

Quarterly Report

Second quarter 2020

January – June 2020

STOCKHOLM 15 JULY 2020

SEB

”Our financial strength enables us to provide continued support to our customers.”

Statement from Johan Torgeby

Some light at the end of the tunnel but uncertainty remains

As the Covid-19 pandemic continued to spread around the world, both the global health situation and economy remained challenged throughout the second quarter. Despite some signs of increasing optimism, with demand and output data being less negative than expected, the overall economic situation was characterised by remaining uncertainty and unknowns.

Governments, central banks and financial supervisory authorities implemented additional crisis relief measures, while countries continued to gradually re-open and ease restrictions. The total size of all measures implemented corresponds to around 20 per cent of global GDP, while the equivalent number for Sweden is 22 per cent of Swedish GDP.

On the back of this decisive stimulus and a recovering sentiment, equity markets developed strongly during the quarter, reaching close to pre-crisis levels and for some equity markets even record highs. S&P 500 rose with nearly 20 per cent, which was the largest quarterly increase during the last 20 years. This optimism, compared with the macroeconomic and political challenges that we experience globally, demonstrates the perceived disconnect between financial markets and the real economy.

During the Covid-19 crisis, Sweden has applied a less restrictive approach. As a result, mobility and hence consumption have declined less compared with more restrictive European countries such as Germany, France, UK, Spain and Italy. Similarly, leading economic indicators such as Purchasing Managers' Index for the manufacturing and service industries suggest that Sweden has experienced less of an economic downturn since the beginning of the crisis. While these numbers represent some, yet small, signs of light at the end of the tunnel, visibility remains low on how deep the expected economic recession will be. We have yet to see how this situation will unfold. The economic recovery, in Sweden as well as globally, will remain dependent on the effectiveness of policy responses, the measures taken to safeguard international trade as well



as the duration of the Covid-19 pandemic. Ensuring future employment levels will be a key component in this process.

SEB continues to support its customers

We have an ambition to adapt to changing market conditions and to support our customers throughout business cycles. To achieve this long-term resilience and flexibility, SEB continuously strives to have a strong capital and liquidity position.

Our financial strength has enabled us to provide continued support to our customers, throughout these two challenging quarters. Over the last few weeks, our dialogue with clients has been less focused on credit and liquidity requests strictly related to Covid-19, shifting towards a more normalised client interaction. This development has been reflected in a reduced new inflow of Covid-19 related credit requests as well as in the number of granted grace periods on household mortgage lending and corporate lending. Still, SEB has to date this year processed pandemic-related credit requests corresponding to an amount of around SEK 139bn, which is more than twice the volume we would typically see during a full year. We have also granted grace periods on lending and pension solutions for around 28,000 customers in need of additional liquidity.

As we believe collaboration will be essential to achieve safe and efficient exit strategies from Covid-19, we continue to engage with both the public and the private sector in all our home markets. As an example, we recently arranged a vaccine bond in collaboration with the International Finance Facility for Immunisation (IFFIm) with the purpose of financing the development of an inoculation against Covid-19. Together with the pension company AMF, the insurance company AFA Insurance, the Fourth Swedish National Pension Fund (AP4), as well as the foundation asset management company FAM, SEB has established a jointly owned company to support Swedish companies in need of capital to make it through the corona crisis. Out of a total investment capacity of SEK 5bn, SEB will

contribute SEK 1bn. In addition, by financing a joint project between the Swedish recruitment company Novare, the non-profit organisation Fryshuset and the City of Stockholm, SEB contributed to the creation of 1,000 summer jobs for youths in Sweden.

Safeguarding the well-being of our employees

Our employees are our most valuable asset, side by side with a strong capital and liquidity position. To safeguard the health of our employees has been key in order for SEB to remain available to our customers during the Covid-19 pandemic. In a survey conducted by SEB in order to better understand the effectiveness of our crisis management responses and activities, the vast majority of our employees confirmed that they feel well-supported by SEB. They feel confident in how to advise our customers while also requesting more digital collaboration tools, which we are currently improving.

Resilient underlying business

Turning to SEB's financial performance, the consequences of the Covid-19 pandemic influenced the reported financial results, while the underlying business continued to show resilience.

Net interest income decreased by 2 per cent quarter-on-quarter. The rate cut by the US Federal Reserve had a temporary negative impact on net interest income; at the same time there was a positive effect in net financial income. Net interest income increased by 6 per cent year-on-year.

Net fee and commission income fell by 6 per cent quarter-on-quarter as payment and card fees were subdued. Net fee and commission income decreased by 8 per cent year-on-year.

Net financial income increased to SEK 3.5bn from SEK -0.8bn in the first quarter. The negative development with falling asset prices and widening credit spreads in the first quarter was largely reversed in the second quarter, which combined with continued high customer activity within SEB's Markets business resulted in a strong recovery. On a year-on-year basis, net financial income more than doubled.

Operating expenses increased by 1 per cent quarter-on-quarter but was largely unchanged year-on-year. A higher SEB share price resulted in increased staff costs but was partly offset by lower travel costs. The cost development continues to be in line with SEB's 2021 cost target of SEK 23bn (+/- SEK 200m), assuming 2018 FX rates.

Net expected credit losses increased to SEK 2.7bn as we continued to make provisions in line with IFRS 9, driven by an updated macroeconomic forecast. We have earlier communicated that an expected credit loss level of around SEK 6bn in 2020 would be a good outcome given the severe economic downturn. With another quarter having passed, we believe that the probability of staying at that level has increased, assuming the macroeconomic outlook outlined in SEB Nordic Outlook. However, visibility on the future remains low.

Despite headwinds, we delivered an operating profit of SEK 4.6bn and a return on equity of 8.7 per cent. At the end of the quarter, SEB's capital buffer amounted to 410 basis points.

Our work against financial crime

Our work to protect the bank from being exploited for money laundering and other forms of financial crime remains high on our agenda. SEB's ambition is, and has always been, to adhere to current regulations and our internal requirements, and to have a high standard for corporate governance, regulatory compliance and risk management. We continuously develop our abilities to prevent, detect and report suspected activity.

On 25 June, the Swedish Financial Supervisory Authority (FSA) presented its sanction decision relating to SEB's routines and processes to avoid being exploited for money laundering in SEB's Baltic subsidiary banks. The FSA issued SEB a remark which is a lower degree of administrative sanction that is issued when a breach has not been deemed to be severe. The FSA also issued SEB an administrative fine of SEK 1bn.

SEB has now analysed the decision. Despite the fact that SEB does not agree with the FSA's decision in all parts, the bank has after an overall assessment decided not to proceed with an appeal. Hereby, all Swedish and Baltic supervisory authorities have concluded their reviews regarding SEB's anti-money laundering work.

Our work to strengthen SEB's defence against money laundering will continue to be of high priority for the bank. SEB is continuously adding resources and improving our know-your-customer-process and transaction monitoring. In addition, as part of our business plan, we have a dedicated *Financial Crime Prevention Programme* by which we further strengthen our work. SEB assesses that the implications of the FSA's decision, including our continued activities and measures, can be accommodated within the bank's 2021 cost target.

We have also formalised a new cooperation with the Swedish police and other Nordic banks. This project, named SAMLIT project (Swedish Anti-Money Laundering Intelligence Initiative), focuses on information sharing of suspicious activities with the aim to increase efficiency and reach results on a broader scale.

For us, our continuous work to do everything we can to counter this type of crime is not only about protecting the bank from criminal exploitation, but it is also about continuing to earn the trust that our shareholders and customers have placed in us – and it is about doing our part to increase the resilience of the entire financial system.

It has always been, and continues to be, our highest priority to support our customers and our long-term customer relationships through business cycles, in good times as well as in bad times. That is how we continue to create long-term value for our shareholders as well as for society at large.



President and CEO

Second quarter 2020

The quarter in brief

- Encouraging client activity and resilient underlying business
- Positive turn-around in financial markets reversed valuation effects
- Return on equity of 8.7 per cent, despite increased provisioning and administrative fine
- Strong capital and liquidity position, well placed to continue supporting our customers

Summary

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019	
Total operating income	13 999	10 089	39	12 197	15	24 089	24 103	0	50 134	
Total operating expenses	-5 712	-5 646	1	-5 708	0	-11 358	-11 329	0	-22 945	
Net expected credit losses	-2 691	-1 494	80	- 386		-4 185	- 808		-2 294	
Operating profit before items affecting comparability	5 598	2 950	90	6 103	-8	8 547	11 967	-29	24 894	
Items affecting comparability ¹⁾	-1 000					-1 000				
Operating profit	4 598	2 950	56	6 103	-25	7 547	11 967	-37	24 894	
NET PROFIT	3 501	2 355	49	4 892	-28	5 856	9 573	-39	20 177	
Return on equity, %	8.7	6.0		13.9		7.4	13.2		13.7	
Return on equity excluding items affecting comparability, %	11.2	6.0		13.9		8.6	13.2		13.8	
Basic earnings per share, SEK	1.62	1.09		2.26		2.70	4.43		9.33	

1) Administrative fine issued by the Swedish FSA. See note 6.

Volumes and key ratios

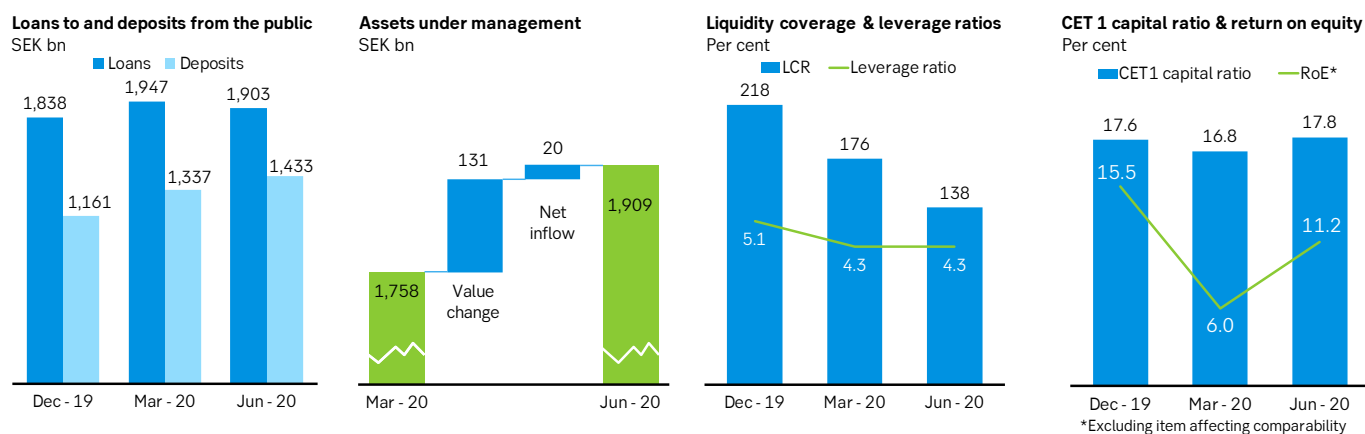


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The second quarter

The Covid-19 pandemic characterised the second quarter. While the short- and expected long-term economic effects affected customer activity and provisioning levels, the financial markets reversed and improved significantly. The financial effects were material for SEB and affected the result in many ways. *Operating profit before items affecting comparability* increased by 90 per cent to SEK 5,598m from SEK 2,950m in the first quarter 2020. *Operating profit* amounted to SEK 4,598m (2,950). *Net profit* amounted to SEK 3,501m (2,355).

Operating income

Total operating income increased by SEK 3,910m, 39 per cent, compared with the first quarter 2020 and amounted to SEK 13,999m (10,089). Compared with the second quarter 2019, total operating income increased by 15 per cent.

