you need these reserves or not and whether you can allocate to certain counterparties or not. But obviously, in the long term, you cannot keep this kind of sort of model overlays. This was something that everyone encouraged the banks to do and we did it as well. But I am sure that when you feel certain about the fact that the pandemic is over, this has to be utilised in one way or other, either recoveries or allocated to counterparties where you have seen issues.

On your question about sort of the macro development and whether the ECL level could be close to zero? Yes, it all depends on sort of your macro assumptions. So it is very difficult to say exactly. We have had that. If you look at it in the past, we have high level certain years in the financial crisis. And then you typically have a few years afterwards we have very low levels for many years. And then it maybe normalises, or like last year, it goes up to an elevated level, and then it is typically lower. So it is very difficult to say exactly how long it can be low. It is going to depend on macro. So we do not try to call that. But it is not impossible, obviously, that it stays on a low level.

On the question on net interest income and the 100 million related to markets, we do not say that it is going to disappear. So what we have tried to do in the past is that we look at the net interest income within our markets business. And as soon as that has deviated from the long-term average, we have tried to be transparent around that. So we look at the last eight quarters, and if it is different this time, we tell you about that. And we can just note that in the last three quarters, it has been elevated versus the long-term average.

Whether that elevation goes away the next quarter, it is impossible to say. We just try to be transparent about the current levels versus the long-term average levels.

On your last question on the fact that we have a return now close to our ambitions, obviously, that is with lower ECL levels than we think we will have in normal times. The way we look at dividends and share buybacks, it is mainly from a financial flexibility perspective. I think when it comes to the financial engineering side of it, you can have different views on the values of one or the other. But if you look at the financial flexibility side of it, you can obviously see that if you do large dividends, and you have done them and then something happens days or weeks or months post the dividend, you cannot pull the capital back.

But if you do have a share buyback programme that you are conducting over a course of a period, if something happens unexpected, then you can just suspend it and then you have not paid all the capital out.

So looking at it from a financial flexibility point of view, we felt last year when we reported this change in our dividend policy that it is better to have a combination of a slightly lower dividend, but then combine that with share buybacks to allow ourselves to get some financial flexibility.

**Johan Torgeby:** All right. Thank you everyone for participating today. And I wish you all a good, and I hope well-deserved summer break. You have a few more weeks, I'm sure, with all the reports. And then next time, or at least this fall, I really hope we can meet again. So thank you for today.

[END OF TRANSCRIPT]