Net interest income amounted to SEK 6,047m, which represented a decrease of 2 per cent compared with the first quarter 2020 (6,201) and an increase of 6 per cent year-on-year.

	Q2	Q1	Q2
SEK m	2020	2020	2019
Customer-driven NII	6 821	6 860	6 238
NII from other activities	-774	-659	-546
Total	6 047	6 201	5 692

Customer-driven net interest income decreased slightly to SEK 6,821m from the first quarter 2020. There was a positive contribution from both deposit margins, deposit and lending volumes across most customer segments. This was offset by somewhat lower lending margins.

The negative effect on net interest income from other activities (including for instance funding and other Treasury activities, trading and regulatory fees) was SEK 115m lower than the first quarter 2020. The rate cut by the US Federal Reserve had a temporary negative impact on net interest income; at the same time there was a positive effect in net financial income. Financing costs were lower since an AT1 bond, for which replacement was arranged in the fourth quarter 2019, was repurchased in May 2020. The total resolution and deposit guarantee fees recognised in the second quarter amounted to SEK 300m (345). The resolution fee was SEK 45m lower than the first quarter due to the final invoiced amount.

Net fee and commission income decreased by 6 per cent from the first quarter 2020 and amounted to SEK 4,364m (4,624). Year-on-year, net fee and commission income decreased by 8 per cent. The main explanatory factor was card fees which decreased significantly with the lower customer activity levels in the wake of the Covid-19 pandemic. Net payments and card fees decreased by SEK 186m to SEK 710m compared with the first quarter, and by SEK 347m year-on-year. The Covid-19-related caution among corporate customers in the first quarter eased somewhat and SEB supported customers raising financing in the capital markets. Gross fees from the issuance of securities and advisory services improved by SEK 50m to SEK 301m in the second quarter. Even though equity markets recovered during the quarter, average asset prices were lower in the second quarter compared with the first. The gross fee income from custody and mutual funds, excluding performance fees, decreased by SEK 124m to SEK 1,821m. Year-on-year, the decrease was SEK 98m. Performance fees amounted to SEK 69m, an increase of SEK 18m compared with the first quarter. Year-on-year performance fees increased by SEK 13m. The net life insurance commissions related to the unit-linked insurance business increased by 9 per cent compared with the first quarter 2020, to SEK 276m.

Net financial income increased by SEK 4,345m to SEK 3,541m. Year-on-year, net financial income increased by SEK 2,059m. The negative development with falling asset prices and widening credit spreads in the first quarter after the breakout of Covid-19 was largely reversed in the second quarter and, similarly, the related first quarter unrealised losses reversed. With narrowing credit spreads, the fair value credit adjustment¹⁾ improved by SEK 1,863m to SEK 581m in the second quarter. The market valuation of certain strategic holdings increased by SEK 938m quarter-on-quarter. Positive market valuations, both in Treasury and Markets, in combination with the effect of continued high market volatility and customer activity improved net financial income by SEK 1,202m in the second quarter. Other life insurance income, net, primarily related to the traditional portfolios both in Sweden and the Baltic countries recovered from SEK -113m in the first quarter to SEK 228m in the second quarter.

Net other income amounted to SEK 47m (68). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item.

Comparative numbers (in parenthesis throughout the report)

Unless otherwise stated:

- the result for the reporting quarter is compared with the prior quarter
- the year-to-date result is compared with the corresponding period in the prior year
- business volumes are compared with the balances in the prior quarter

¹⁾ Unrealised valuation change from counterparty risk (CVA) and own credit risk standing in derivatives (DVA). Own credit risk for issued securities (OCA) is reflected in Other comprehensive income.

Operating expenses

Total operating expenses increased by 1 per cent to SEK 5,712m (5,646). They were unchanged year-on-year.

Staff costs increased by 5 per cent compared with the first quarter. With the higher SEB share price, the cost for long-term variable remuneration programmes increased after the Covid-19-related dip in the first quarter. The effect of Covid-19 related protection measures taken partially affected other expenses, which decreased by 15 per cent, with lower travelling costs among other things. Supervisory fees amounted to SEK 39m (41).

Net expected credit losses

Net expected credit losses increased by 80 per cent to SEK 2,691m in the second quarter (1,494), corresponding to a net expected credit loss level of 46 basis points. Asset quality indicators such as past due loans remained unchanged during the quarter.

There was limited impact from the Covid-19 pandemic on the larger portfolios such as large corporates, households, and small and medium-sized companies in Sweden and the Baltic countries, which to some extent may be due to various government support measures particularly targeted at small and medium-sized companies and households. Effects were mainly seen in exposures which were weaker already before the Covid-19 outbreak. This includes certain sub-segments of the oil portfolio, mainly offshore, which continued to be challenged by slow activity due to the low oil prices. This led SEB to increase provisions for a handful of specific counterparties in the sector explaining the majority of the quarter's net expected credit losses. Furthermore, the model overlay for the oil-related exposures made in the first quarter was increased by SEK 365m.

In the second quarter, more negative macroeconomic scenarios were applied in the impairment modelling, to reflect the expected impact caused by Covid-19, adding SEK 563m to the net expected credit losses. Since various state support measures for corporates and private individuals may have delayed the impact from the economic downturn on asset quality, the Covid-19-related model overlay made in the first quarter was increased by SEK 105m in the second quarter.

The majority of the net expected credit losses in the second quarter, SEK 2,211m, related to the Large Corporate & Financial Institutions division. See further comments on uncertainties on page 12 and note 10-12.

Items affecting comparability

Items affecting comparability amounted to SEK -1,000m (0). The Swedish Financial Supervisory Authority (FSA) finalised its review of SEB's governance and control of measures against money laundering in SEB's Baltic banks. The Swedish FSA decided to issue SEB a remark, which is a lower degree of an administrative sanction that is issued when a breach has not been deemed to be severe. The Swedish FSA also decided to issue SEB an administrative fine of SEK 1,000m, which corresponds to about 14 per cent of the maximum amount the Swedish FSA can impose in this case, as well as a precept to take certain measures to improve the transaction monitoring in Sweden.

Income tax expense

In line with the increase in the operating profit, the *income tax expense* rose to SEK 1,096m (595) with an effective tax rate of 24 per cent (20). The effective tax rate increase is explained by the fact that the administrative fine described above is not tax deductible.

Return on equity

Return on equity for the second quarter 2020 increased to 8.7 per cent (6.0). Return on equity excluding items affecting comparability was 11.2 per cent (6.0).

Other comprehensive income

Other comprehensive income amounted to SEK -546m (-989). The value of SEB's pension plan assets exceeded the defined benefit obligations to the employees. The pension obligation increased when the discount rate changed from 1.35 to 1.10 per cent. At the same time, as the conditions in the financial markets improved, the value of the pension assets increased, and the *net value* of the defined benefit pension plans increased which affected other comprehensive income by SEK 558m (-1,832).

The net effect from the valuation of balance sheet items that may subsequently be reclassified to the income statement, i.e. cash flow hedges and translation of foreign operations amounted to SEK -827m (571).

The first six months

The financial effect of the Covid-19 crisis was apparent when comparing the result for the first half of 2020 with the corresponding period 2019. *Operating profit before items affecting comparability* decreased by 29 per cent from SEK 11,967m to SEK 8,547m in the first six months of 2020. In the same period, *operating profit* decreased by 37 per cent to SEK 7,547m. *Net profit* amounted to SEK 5,856m (9,573).

Operating income

Total operating income amounted to SEK 24,089m, which was virtually unchanged compared with the corresponding period 2019 (24,103).

Net interest income amounted to SEK 12,249m, representing an increase of 11 per cent year-on-year (11,037). In December 2019, the Swedish central bank announced a repo rate increase from -0.25 to zero per cent.

SEK m	Jan-Jun		Change
	2020	2019	%
Customer-driven NII	13 681	12 604	9
NII from other activities	-1 433	-1 567	-9
Total	12 249	11 037	11

Customer-driven net interest income increased by SEK 1,077m compared with the first six months of 2019. Lending and deposit volumes improved the net interest income and there was a significant positive effect from the repo rate increase on deposit margins. This was offset by a negative lending margin effect.

The negative effect on net interest income from other activities (including for instance funding and other Treasury activities, trading and regulatory fees) was SEK 134m lower than the first six months 2019. The resolution fund fee decreased to SEK 462m (864). In 2020, the resolution fund fee was lowered to 0.05 per cent of applicable balance sheet volumes versus 0.09 per cent in 2019. This fee rate will remain unchanged until the resolution fund target of 3 per cent of guaranteed deposits in Sweden is met. The total resolution fund and deposit guarantee fees amounted to SEK 645m (1,026).

Net fee and commission income was virtually unchanged compared with the corresponding period in 2019 and amounted to SEK 8,988m (9,026). Gross fees from the issuance of securities and advisory services increased by 7 per cent to SEK 552m compared with the first six months 2019. Traditional lending increased leading to higher gross lending fees which increased by 10 per cent to SEK 1,560m. Gross fee income from custody and mutual funds, excluding performance fees, increased by SEK 66m to SEK 3,767m year-on-year. Performance fees amounted to SEK 119m, an increase of SEK 51m compared with the first six months 2019. Net payment and card fees were significantly affected by the restricting Covid-19 related activity and decreased by 20 per cent to SEK 1,606m, year-on-year. The net life insurance commissions related to the unit-linked insurance business decreased by 10 per cent compared with the first six months 2019, to SEK 530m.

Net financial income decreased by SEK 863m to SEK 2,737m compared with the first six months 2019. Even though market values and credit spreads recovered from the Covid-19 related market downturn in the first quarter, the 2019 levels were not fully reached. Credit spreads widened and the fair value credit adjustment¹⁾ decreased net financial income by SEK 594m versus the corresponding six months of 2019. The market valuation of certain strategic holdings decreased by SEK 434m year-on-year. Other life insurance income, net, decreased by SEK 238m compared with the first six months 2019, primarily due to performance in the traditional portfolios both in Sweden and the Baltic countries. All this was counteracted by market valuations in Treasury as well as Markets holdings. In combination with Markets' underlying business, which contributed positively as market volatility and customer activity were high, net financial income was augmented by SEK 410m year-on-year.

Net other income amounted to SEK 115m (440). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item.

Operating expenses

Total operating expenses were virtually unchanged compared with the corresponding period 2019 and amounted to SEK 11,358m (11,329).

Staff costs increased by 2 per cent year-on-year. The effect of the lock-down partially affected other expenses, which decreased by 9 per cent, with fewer consultants and lower travelling costs among other things. Supervisory fees amounted to SEK 80m (81).

The cost target in the business plan for 2019-2021 is described on page 12. Operating expenses related to the strategic initiatives increased according to plan and the three-year cost target remains unchanged.

Net expected credit losses

Net expected credit losses increased by SEK 3,377m compared with the first half of 2019, to SEK 4,185m, corresponding to a net expected credit loss level of 35 basis points. The increase was driven by increased provisions for a handful of specific counterparties in the oil-related portfolios, more negative macroeconomic scenarios in the impairment modelling applied in the second quarter and model overlays. See comment for second quarter.

The majority of the net expected credit losses in the first half of 2020, SEK 3,117m, related to the Large Corporate & Financial Institutions division. See further comments on uncertainties on page 12 and note 10-12.

¹⁾ *Unrealised valuation change from counterparty risk (CVA) and own credit risk standing in derivatives (DVA). Own credit risk for issued securities (OCA) is reflected in Other comprehensive income.*

Item affecting comparability

The *item affecting comparability* consists of the administrative fine in the amount of SEK 1,000m that is described further on page 7.

Income tax expense

In line with the decrease in operating result *income tax expense* amounted to SEK 1,691m (2,394) with an effective tax rate of 22 per cent (20). The effective tax rate increase is explained by the fact that the administrative fine previously described is not tax deductible.

Return on equity

Return on equity for the first six months 2020 decreased to 7.4 per cent (13.2). Return on equity excluding items affecting comparability was 8.6 per cent (13.2).

Other comprehensive income

Other comprehensive income amounted to SEK -1,535m (-689). The value of SEB's pension plan assets exceeded the defined benefit obligations to the employees. The net value of the defined benefit pension plans decreased which affected other comprehensive income by SEK -1,275m (-861).

The net effect from the valuation of balance sheet items that may subsequently be reclassified to the income statement, i.e. cash flow hedges and translation of foreign operations amounted to SEK -255m (263).

Business volumes

Total assets at 30 June 2020 amounted to SEK 3,218bn, representing a decrease of SEK 68bn in the second quarter (3,286) and an increase of SEK 361bn since year-end. At year-end, total assets amounted to SEK 2,857bn.

Loans

SEK bn	30 Jun	31 Mar	31 Dec
	2020	2020	2019
General governments	15	18	14
Financial corporations	75	89	83
Non-financial corporations	882	914	880
Households	641	637	632
Collateral margin	52	86	46
Reverse repos	237	202	184
Loans to the public	1 903	1 947	1 838

Loans to the public decreased by SEK 44bn during the second quarter and increased by SEK 65bn since year-end. The second quarter was significantly affected by adverse foreign exchange rates. Loans to non-financial corporations decreased by SEK 32bn in the quarter and were stable compared with year-end. Household lending grew by SEK 5bn in the first quarter and by SEK 4bn in the second quarter. Reverse repos (contractual agreements to buy and subsequently sell back securities) are generally short-term in nature. The increase was mainly due to seasonal factors.

Business volumes in the second quarter were mainly driven by credit commitments and other contingent liabilities which are included in the credit portfolio. Information about the credit portfolio is available on page 10.

Deposits and borrowings

SEK bn	30 Jun	31 Mar	31 Dec
	2020	2020	2019
General governments	32	17	22
Financial corporations	341	292	215
Non-financial corporations	588	567	508
Households	376	362	346
Collateral margin	64	70	57
Repos	28	24	5
Registered bonds	5	6	8
Deposits and borrowings from the public	1 433	1 337	1 161

In the second quarter, deposits and borrowings from the public increased by SEK 96bn to SEK 1,433bn (1,337). The increase from year-end was SEK 272bn. Deposits from non-financial corporations and households increased by SEK 35bn in the second quarter 2020 and by SEK 110bn since year-end.

Assets under management and custody

Total *assets under management* amounted to SEK 1,909bn (1,758). Driven by the equity market appreciation during the second quarter, the market value increased by SEK 131bn. The net inflow of assets amounted to SEK 20bn during the quarter.

Assets under custody increased mainly driven by the equity market appreciation during the second quarter and amounted to SEK 10,053bn (8,992).

Risk and capital

SEB assumes credit, market, liquidity, IT and operational as well as life insurance risks. The risk composition of the group, as well as the related risk, liquidity and capital management, are described in SEB's Annual Report for 2019 (see page 52-57 and notes 40 and 41), in the Capital Adequacy and Risk Management Report for 2019 as well as the quarterly additional Pillar 3 disclosures. Further information is available in the Fact Book that is published quarterly.

Credit risk and asset quality

SEK bn	30 Jun	31 Mar	31 Dec
	2020	2020	2019
Banks	89	111	99
Corporates	1 331	1 324	1 268
Commercial real estate management	199	196	188
Residential real estate management	139	135	131
Housing co-operative associations Sweden	64	64	63
Public administration	77	64	72
Household mortgage	615	606	589
Household other	85	87	90
Total credit portfolio	2 599	2 587	2 498

SEB's credit portfolio, which includes loans, contingent liabilities and derivatives, increased by SEK 12bn to SEK 2,599bn in the second quarter (2,587). The corporate credit portfolio increased by SEK 7bn, reflecting strong demand for liquidity facilities among large corporates which was to a large extent offset by foreign exchange effects. The household credit portfolio increased by SEK 7bn and the commercial and residential real estate management portfolios increased by SEK 7bn combined.

Gross loan exposures in stage 3 (credit-impaired) increased during the quarter by SEK 2bn to SEK 14.9bn, driven mainly by oil-related exposures. See expected credit loss comment on page 7. The gross credit-impaired loans (stage 3) were 0.86 per cent of total loans (0.71) and the ECL coverage ratio for the credit-impaired loans was 44.16 per cent. Note 12 provides a more detailed breakdown of SEB's loan portfolio by industry and stage allocation as well as corresponding ECL allowances. Pages 25-26 in the Fact book provide a breakdown of SEB's credit portfolio and lending portfolio by industry and country.

Market risk

SEB's business model is mainly driven by customer demand. Volatility in the financial markets increased dramatically in March resulting in an increase in the 10-day Value-at-Risk (VaR) measurement since it is partially based on historical information. Average VaR in the trading book for the second quarter amounted to SEK 259m compared with SEK 158m for the first quarter 2020. The group does not expect to lose more than this amount, on average, during a period of ten trading days with 99 per cent probability.

Liquidity and long-term funding

Short-term funding in the form of commercial paper and certificates of deposit decreased by SEK 73bn during the quarter. SEK 61bn of long-term funding matured during the second quarter (of which SEK 40bn covered bonds and SEK 20bn senior debt). An AT1 bond in the amount of SEK 10bn was repurchased in May 2020. During the second quarter new issuance amounted to SEK 17bn of which

SEK 6bn constituted covered bonds and SEK 11bn senior preferred debt.

SEB entered the Covid-19 crisis with a strong liquidity and funding position and has maintained uninterrupted access to all our funding markets throughout the Covid-period. In the first six months, SEB's funding and liquidity position was further supported by a continuous inflow of deposits from our clients, which enabled SEB to gradually reduce market funding.

The liquid assets defined according to the liquidity coverage requirements amounted to SEK 717bn at 30 June 2020 (660). From 16 March 2020, the Swedish Financial Supervisory Authority (SFS) allows banks to temporarily fall below the Liquidity Coverage Ratio (LCR) requirement for individual and total currencies which normally must be at least 100 per cent. At quarter-end, the LCR was 138 per cent (176).

The bank is committed to a stable funding base. SEB's internal structural liquidity measure, Core Gap, which measures the proportion of stable funding in relation to illiquid assets, was 114 per cent (111).

Rating

Fitch rates SEB's long-term senior unsecured debt at AA-. The rating is based on SEB's low risk appetite, stable and well-executed strategy, robust asset quality and capitalisation as well as a supportive operating environment. In March, Fitch placed SEB's rating on negative watch due to the downside risks posed by the Covid-19 outbreak, although the ultimate implications remain unclear.

Moody's rates SEB's long-term senior unsecured debt at Aa2 with a stable outlook based on the bank's strong asset quality, robust capital ratios and good profitability, albeit with a view that the corporate business focus might add earnings cyclicality. In March, Moody's affirmed the stable outlook of the Swedish banking system due to the strong capital position and capital generation capacity of banks.

S&P rates SEB's long-term senior unsecured debt at A+ with a stable outlook. The rating is based on the stable and low-risk operating environment in Sweden, the bank's stable revenue base and position among leading Nordic corporates, sound market shares in corporate and household mortgage lending, profitability in line with peers and strong capitalisation.

In July, after the conclusion of the supervisory authorities' reviews of SEB's anti-money laundering work, S&P affirmed SEB's rating. Fitch and Moody's have not taken any rating action following the finalisation of the supervisory reviews.

Capital position

The following table shows the risk exposure amount (REA) and capital ratios according to Basel III:

Own funds requirement, Basel III	30 Jun	31 Mar	31 Dec
	2020	2020	2019
Risk exposure amount, SEK bn	745	782	746
Common Equity Tier 1 capital ratio, %	17.8	16.8	17.6
Tier 1 capital ratio, %	19.7	18.7	20.8
Total capital ratio, %	22.2	21.2	23.3
Leverage ratio, %	4.3	4.3	5.1

SEB's Common Equity Tier 1 (CET1) capital ratio was 17.8 per cent (16.8). SEB's applicable CET1 capital requirement per the end of the second quarter was 13.7 per cent (13.7), whereof the pillar 2 requirement was 3.6 per cent, including 2 per cent systemic risk. In response to the effects of the Covid-19 pandemic, the SFSA lowered its countercyclical buffer requirement from 2.5 to zero per cent in the first quarter. Authorities in other countries have also reduced or removed this requirement.

The bank aims to have a buffer of around 150 basis points above the capital requirement. The buffer shall cover sensitivity to currency fluctuations in REA, changes in the net value of the Swedish defined benefit pension plan as well as general macroeconomic uncertainties. Currently the buffer is 410 basis points.

SEB's annual general meeting, which was held on 29 June 2020, approved the Board of Directors' proposal that no dividend payment for 2019 will be made and that the entire amount available will be carried forward. Depending on how the Covid-19 situation develops, the Board may assess a dividend payment later this year and if deemed appropriate, convene an extraordinary general meeting to present a dividend proposal.

Risk exposure amount

SEK bn	
Balance 31 Mar 2020	782
Underlying credit risk change	-25
- where of asset size	-3
- where of asset quality	-2
- where of foreign exchange movements	-20
Underlying market risk change	1
- where of CVA risk	-1
Underlying operational risk change	0
Model updates, methodology & policy, other	-12
- where of credit risk	-12
Balance 30 Jun 2020	745

The total risk exposure amount (REA) decreased by SEK 36bn to SEK 745bn in the second quarter. Credit risk REA decreased by 37bn, with the main contributors being foreign exchange movements and that capital requirements were lowered, related to the Covid-19 crisis, aiming to support credit flows to small and medium-sized companies and infrastructure investments. Market and operational risk REA were largely unchanged during the quarter.

Internally assessed capital requirement

As per 30 June 2020, the internally assessed capital requirement, including insurance risk, amounted to SEK 70bn (74). The internal capital requirement is assessed using SEB's internal models for economic capital and is not fully comparable to the estimated capital requirement published by the SFSA due to differences in assumptions and methodologies.

The internally assessed capital requirement for the parent company amounted to SEK 67bn (70).

Business development

During the second quarter, SEB continued to support the customers in weathering the Covid-19 storm. At the same time, the ongoing process of sharpening our product and service offering as well as our processes continued.

Advisory leadership

As part of the efforts to assist in the transition towards a low-carbon economy, SEB served as the structural advisor for Daimler in the creation of a green framework to finance their shift towards a zero-emission vehicle fleet and sustainable production processes. Together with BNP Paribas, SEB also advised EQT on a sustainability-linked subscription financing facility with terms designed to improve the ESG performance of the EQT portfolio companies. SEB expanded its green loans offer by making green real estate financing available for small and medium-sized real estate companies. In addition, SEB initiated a pilot venture in collaboration with the energy company Eon in order to provide SEB's household mortgage customers access to solar panel installations at advantageous borrowing conditions.

Together with the Swedish pension company AMF, the Swedish insurance company AFA Insurance, the Fourth Swedish National Pension Fund, as well as the Swedish foundation asset management company FAM, SEB has established a jointly owned company to support Swedish companies in need of capital through the corona crisis.

SEB launched four new funds to assist customers to start saving in a simple and sustainable way and at a competitive price. The allocation between equities and interest-bearing alternatives is done automatically according to predetermined rules.

Operational excellence

In Sweden, SEB developed its mobile app to enable private customers to buy and sell funds. This was a first step in a planned roll-out which also will enable securities trading. Further, the mobile app for private customers was developed to enable digital communication between customers and advisors through secure messaging.

The Swedish Anti-Money Laundering Intelligence Initiative, SAMLIT, was initiated by SEB in collaboration with the Swedish police and other Nordic banks with the purpose of sharing information to more efficiently combat financial crime and terrorist financing.

Extended presence

SEB continued to develop its strategic partnerships as part of its ambition to be available on customers' terms. As an example, in collaboration with the third-party provider Verified, SEB rolled out a cloud-based e-sign solution for large and medium-sized companies in Sweden and Norway, enabling digital signing of agreements.

In the Baltic countries, SEB entered a partnership with Fitek, which provides an e-invoice portal through which SEB's corporate customers are able to sign contracts, use e-invoices, collect payments and archive invoices – all in one place. Initially, this service will be available via the internet bank in Estonia.

Other information

Long-term financial targets

SEB's long-term financial targets are:

- to pay a yearly dividend that is 40 per cent or above of the earnings per share,
- to maintain a Common Equity Tier 1 capital ratio of around 150 bps above the current requirement from the SFSA, and
- to generate a return on equity that is competitive with peers.

In the long term, SEB aspires to reach a sustainable return on equity of 15 per cent.

Cost target

SEB's business plan for 2019-2021 defines a number of strategic initiatives which, on an accumulated basis, are estimated to lead to total additional investments of SEK 2-2.5bn during the three-year period 2019-2021. This translates into an annual cost increase of SEK 1bn by 2021, and a new total cost target of around SEK 23bn by 2021, assuming 2018 foreign exchange rates. With the foreign exchange rates as of 30 June 2020, the cost target implies a cost level of around SEK 23.2bn in 2021. The pace of investments will be dependent on progress and will be gradually ramped up over the three years. The strategic initiatives are expected to lead to both improved revenue growth and cost efficiencies, improving return on equity over time.

Currency effects

The currency effect on the result for the second quarter 2020 was negligible since average exchange rates in SEB's main currencies were virtually flat.

Compared with the first quarter 2020, the stronger Swedish krona decreased loans to and deposits from the public by SEK 40bn and SEK 30bn, respectively. Total REA decreased by SEK 20bn while the decrease of total assets was SEK 66bn. Compared with year-end 2019, the Swedish krona exchange rate was fairly stable and the effect on business volumes was smaller.

Uncertainties

The pandemic outbreak of Covid-19 and governments' response measures in an attempt to limit its spread, have rapidly and significantly affected societies, economies and financial markets globally. The negative financial and economic consequences may be extensive in SEB's home markets. At the same time, the recent oil price development is a challenge for the oil and gas industry. SEB will continuously assess the asset quality of its credit portfolio using several different scenarios for the pandemic and the economic development, including the oil industry development. The assessment includes the effects of the measures taken by governments and the full consequences on the economy.

Financial markets are expected to continue to be volatile given the prevailing uncertainty. This may adversely impact fair values of certain financial instruments and holdings, and, consequently, net financial income and capital.

The interest rate levels – in Sweden in particular the repo rate – are key factors affecting net interest income and operating profit. The Swedish central bank does not currently forecast any change to its repo rate, which is currently zero per cent, until the end of 2023.

The German Federal Ministry of Finance issued a circular on 17 July 2017 with administrative guidance in relation to withholding taxes on dividends in connection with certain cross-border securities lending and derivative transactions; so-called cum-cum transactions. The circular states an intention to examine transactions executed prior to the change in tax legislation that was enacted 1 January 2016. Ongoing audits by the local tax administration have to date resulted in preliminary minor reclaims on selected tax years. SEB has requested that these reclaims should be revoked. Following a review, SEB is of the opinion that the cross-border securities lending and derivative transactions of SEB in Germany up until 1 January 2016 were conducted in compliance with then prevailing rules. Hence, to date no provisions have been made. Nevertheless, it cannot be ruled out that the outcome of potential future tax claims may have a negative financial effect on SEB.

SEB is subject to various legal regimes and requirements in all jurisdictions where the bank operates. Over the past years, the rules and regulations of the financial industry have expanded and further sharpened, and the regulators have increased their supervision. This is a development which is expected to continue to evolve. Supervisory authorities regularly conduct reviews of SEB's regulatory compliance, including areas such as financial stability, transaction reporting, anti-money laundering, investor protection, and data privacy. SEB has policies and procedures in place with the purpose to always comply with applicable rules and regulations. It cannot, however, be ruled out that current and future supervisory reviews could lead to criticism or sanctions.

Organisational changes

Sara Öhrvall, currently Chief Digital, Customer Experience and Communication Officer, has been appointed Chief Transformation Officer. She remains a member of SEB's Group Executive Committee and continues to report to the President and CEO. Karin Lepasoon has been appointed Head of Group Marketing and Communication and member of SEB's Group Executive Committee. She will report to the President and CEO. Both changes will be effective as of 1 November 2020.

Financial statements – SEB Group

Income statement, condensed

SEK m	Note	Q2			Q1		Q2		Jan–Jun			Full year
		2020	2020	%	2019	%	2020	2019	%	2019		
Net interest income	2	6 047	6 201	-2	5 692	6	12 249	11 037	11	22 950		
Net fee and commission income	3	4 364	4 624	-6	4 735	-8	8 988	9 026	0	18 709		
Net financial income	4	3 541	-804		1 482	139	2 737	3 600	-24	7 617		
Net other income		47	68	-30	287	-84	115	440	-74	858		
Total operating income		13 999	10 089	39	12 197	15	24 089	24 103	0	50 134		
Staff costs		-3 794	-3 619	5	-3 618	5	-7 413	-7 250	2	-14 660		
Other expenses		-1 362	-1 598	-15	-1 680	-19	-2 960	-3 270	-9	-6 623		
Depreciation, amortisation and impairment of tangible and intangible assets		-557	-429	30	-410	36	-985	-809	22	-1 662		
Total operating expenses		-5 712	-5 646	1	-5 708	0	-11 358	-11 329	0	-22 945		
Profit before credit losses		8 287	4 443	87	6 489	28	12 730	12 774	0	27 190		
Gains less losses from tangible and intangible assets		1	0	122	0		1	1	143	-2		
Net expected credit losses	5	-2 691	-1 494	80	-386		-4 185	-808		-2 294		
Operating profit before items affecting comparability		5 598	2 950	90	6 103	-8	8 547	11 967	-29	24 894		
Items affecting comparability	6	-1 000					-1 000					
Operating profit		4 598	2 950	56	6 103	-25	7 547	11 967	-37	24 894		
Income tax expense		-1 096	-595	84	-1 211	-10	-1 691	-2 394	-29	-4 717		
NET PROFIT		3 501	2 355	49	4 892	-28	5 856	9 573	-39	20 177		
Attributable to shareholders of Skandinaviska Enskilda Banken AB		3 501	2 355	49	4 892	-28	5 856	9 573	-39	20 177		
Basic earnings per share, SEK		1.62	1.09		2.26		2.70	4.43		9.33		
Diluted earnings per share, SEK		1.61	1.08		2.25		2.69	4.40		9.28		

Statement of comprehensive income

SEK m	Q2			Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019		
NET PROFIT	3 501	2 355	49	4 892	-28	5 856	9 573	-39	20 177		
Cash flow hedges	-10	-51	-80	-156	-93	-61	-329	-81	-298		
Translation of foreign operations	-816	622		257		-194	592		145		
Items that may subsequently be reclassified to the income statement:	-827	571		101		-255	263		-153		
Own credit risk adjustment (OCA) ¹⁾	-277	272		-73		-5	-92	-95	-53		
Defined benefit plans	558	-1 832		-265		-1 275	-861	48	1 366		
Items that will not be reclassified to the income statement:	281	-1 560	-118	-339		-1 279	-952	34	1 313		
OTHER COMPREHENSIVE INCOME	-546	-989	-45	-237	130	-1 535	-689	123	1 160		
TOTAL COMPREHENSIVE INCOME	2 956	1 366	116	4 655	-37	4 322	8 884	-51	21 336		
Attributable to shareholders of Skandinaviska Enskilda Banken AB	2 956	1 366	116	4 655	-37	4 322	8 884	-51	21 336		

1) Own credit risk adjustment from financial liabilities at fair value through profit or loss.

Balance sheet, condensed

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Cash and cash balances at central banks	319 387	329 384	146 691
Loans to central banks	937	2 578	4 494
Loans to credit institutions ²⁾	48 296	58 830	46 995
Loans to the public	1 903 059	1 947 400	1 837 605
Debt securities	363 143	317 935	238 578
Equity instruments	59 259	62 028	78 482
Financial assets for which the customers bear the investment risk	301 581	277 416	316 776
Derivatives	157 007	225 482	139 427
Other assets	65 188	64 814	47 598
TOTAL ASSETS	3 217 858	3 285 866	2 856 648
Deposits from central banks and credit institutions	180 405	203 268	88 041
Deposits and borrowings from the public ¹⁾	1 433 051	1 336 827	1 161 485
Financial liabilities for which the customers bear the investment risk	303 188	278 974	317 574
Liabilities to policyholders	27 413	26 733	26 547
Debt securities issued	778 964	902 390	858 173
Short positions	36 225	33 202	27 343
Derivatives	137 896	187 964	122 192
Other financial liabilities	2 256	1 978	2 449
Other liabilities	158 246	157 357	97 144
Total liabilities	3 057 643	3 128 693	2 700 947
Equity	160 214	157 174	155 700
TOTAL LIABILITIES AND EQUITY	3 217 858	3 285 866	2 856 648
1) Deposits covered by deposit guarantees	337 364	325 341	313 779

2) Loans to credit institutions and liquidity placements with other direct participants in interbank fund transfer systems.

A more detailed balance sheet is available in the Fact Book.

Statement of changes in equity

SEK m	Share capital	Other reserves ¹⁾			Defined benefit plans	Retained earnings	Equity
		OCA ²⁾	Cash flow hedges	Translation of foreign operations			
Jan-Jun 2020							
Opening balance	21 942	-339	15	-170	3 898	130 355	155 700
Net profit						5 856	5 856
Other comprehensive income (net of tax)		-5	-61	-194	-1 275		-1 535
Total comprehensive income		-5	-61	-194	-1 275	5 856	4 322
Equity-based programmes ⁴⁾						258	258
Change in holdings of own shares						-65	-65
Closing balance	21 942	-344	-46	-364	2 624	136 404	160 214
Jan-Dec 2019							
Opening balance	21 942	-286	313	-315	2 533	124 604	148 789
Effect of applying IFRS 16 ³⁾						-244	-244
Restated balance at 1 January 2019	21 942	-286	313	-315	2 533	124 360	148 545
Net profit						20 177	20 177
Other comprehensive income (net of tax)		-53	-298	145	1 366		1 160
Total comprehensive income		-53	-298	145	1 366	20 177	21 336
Dividend to shareholders						-14 069	-14 069
Equity-based programmes ⁴⁾						-136	-136
Change in holdings of own shares						24	24
Closing balance	21 942	-339	15	-170	3 898	130 355	155 700
Jan-Jun 2019							
Opening balance	21 942	-286	313	-315	2 533	124 604	148 789
Effect of applying IFRS 16 ³⁾						-244	-244
Restated balance at 1 January 2019	21 942	-286	313	-315	2 533	124 360	148 545
Net profit						9 573	9 573
Other comprehensive income (net of tax)		-92	-329	592	-861		-689
Total comprehensive income		-92	-329	592	-861	9 573	8 884
Dividend to shareholders						-14 069	-14 069
Equity-based programmes ⁴⁾						-523	-523
Change in holdings of own shares						-30	-30
Closing balance	21 942	-378	-16	277	1 672	119 310	142 807

1) Amounts under Other reserves may be reclassified in the future to the income statement under certain circumstances, e.g. if they are related to dissolved Cash flow hedges or Translation of foreign operations when SEB ceases to consolidate a foreign operation. Amounts related to OCA and Defined benefit plans will not be reclassified to the income statement.

2) Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk.

3) IFRS 16 Leases is applied from 1 January 2019.

4) Number of shares owned by SEB:

	Jan-Jun 2020	Jan-Dec 2019	Jan-Jun 2019
Number of shares owned by SEB, million			
Opening balance	31.5	30.3	30.3
Repurchased shares for equity-based programmes	0.3	8.7	8.7
Sold/distributed shares	-5.3	-7.4	-5.1
Closing balance	26.5	31.5	33.9
Market value of shares owned by SEB, SEK m	2 141	2 774	2 911

In accordance with the decision by the Annual General Meeting, SEB holds own shares of Class A for the long-term equity-based programmes. The transactions may take place at one or several occasions during the year. The acquisition cost for the purchase of own shares is deducted from shareholders' equity. The item includes changes in nominal amounts of equity swaps used for hedging of equity-based programmes.

Cash flow statement, condensed

SEK m	Jan–Jun			Full year
	2020	2019	%	2019
Cash flow from the profit and loss statement	9 392	- 5 506		4 002
Increase (-)/decrease (+) in portfolios	- 96 509	- 112 197	- 14	- 100 712
Increase (+)/decrease (-) in issued short term securities	- 89 399	138 928		179 214
Increase (-)/decrease (+) in lending	- 71 413	- 173 946	- 59	- 168 396
Increase (+)/decrease (-) in deposits and borrowings	363 917	100 756		2 801
Increase/decrease in other balance sheet items	54 939	16 852		21 578
Cash flow from operating activities	170 927	- 35 112		- 61 513
Cash flow from investment activities	- 58	- 6 074	- 99	- 612
Cash flow from financing activities		- 14 069	- 100	- 5 227
Net increase in cash and cash equivalents	170 869	- 55 255		- 67 352
Cash and cash equivalents at the beginning of year	159 335	219 579	- 27	219 579
Exchange rate differences on cash and cash equivalents	- 128	7 015		7 108
Net increase in cash and cash equivalents	170 869	- 55 255		- 67 352
Cash and cash equivalents at the end of period¹⁾	330 076	171 339	93	159 335

1) Cash and cash equivalents at the end of period is defined as Cash and cash balances with central banks and Loans to other credit institutions payable on demand.

Other financial information – SEB Group

Key figures

	Q2	Q1	Q2	Jan–Jun		Full year
	2020	2020	2019	2020	2019	2019
Return on equity, %	8.7	6.0	13.9	7.4	13.2	13.7
Return on equity excluding items affecting comparability ¹⁾ , %	11.2	6.0	13.9	8.6	13.2	13.8
Return on tangible equity, %	9.3	6.3	14.7	7.8	14.0	14.5
Return on tangible equity excluding items affecting comparability ¹⁾ , %	11.9	6.3	14.7	9.1	14.0	14.6
Return on total assets, %	0.4	0.3	0.7	0.4	0.7	0.7
Return on risk exposure amount, %	1.8	1.2	2.6	1.5	2.6	2.7
Cost/income ratio	0.41	0.56	0.47	0.47	0.47	0.46
Basic earnings per share, SEK	1.62	1.09	2.26	2.70	4.43	9.33
Weighted average number of shares ¹⁾ , millions	2 167	2 164	2 161	2 165	2 162	2 162
Diluted earnings per share, SEK	1.61	1.08	2.25	2.69	4.40	9.28
Weighted average number of diluted shares ²⁾ , millions	2 180	2 177	2 172	2 180	2 174	2 175
Net worth per share, SEK	79.79	78.09	72.78	79.79	72.78	78.42
Equity per share, SEK	73.91	72.58	66.11	73.91	66.11	71.99
Average shareholders' equity, SEK, billion	160.1	156.8	141.2	158.6	145.3	146.9
Net ECL level, %	0.46	0.25	0.07	0.35	0.07	0.10
Stage 3 Loans / Total Loans, gross, %	0.86	0.71	0.64	0.86	0.64	0.67
Stage 3 Loans / Total Loans, net, %	0.48	0.38	0.41	0.48	0.41	0.36
Liquidity Coverage Ratio (LCR) ³⁾ , %	138	176	149	138	149	218
<u>Own funds requirement, Basel III</u>						
Risk exposure amount, SEK m	745 457	781 687	763 519	745 457	763 519	745 637
Expressed as own funds requirement, SEK m	59 637	62 535	61 082	59 637	61 082	59 651
Common Equity Tier 1 capital ratio, %	17.8	16.8	16.6	17.8	16.6	17.6
Tier 1 capital ratio, %	19.7	18.7	18.7	19.7	18.7	20.8
Total capital ratio, %	22.2	21.2	21.1	22.2	21.1	23.3
Leverage ratio, %	4.3	4.3	4.6	4.3	4.6	5.1
Number of full time equivalents ⁴⁾	15 329	15 261	14 988	15 247	14 852	14 939
Assets under custody, SEK bn	10 053	8 992	8 704	10 053	8 704	10 428
Assets under management, SEK bn	1 909	1 758	1 932	1 909	1 932	2 041

1) The number of issued shares was 2,194,171,802. SEB owned 31,499,321 Class A shares for the equity based programmes at year-end 2019. During 2020 SEB has purchased 296,142 shares and 5,264,309 shares have been sold. Thus, at 30 June 2020 SEB owned 26,531,154 Class A-shares with a market value of SEK 2,141m.

2) Calculated dilution based on the estimated economic value of the long-term incentive programmes.

3) In accordance with the EU delegated act.

4) Quarterly numbers are for end of quarter. Accumulated numbers are average for the period. During the first quarter 2020, the definition of FTEs was harmonised for the SEB Group. Approximately one third of the increase in the number of FTEs in that quarter is related to the unified definition.

In SEB's Fact Book, this table is available with nine quarters of history.

Income statement on a quarterly basis

SEK m	Q2	Q1	Q4	Q3	Q2
	2020	2020	2019	2019	2019
Net interest income	6 047	6 201	5 930	5 983	5 692
Net fee and commission income	4 364	4 624	4 989	4 693	4 735
Net financial income	3 541	- 804	2 822	1 196	1 482
Net other income	47	68	349	70	287
Total operating income	13 999	10 089	14 089	11 942	12 197
Staff costs	-3 794	-3 619	-3 807	-3 603	-3 618
Other expenses	-1 362	-1 598	-1 746	-1 607	-1 680
Depreciation, amortisation and impairment of tangible and intangible assets	- 557	- 429	- 474	- 379	- 410
Total operating expenses	-5 712	-5 646	-6 026	-5 589	-5 708
Profit before credit losses	8 287	4 443	8 063	6 353	6 489
Gains less losses from tangible and intangible assets	1	0	- 3	1	0
Net expected credit losses	-2 691	-1 494	- 997	- 489	- 386
Operating profit before items affecting comparability	5 598	2 950	7 063	5 864	6 103
Items affecting comparability	-1 000				
Operating profit	4 598	2 950	7 063	5 864	6 103
Income tax expense	-1 096	- 595	-1 232	-1 092	-1 211
NET PROFIT	3 501	2 355	5 831	4 772	4 892
Attributable to shareholders of Skandinaviska Enskilda Banken AB	3 501	2 355	5 831	4 772	4 892
Basic earnings per share, SEK	1.62	1.09	2.70	2.21	2.26
Diluted earnings per share, SEK	1.61	1.08	2.68	2.20	2.25

Business segments – SEB Group

Income statement by segment

Jan-Jun 2020, SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life	Investment Management & group functions	Eliminations	SEB Group
Net interest income	5 361	5 915	1 633	- 16	- 570	- 76	12 249
Net fee and commission income	3 330	2 433	780	1 197	1 240	8	8 988
Net financial income	1 957	186	129	117	353	- 5	2 737
Net other income	14	17	0	1	85	- 2	115
Total operating income	10 662	8 551	2 542	1 300	1 109	- 75	24 089
Staff costs	-2 089	-1 718	- 442	- 437	-2 735	8	-7 413
Other expenses	-2 606	-1 973	- 566	- 368	2 485	68	-2 960
Depreciation, amortisation and impairment of tangible and intangible assets	- 34	- 35	- 16	- 11	- 890		- 985
Total operating expenses	-4 728	-3 726	-1 025	- 815	-1 140	75	-11 358
Profit before credit losses	5 934	4 825	1 517	485	- 31	0	12 730
Gains less losses from tangible and intangible assets	0	0	1		0		1
Net expected credit losses	-3 117	- 747	- 337	0	16	1	-4 185
Operating profit before items affecting comparability	2 817	4 078	1 181	485	- 14	1	8 547
Items affecting comparability					-1 000		-1 000
Operating profit	2 817	4 078	1 181	485	-1 014	1	7 547

Jan-Jun 2019, SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life	Investment Management & group functions	Eliminations	SEB Group
Net interest income	4 479	5 445	1 564	- 6	- 458	14	11 037
Net fee and commission income	3 122	2 692	799	1 235	1 145	33	9 026
Net financial income	2 275	269	140	352	563	1	3 600
Net other income	248	11	- 3	49	139	- 4	440
Total operating income	10 124	8 417	2 500	1 630	1 388	44	24 103
Staff costs	-2 089	-1 693	- 412	- 424	-2 640	8	-7 250
Other expenses	-2 588	-1 934	- 533	- 351	2 187	- 52	-3 270
Depreciation, amortisation and impairment of tangible and intangible assets	- 34	- 30	- 15	- 10	- 720		- 809
Total operating expenses	-4 711	-3 657	- 960	- 785	-1 173	- 44	-11 329
Profit before credit losses	5 413	4 760	1 540	845	216	0	12 774
Gains less losses from tangible and intangible assets	0	0	0		0		1
Net expected credit losses	- 583	- 172	- 53	- 1	9	- 8	- 808
Operating profit before items affecting comparability	4 830	4 588	1 488	844	225	- 8	11 967
Items affecting comparability							
Operating profit	4 830	4 588	1 488	844	225	- 8	11 967

Large Corporates & Financial Institutions

The division offers commercial and investment banking services to large corporate and institutional clients in the Nordic region, Germany and the United Kingdom. Customers are also served through an international network in some 20 offices.

Income statement

SEK m	Q2		Q1	Q2		Jan–Jun			Full year
	2020	2020	%	2019		2020	2019	%	2019
Net interest income	2 697	2 664	1	2 201	23	5 361	4 479	20	9 371
Net fee and commission income	1 656	1 674	-1	1 644	1	3 330	3 122	7	6 558
Net financial income	2 430	-473		921	164	1 957	2 275	-14	4 462
Net other income	34	-20		237	-86	14	248	-94	221
Total operating income	6 817	3 845	77	5 003	36	10 662	10 124	5	20 613
Staff costs	-1 063	-1 026	4	-1 056	1	-2 089	-2 089	0	-4 293
Other expenses	-1 284	-1 322	-3	-1 304	-2	-2 606	-2 588	1	-5 186
Depreciation, amortisation and impairment of tangible and intangible assets	-17	-16	3	-17	0	-34	-34	-2	-69
Total operating expenses	-2 364	-2 365	0	-2 377	-1	-4 728	-4 711	0	-9 548
Profit before credit losses	4 453	1 481		2 626	70	5 934	5 413	10	11 065
Gains less losses from tangible and intangible assets	0	0		0		0	0		1
Net expected credit losses	-2 211	-907	144	-261		-3 117	-583		-1 812
Operating profit before items affecting comparability	2 243	574		2 365	-5	2 817	4 830	-42	9 254
Items affecting comparability									
Operating profit	2 243	574		2 365	-5	2 817	4 830	-42	9 254
Cost/Income ratio	0.35	0.61		0.48		0.44	0.47		0.46
Business equity, SEK bn	74.4	69.0		67.6		71.7	65.7		67.9
Return on business equity, %	9.2	2.5		10.7		6.0	11.2		10.4
Number of full time equivalents ¹⁾	2 089	2 104		2 056		2 093	2 040		2 057

¹⁾ Quarterly numbers are for end of quarter. Accumulated numbers are average for the period.

- High demand for liquidity facilities from large corporate clients
- Institutional clients sought closer relationships and advisory services
- Operating profit amounted to SEK 2,243m and return on business equity was 9.2 per cent

Comments on the second quarter

The quarter was characterised by uncertainty related to the effects of Covid-19, although some stabilisation in the markets was seen towards the end of the period.

Large Corporate clients continued to focus on liquidity management, leading to high demand for lending and deposit products. Corporate exposures increased by SEK 70bn during the quarter, excluding foreign exchange effects. The cautious sentiment from the previous quarter persisted and activity related to mergers and acquisitions remained low. In the second half of the quarter activity within the capital markets increased and the investment grade market for bond issuance returned to more normal levels. Due to the pandemic Financial Sponsor clients slowed down their activities significantly during the period, even though more activity was seen towards the end of the quarter.

Activity in the financial markets continued at high levels from the first quarter and *Financial Institutions* met the volatility with hedged positions in currency and interest rates. Larger institutions appreciated the close relationship and turned to SEB for advisory services, liquidity and joint projects. A slight increase in demand for larger investments such as

illiquid assets, private equity and private placements was seen during the period after prices started to stabilise. In addition, there was a strong demand for sustainable investments, mainly in projects related to the effects of Covid-19. Assets under custody increased to SEK 10,053bn (8,992), a result of the improved market values.

Operating income increased to SEK 6,817m. Net interest income amounted to SEK 2,697m which is in line with the previous quarter but up from last year, partly due to lower resolution fees. Net fee and commission income was in line with both the first quarter and year-on-year and amounted to SEK 1,656m. Net financial income increased to SEK 2,430m, a result of the high volatility in the financial markets. The negative effect from the elevated credit spreads in the first quarter turned around with lower uncertainty in the second quarter which affected the fair value credit adjustment positively. Operating expenses were flat versus the previous quarter.

Net expected credit losses amounted to SEK 2,211m with a net expected credit loss level of 74 basis points. See page 7.

Corporate & Private Customers

The division offers full banking and advisory services to private individuals and small and medium-sized corporate customers in Sweden, as well as card services in four Nordic countries. Nordic high net-worth individuals are offered leading private banking services with global reach.

Income statement

SEK m	Q2			Q1			Q2			Jan–Jun			Full year
	2020	2020	%	2019	2020	2019	%	2020	2019	%	2019		
Net interest income	2 913	3 002	-3	2 673	9	5 915	5 445	9	10 721				
Net fee and commission income	1 118	1 315	-15	1 408	-21	2 433	2 692	-10	5 546				
Net financial income	77	109	-29	122	-37	186	269	-31	507				
Net other income	5	12	-59	4	9	17	11	48	25				
Total operating income	4 113	4 437	-7	4 208	-2	8 551	8 417	2	16 798				
Staff costs	-844	-874	-3	-822	3	-1 718	-1 693	1	-3 372				
Other expenses	-1 003	-970	3	-974	3	-1 973	-1 934	2	-3 979				
Depreciation, amortisation and impairment of tangible and intangible assets	-16	-19	-17	-16	-3	-35	-30	17	-68				
Total operating expenses	-1 863	-1 863	0	-1 811	3	-3 726	-3 657	2	-7 418				
Profit before credit losses	2 251	2 575	-13	2 396	-6	4 825	4 760	1	9 380				
Gains less losses from tangible and intangible assets		0		0		0	0		-4				
Net expected credit losses	-228	-519	-56	-101	125	-747	-172		-393				
Operating profit before items affecting comparability	2 023	2 055	-2	2 295	-12	4 078	4 588	-11	8 983				
Items affecting comparability													
Operating profit	2 023	2 055	-2	2 295	-12	4 078	4 588	-11	8 983				
Cost/Income ratio	0.45	0.42		0.43		0.44	0.43		0.44				
Business equity, SEK bn	47.8	45.9		44.6		46.8	44.8		44.9				
Return on business equity, %	13.0	13.7		15.7		13.3	15.7		15.3				
Number of full time equivalents ¹⁾	3 590	3 553		3 601		3 557	3 593		3 564				

¹⁾ Quarterly numbers are for end of quarter. Accumulated numbers are average for the period.

- Customer satisfaction among private customers reached all time high levels for both advisory and customer service
- Strong growth in deposits and continued mortgage volume growth
- Operating profit amounted to SEK 2,023m and return on business equity was 13.0 per cent

Comments on the second quarter

Customer behaviour changed during the quarter in light of the Covid-19 pandemic, significantly reducing customer branch office visits. Customer satisfaction, as measured by Net Promoter Score (NPS), increased compared with previous quarter and reached record levels for Personal Banking customers.

In the corporate segment the net inflow of full-service customers continued, and corporate deposit growth was high. Underlying corporate lending increased by SEK 1.3bn, however the reduced corporate credit card utilisation decreased total corporate lending during the quarter. Total corporate lending volumes amounted to SEK 251bn (252). Among private customers, deposit growth was also high, and the mortgage business maintained a steady lending growth, increasing new sales market share compared with the previous quarter. Mortgage volumes grew by SEK 9bn and amounted to SEK 523bn. There was a strong inflow of mortgage amortisation grace applications in the beginning of the quarter, but they decreased significantly towards quarter-end. In total, lending volumes increased by SEK 7bn to SEK 834bn. Deposits volumes grew by SEK 34bn and amounted to SEK 507bn.

Mutual fund volumes increased as the equity market recovered throughout the period. Within Private Banking, assets under management recovered supported by the strong equity market growth. Net sales picked up during the quarter resulting in positive year-to-date flow.

Operating profit decreased by 2 per cent. Net interest income decreased by 3 per cent, or SEK 88m, primarily explained by higher funding cost related to the market volatility, which was to some extent offset by increased lending and deposit volumes, stronger deposit margin and reduced resolution fee. Net fee and commission income decreased by 15 per cent mainly as a result of lower transaction volumes within the corporate card segment, lower fund values affecting fund fees and brokerage income returning to normal levels after having been unusually high in March. Total operating expenses were unchanged.

Net expected credit losses amounted to SEK 228m with a net expected credit loss level of 9 basis points. See page 7.

Baltic

The division provides full banking and advisory services to private individuals and small and medium-sized corporate customers in Estonia, Latvia and Lithuania.

Income statement

SEK m	Q2			Q1			Q2			Jan–Jun			Full year	
	2020	2020	%	2019	2019	%	2020	2019	%	2020	2019	%	2019	
Net interest income	784	849	-8	802	-2	1 633	1 564	4	3 218					
Net fee and commission income	381	399	-4	424	-10	780	799	-2	1 638					
Net financial income	96	32	196	69	39	129	140	-8	321					
Net other income	0	0		-2		0	-3	-95	-8					
Total operating income	1 262	1 280	-1	1 293	-2	2 542	2 500	2	5 169					
Staff costs	-218	-225	-3	-209	4	-442	-412	7	-856					
Other expenses	-288	-278	4	-271	7	-566	-533	6	-1 123					
Depreciation, amortisation and impairment of tangible and intangible assets	-8	-8	0	-7	10	-16	-15	7	-30					
Total operating expenses	-514	-511	1	-487	6	-1 025	-960	7	-2 009					
Profit before credit losses	748	770	-3	806	-7	1 517	1 540	-1	3 159					
Gains less losses from tangible and intangible assets	0	0	-3	0		1	0		2					
Net expected credit losses	-260	-77		-33		-337	-53		-58					
Operating profit before items affecting comparability	488	693	-30	773	-37	1 181	1 488	-21	3 104					
Items affecting comparability														
Operating profit	488	693	-30	773	-37	1 181	1 488	-21	3 104					
Cost/Income ratio	0.41	0.40		0.38		0.40	0.38		0.39					
Business equity, SEK bn	13.3	13.3		10.6		13.3	10.5		10.8					
Return on business equity, %	12.5	17.9		25.0		15.2	24.1		24.7					
Number of full time equivalents ¹⁾	2 299	2 339		2 366		2 322	2 326		2 350					

¹⁾ Quarterly numbers are for end of quarter. Accumulated numbers are average for the period.

- Customer usage of digital and remote services surged
- Financial effects from strict lock-downs due to the Covid-19 pandemic
- Operating profit amounted to SEK 488m and return on business equity was 12.5 per cent

Comments on the second quarter

Lockdowns and other Covid-19 containment measures introduced in the Baltic countries towards the end of the first quarter were broadly successful. Upon their easing towards the end of the quarter, a recovery in private demand and consumer confidence started, hindered by the increase in unemployment. Exporters delayed investment decisions due to falling demand resulting from the pandemic.

Whilst house prices stayed almost unchanged, activity in the private residential market sharply declined during the second quarter, which led to a relatively flat development in mortgage lending in local currency. Usage of cards and payment products in the private segment was demonstrably affected by Covid-19, with the usual second quarter seasonal demand now absent. With physical customer meetings restricted, usage of SEB's digital service offerings surged.

Lending volumes in the already cautious corporate segment decreased. Led by the reduced corporate demand, total lending volumes decreased by 2 per cent in local currency in the second quarter and amounted to SEK 156bn (166). Strong growth in deposits continued in all segments. Total deposits grew by 6 per cent in local currency and amounted to SEK 169bn (167).

Compared with the first quarter, operating profit decreased by 30 per cent, or by SEK 205m, to SEK 488m. Net interest income decreased by 8 per cent due in part to higher costs in managing excess liquidity, as well as higher fees for Baltic resolution funds.

Net fee and commission income was down 4 per cent, due mainly to decreased activity caused by Covid-19.

Net financial income increased by 196 per cent, due mostly to the recovery of market valuations of government bonds in the treasury liquidity portfolios, reflecting the general decrease of bond credit spreads and rebounding from the market volatility related to Covid-19. The currency effect on the result this quarter was small.

Operating expenses were 1 per cent higher mainly as a result of the EUR 1m administrative fine issued by the Estonian FSA arising from the closure of the previously disclosed anti-money laundering review. It was partially offset by savings mainly from a reduced number of staff.

Net expected credit losses amounted to SEK 260m with a net expected credit loss level of 55 basis points. See page 7.

Life

The division offers life insurance solutions to private as well as corporate and institutional clients mainly in the Nordic and Baltic countries.

Income statement

SEK m	Q2		Q1		Q2		Jan–Jun		Full year
	2020	2020	%	2019	2020	2019	%	2019	
Net interest income	-8	-8	1	-3	147	-16	-6	145	-16
Net fee and commission income	593	605	-2	635	-7	1 197	1 235	-3	2 531
Net financial income	235	-118		199	18	117	352	-67	711
Net other income	6	-5		-2		1	49	-98	77
Total operating income	825	475	74	829	0	1 300	1 630	-20	3 304
Staff costs	-216	-220	-2	-206	5	-437	-424	3	-860
Other expenses	-183	-184	0	-178	3	-368	-351	5	-706
Depreciation, amortisation and impairment of tangible and intangible assets	-5	-6	-9	-5	-1	-11	-10	5	-21
Total operating expenses	-405	-410	-1	-390	4	-815	-785	4	-1 587
Profit before credit losses	420	64		439	-4	485	845	-43	1 716
Gains less losses from tangible and intangible assets									
Net expected credit losses	0	0		-1		0	-1	-94	-1
Operating profit before items affecting comparability	420	64		438	-4	485	844	-43	1 715
Items affecting comparability									
Operating profit	420	64		438	-4	485	844	-43	1 715
Cost/Income ratio	0.49	0.86		0.47		0.63	0.48		0.48
Business equity, SEK bn	5.3	5.5		5.4		5.4	5.4		5.4
Return on business equity, %	29.7	4.4		30.2		16.8	29.0		29.4
Number of full time equivalents ¹⁾	1 043	1 054		1 037		1 049	1 048		1 046

¹⁾ Quarterly numbers are for end of quarter. Accumulated numbers are average for the period.

- Recovery in asset values
- Positive market share development
- Operating profit amounted to SEK 420m and return on business equity was 29.7 per cent

Comments on the second quarter

Customer fund values rebounded with equity markets recovering strongly during the quarter, driving an increase in assets under management by 8 per cent. Customers were highly active seeking advice on the effects of Covid-19 and advisors supported them both remotely and digitally. There was a downward trend in the number of companies interested in grace periods, premium free, for their occupational pension with customers perceiving lower uncertainty around the Covid-19 development compared with the previous quarter.

SEB's market share for new business increased from 8.1 to 10.6¹ per cent, driven by strong performance from portfolio bond and collective occupational pension. SEB is thereby number three in the total Swedish life insurance market. Sales in the second quarter slowed as a consequence of lower activity among the Swedish corporate clients as well as an effect of the lock-down in the Baltic region for some time. Sales were down 13 percent for the division compared with the first quarter.

Total assets under management for both the traditional and unit-linked insurance segments increased to SEK 369bn from SEK 343bn at beginning of the quarter, mainly from a market value increase but also a positive net inflow.

Operating profit increased by SEK 356m during the quarter to SEK 420m. Net fee and commission income decreased by 2 per cent compared with the previous quarter due to lower average asset values in the unit-linked business. Net financial income increased by SEK 353m to SEK 235m. The more stable fixed income markets in combination with improved equity markets affected the income positively from traditional portfolios both in Sweden and the Baltic countries. During the quarter approximately SEK 60m of the negative unrealised market effects in the traditional portfolios during the first quarter was recovered.

¹ Latest available market statistics from the Swedish insurance trade association, measured as new business

Investment Management & group functions

The Investment Management division manages SEB funds and mandates for customers channelled via the other divisions. Group functions consist of technology, business support, treasury, staff units and German run-off operations.

Income statement

SEK m	Q2		Q1		Q2		Jan–Jun		Full year
	2020	2020	%	2019	2020	2019	%	2019	
Net interest income	-294	-276	7	-85	-570	-458	24	-378	
Net fee and commission income	634	607	4	617	3	1 240	1 145	8	
Net financial income	705	-352		169		353	563	-37	
Net other income	3	82	-96	45	-93	85	139	-39	
Total operating income	1 048	61		747	40	1 109	1 388	-20	4 173
Staff costs	-1 457	-1 278	14	-1 328	10	-2 735	-2 640	4	-5 294
Other expenses	1 335	1 150	16	1 167	14	2 485	2 187	14	4 465
Depreciation, amortisation and impairment of tangible and intangible assets	-511	-379	35	-365	40	-890	-720	24	-1 475
Total operating expenses	-633	-507	25	-526	20	-1 140	-1 173	-3	-2 304
Profit before credit losses	416	-446		222	88	-31	216	-114	1 869
Gains less losses from tangible and intangible assets	0	0	-95	0	-97	0	0	-37	-1
Net expected credit losses	7	10	-30	11	-36	16	9	90	-22
Operating profit before items affecting comparability	422	-436		233	82	-14	225	-106	1 846
Items affecting comparability	-1 000					-1 000			
Operating profit	-578	-436	32	233		-1 014	225		1 846
Number of full time equivalents ¹⁾	6 308	6 210		5 928		6 227	5 846		5 922
SEB labelled mutual funds, SEK bn ²⁾	614	562		647		614	647		685

¹⁾ Quarterly numbers are for end of quarter. Accumulated numbers are average for the period.

²⁾ As of 1 January 2020, the definition of AuM was further clarified for SEB-labelled mutual funds, leading to an overall lower AuM figure. Historical periods were adjusted proforma. The management of Baltic pension funds was moved to the Life division.

- SEB-labelled mutual funds' asset values increased to SEK 614bn
- Operating profit before items affecting comparability amounted to SEK 422m
- An administrative fine amounting to SEK 1,000m was issued by the Swedish FSA

Comments on the second quarter

Investment Management and group functions are reported combined but are distinctly different. Their combined operating profit of SEK -578m is best commented one by one.

Investment Management: The Covid-19 pandemic had a large effect and the market environment was challenging with elevated volatility across asset classes. In order to protect unit holders, the assets most exposed to the consequences of the pandemic were proactively minimised freeing up liquidity to meet potential unknown challenges. Assets under management were slowly increasing and SEB-labelled mutual funds amounted to SEK 614bn (562). Net sales for the quarter amounted to SEK 8bn. SEB's assets under management fulfilling SEB's sustainability criteria amounted to SEK 229bn, representing 37 per cent of the SEB-labelled mutual funds.

Total operating income amounted to SEK 518m (583). Base commission amounted to SEK 488m which was a decrease of 8 per cent compared with the previous quarter. Base commission is calculated daily, and average volumes were lower than the first quarter. The overall market functionality was satisfactory during the quarter and

performance fees amounted to SEK 59m (46). Operating expenses decreased and amounted to SEK 200m. Operating profit amounted to SEK 318 (354).

Treasury: The USD rate cut by the US Federal Reserve in the first quarter had a negative effect on Treasury's net interest income in the second quarter compared with the first. On the other hand, the rate cut had a positive effect on net financial income through mark-to-market valuations. The pre-financed AT1 was repurchased in May giving a positive effect on net interest income.

Support and staff units: Technology provides IT operations and development as well as architecture. Business support handles back office services for the divisions. Staff units include for instance compliance and risk functions and other various units. All relevant costs are charged to the divisions to be reflected in their results.

Net financial income reflected positive market valuation effects of SEK 938m on certain strategic holdings.

The Swedish FSA issued SEB an administrative fine of SEK 1,000m. See page 7.

Notes to the financial statements - SEB Group

Note 1 Accounting policies

This Report is presented in accordance with IAS 34 Interim Financial Reporting. The group's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of these standards as adopted by the European Commission. The accounting also follows the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the regulation and general guidelines issued by the Swedish Financial Supervisory Authority: Annual Reports in Credit Institutions and Securities Companies (FFFS 2008:25). In addition, the Supplementary Accounting Rules for Groups (RFR 1) from the Swedish Financial Reporting Board have been applied. The Parent Company has prepared its accounts in accordance with Swedish Annual Act for Credit Institutions and Securities Companies, the Swedish Financial Supervisory Authority's Regulations and General Guidelines (FFFS 2008:25) on Annual Reports in Credit Institutions and Securities Companies and the Supplementary Accounting Rules for Legal Entities (RFR 2) issued by the Swedish Financial Reporting Board.

As of January 2020, the group adopted Definition of Material (Amendments to IAS 1 and IAS 8). The amendments provide a new definition of material that states that

"information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The IASB has issued a revised Conceptual Framework for Financial Reporting. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. An amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The changes have not had a material effect on the financial statements of the group or on capital adequacy and large exposures.

In all other material aspects, the group's and the parent company's accounting policies, basis for calculations and presentations are unchanged in comparison with the 2019 Annual Report.

Note 2 Net interest income

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019	
Interest income ¹⁾	9 507	10 342	- 8	10 540	-10	19 849	20 489	- 3	41 722	
Interest expense	-3 459	-4 141	-16	-4 848	-29	-7 600	-9 452	-20	-18 772	
Net interest income	6 047	6 201	- 2	5 692	6	12 249	11 037	11	22 950	
1) Of which interest income calculated using the effective interest method	7 898	8 540	- 8	8 909	-11	16 439	17 501	- 6	35 217	

Note 3 Net fee and commission income

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019	
Issue of securities and advisory services	301	251	20	284	6	552	516	7	1 312	
Secondary market and derivatives	491	622	-21	549	-11	1 112	1 073	4	2 047	
Custody and mutual funds	1 890	1 996	- 5	1 975	-4	3 886	3 769	3	7 782	
<i>Whereof performance fees</i>	69	51	35	56	22	119	68	75	121	
Payments, cards, lending, deposits, guarantees and other	2 486	2 760	-10	2 877	-14	5 246	5 582	- 6	11 293	
<i>Whereof payments and card fees</i>	1 167	1 454	-20	1 613	-28	2 620	3 096	-15	6 299	
<i>Whereof lending</i>	790	769	3	737	7	1 560	1 420	10	2 869	
Life insurance commissions	393	381	3	447	-12	774	882	-12	1 741	
Fee and commission income	5 561	6 009	- 7	6 133	-9	11 570	11 823	- 2	24 176	
Fee and commission expense	-1 197	-1 385	-14	-1 398	-14	-2 582	-2 797	- 8	-5 467	
Net fee and commission income	4 364	4 624	- 6	4 735	-8	8 988	9 026	0	18 709	
<i>Whereof Net securities commissions</i>	2 062	2 079	- 1	2 106	-2	4 141	3 870	7	8 179	
<i>Whereof Net payment and card fees</i>	710	896	-21	1 057	-33	1 606	1 997	-20	4 096	
<i>Whereof Net life insurance commissions</i>	276	254	9	305	-10	530	587	-10	1 198	
<i>Whereof Other commissions</i>	1 316	1 395	- 6	1 266	4	2 710	2 573	5	5 236	

Fee and commission income by segment

SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life	Investment Management & group functions	Eliminations	SEB Group
Q2 2020							
Issue of securities and advisory	280	15	6	0	0		301
Secondary market and derivatives	392	92	9	0	-3	0	491
Custody and mutual funds	846	412	46	50	1 378	-842	1 890
Payments, cards, lending, deposits, guarantees and other	1 225	883	479	49	152	-302	2 486
Life insurance commissions				747		-354	393
Fee and commission income	2 743	1 402	541	846	1 527	-1 498	5 561
Q1 2020							
Issue of securities and advisory	242	4	4		0		251
Secondary market and derivatives	501	117	10	0	-6	0	622
Custody and mutual funds	846	443	47	52	1 495	-887	1 996
Payments, cards, lending, deposits, guarantees and other	1 225	1 143	507	47	119	-282	2 760
Life insurance commissions				772		-391	381
Fee and commission income	2 815	1 707	568	872	1 608	-1 561	6 009
Jan-Jun 2020							
Issue of securities and advisory	522	19	11	0	0		552
Secondary market and derivatives	893	209	19	0	-9	0	1 112
Custody and mutual funds	1 693	855	93	102	2 873	-1 729	3 886
Payments, cards, lending, deposits, guarantees and other	2 450	2 026	986	97	271	-584	5 246
Life insurance commissions				1 519		-746	774
Fee and commission income	5 558	3 109	1 109	1 718	3 135	-3 059	11 570
Jan-Jun 2019							
Issue of securities and advisory	493	13	9	0	1		516
Secondary market and derivatives	839	227	10	0	-4	0	1 073
Custody and mutual funds	1 638	762	93	81	2 939	-1 744	3 769
Payments, cards, lending, deposits, guarantees and other	2 331	2 565	996	111	231	-652	5 582
Life insurance commissions				1 613		-731	882
Fee and commission income	5 302	3 568	1 108	1 805	3 167	-3 127	11 823

Fee and commission income is disaggregated in major types of service tied to primary geographical markets and operating segments. Revenues from Issue of securities and advisory, Secondary market and derivatives, Payments, cards, lending and deposits are mainly recognised at a point in time. Revenues from Custody and mutual funds and Life insurance commissions are mainly recognised over time.

Note 4 Net financial income

SEK m	Q2			Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019		
Equity instruments and related derivatives	1 159	-1 489	-178	449	158	- 330	1 287	-126	2 628		
Debt instruments and related derivatives	900	- 456		- 153		444	- 213		- 37		
Currency and related derivatives	1 054	1 513	-30	941	12	2 567	2 037	26	4 119		
Other life insurance income, net	228	- 113		200	14	115	353		722		
Other	200	- 259	-177	46		- 59	135	-144	185		
Net financial income	3 541	- 804		1 482	139	2 737	3 600		7 617		
<i>Whereof unrealized valuation changes from counterparty risk and own credit standing in derivatives</i>	<i>581</i>	<i>-1 282</i>	<i>-145</i>	<i>- 102</i>		<i>- 702</i>	<i>- 108</i>		<i>- 1</i>		

The result within Net financial income is presented on different line items based on type of underlying financial instrument.

For the second quarter the effect from structured bonds offered to the public was approximately SEK 550m (Q1 2020: -1 160) in Equity related derivatives and a corresponding effect in Debt related derivatives SEK -440m (Q1 2020: 1 455).

Note 5 Net expected credit losses

SEK m	Q2			Q1		Q2		Jan–Jun			Full year
	2020	2020	%	2019	%	2020	2019	%	2019		
Impairment gains or losses - Stage 1	- 396	- 476	-17	50		- 872	3		24		
Impairment gains or losses - Stage 2	- 293	- 287	2	198		- 580	229		457		
Impairment gains or losses - Stage 3	-1 890	- 705	168	- 655	188	- 2 595	-1 083	140	- 2 777		
Impairment gains or losses	- 2 579	- 1 468	76	- 408		- 4 047	- 852		- 2 296		
Write-offs and recoveries											
Total write-offs	- 966	- 226		- 413	134	- 1 192	- 639	87	- 1 113		
Reversals of allowance for write-offs	805	154		351	129	959	520	84	845		
Write-offs not previously provided for	- 161	- 72	124	- 62	161	- 233	- 119	96	- 269		
Recovered from previous write-offs	50	46	7	84	-41	96	163	-41	271		
Net write-offs	- 112	- 25		22		- 137	44		2		
Net expected credit losses	- 2 691	- 1 494	80	- 386		- 4 185	- 808		- 2 294		
Net ECL level, %	0.46	0.25		0.07		0.35	0.07		0.10		

Exposure and expected credit loss (ECL) allowances by stage, Movements in allowances for expected credit losses and loans and Expected credit loss allowances by industry are presented in notes 10-12.

Note 6 Items affecting comparability

SEK m	Q2		Q1		Q2		Jan–Jun		Full year
	2020	2020	%	2019	%	2020	2019	%	
Other expenses	-1 000						-1 000		
Total operating expenses	-1 000						-1 000		
Items affecting comparability	-1 000						-1 000		
Income tax on IAC									
Items affecting comparability after tax	-1 000						-1 000		

The table shows the rows in which the Items affecting comparability would have been reported if not presented as an item affecting comparability.

Items affecting comparability 2020

The Swedish Financial Supervisory Authority (FSA) finalised its review of SEB's governance and control of measures against money laundering in SEB's Baltic banks. The Swedish FSA decided to issue SEB a remark, which is a lower degree of an administrative sanction that is issued when a breach has not been deemed to be serious. The Swedish FSA also decided to issue SEB an administrative fine of SEK 1,000m, which corresponds to about 14 per cent of the maximum amount the Swedish FSA can impose in this case, as well as a precept to take certain measures to improve the transaction monitoring in Sweden.

Note 7 Pledged assets and obligations

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Pledged assets for own liabilities ¹⁾	461 891	536 544	496 406
Pledged assets for liabilities to insurance policyholders	330 601	305 707	344 121
Other pledged assets ²⁾	124 792	129 294	91 477
Pledged assets	917 284	971 545	932 004
Contingent liabilities ³⁾	142 082	145 150	139 462
Commitments	705 535	637 328	638 348
Obligations	847 618	782 477	777 810

1) Of which collateralised for own issued covered bonds SEK 338,668m (377,189; 368,955).

2) Of which securities lending SEK 2,905m (3,668; 5,389) and pledged but unencumbered bonds SEK 95,641m (95,112; 58,523).

3) Of which financial guarantees SEK 8,356m (8,693; 8,705).

Note 8 Financial assets and liabilities

SEK m	30 Jun 2020		31 Mar 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans ¹⁾	2 269 530	2 281 622	2 335 950	2 350 242	2 033 280	2 033 650
Debt securities	363 143	362 876	317 935	317 766	238 578	238 878
Equity instruments	59 259	59 259	62 028	62 028	78 482	78 482
Financial assets for which the customers bear the investment risk	301 581	301 581	277 416	277 416	316 776	316 776
Derivatives	157 007	157 007	225 482	225 482	139 427	139 427
Other	33 713	33 713	32 797	32 797	16 584	16 584
Financial assets	3 184 234	3 196 059	3 251 608	3 265 731	2 823 127	2 823 797
Deposits	1 613 456	1 614 254	1 540 096	1 539 096	1 249 526	1 248 839
Financial liabilities for which the customers bear the investment risk	303 188	303 188	278 974	278 974	317 574	317 574
Debt securities issued ²⁾	813 967	824 040	951 086	956 243	902 812	896 194
Short positions	36 225	36 225	33 202	33 202	27 343	27 343
Derivatives	137 896	137 896	187 964	187 964	122 192	122 192
Other	95 750	95 752	83 611	83 613	18 449	18 451
Financial liabilities	3 000 482	3 011 355	3 074 933	3 079 092	2 637 896	2 630 593

1) Loans includes Cash balances at central banks (excluding Cash), Loans to central banks, Loans to credit institutions and Loans to the public.

2) Debt securities issued includes Debt securities issued and Subordinated liabilities (part of Other liabilities).

SEB has classified its financial instruments by class taking into account the characteristics of the instruments. The fair value of each class of financial assets and liabilities are compared with its carrying amount. A description of the characteristics of the classes can be found in note 37 in the 2019 Annual Report.

Note 9 Assets and liabilities measured at fair value

SEK m	30 Jun 2020				31 Dec 2019			
	Quoted prices in active markets (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using non-observable inputs (Level 3)	Total	Quoted prices in active markets (Level 1)	Valuation technique using observable inputs (Level 2)	Valuation technique using non-observable inputs (Level 3)	Total
Assets								
Loans		243 405		243 405		190 090		190 090
Debt securities	184 910	164 990	293	350 193	110 101	113 884	5	223 990
Equity instruments	42 892	2 628	13 738	59 259	59 029	6 403	13 050	78 482
Financial assets for which the customer bear the investment risk	295 497	5 562	523	301 581	308 909	7 236	631	316 776
Derivatives	1 045	155 454	508	157 007	1 006	137 943	478	139 427
Investment in associates ¹⁾	82		415	496	85		381	466
Total	524 426	572 039	15 476	1 111 942	479 130	455 557	14 544	949 231
Liabilities								
Deposits		36 400		36 400		15 103		15 103
Financial liabilities for which the customer bear the investment risk	297 192	5 483	514	303 188	309 772	7 178	625	317 574
Liabilities to policyholders - insurance	26 220	1 192		27 413	25 399	1 147		26 547
Debt securities issued		13 392		13 392		20 207		20 207
Short positions	28 610	7 614		36 225	25 634	1 669	41	27 343
Derivatives	897	136 566	433	137 896	1 554	120 296	342	122 192
Other financial liabilities at fair value	134	2 122		2 256	44	2 405		2 449
Total	353 053	202 769	946	556 769	362 402	168 004	1 008	531 414

1) Venture capital activities designated at fair value through profit and loss.

Fair value measurement

The objective of the fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date under current market conditions.

The group has an established control environment for the determination of fair values of financial instruments that includes a review, independent from the business, of valuation models and prices. If the validation principles are not adhered to, the Head of Group Finance shall be informed. Exceptions of material and principal importance require approval from the GRMC (Group Risk Measurement Committee) and the ARC (Accounting Reporting Committee).

In order to arrive at the fair value of a financial instrument SEB uses different methods; quoted prices in active markets, valuation techniques incorporating observable data and valuation techniques based on internal models. For disclosure purposes, financial instruments carried at fair value are classified in a fair value hierarchy according to the level of market observability of the inputs. Group Risk classifies and continuously reviews the classification of financial instruments in the fair value hierarchy. The valuation process is the same for financial instruments in all levels.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. The objective is to arrive at a price at which a transaction without modification or repackaging would occur in the principal market for the instrument to which SEB has immediate access.

Fair value is generally measured for individual financial instruments, in addition portfolio adjustments are made to cover the credit risk. To reflect counterparty risk and own credit risk in OTC derivatives, adjustments are made based on the net exposure towards each counterpart. These adjustments are calculated on a counterparty level based on estimates of exposure at default, probability of default and recovery rates. Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken where the probability of default is based on generic credit indices for specific industry and/or rating.

When valuing financial liabilities at fair value SEB's own credit standing is reflected.

In order to arrive at the fair value of investment properties a market participant's ability to generate economic benefit by using the asset in its highest and best use are taken into account. The highest and best use takes into account the use of the asset that is physically possible, legally permissible and financially feasible. The current use of the investment properties in SEB is in accordance with the highest and best use. The valuation of investment properties is described in the accounting policies in Annual Report note 1. The valuation of the investment properties is performed semi-annually, they are presented and approved by the board in each real estate company. The valuation principles used in all entities are in accordance with regulations provided by the local Financial Supervisory Authorities (FSA) which is in accordance with international valuation principles and in accordance with IFRS.

Level 1: Quoted market prices

Valuations in Level 1 are determined by reference to unadjusted quoted market prices for identical instruments in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Examples of Level 1 financial instruments are listed equity securities, debt securities, and exchange-traded derivatives. Instruments traded in an active market for which one or more market participants provide a binding price quotation on the balance sheet date are also examples of Level 1 financial instruments.

Level 2: Valuation techniques with observable inputs

In Level 2 valuation techniques, all significant inputs to the valuation models are observable either directly or indirectly. Level 2 valuation techniques include using discounted cash flows, option pricing models, recent transactions and the price of another instrument that is substantially the same.

Examples of observable inputs are foreign currency exchange rates, binding securities price quotations, market interest rates (Stibor, Libor, etc.), volatilities implied from observable option prices for the same term and actual transactions with one or more external counterparts executed by SEB. An input can transfer from being observable to being unobservable during the holding period due to e.g. illiquidity of the instrument. Examples of Level 2 financial instruments are most OTC derivatives such as options and interest rate swaps based on the Libor swap rate or a foreign-denominated yield curve. Other examples are instruments for which SEB recently entered into transactions with third parties and instruments for which SEB interpolates between observable variables.

Note 9, continued. Assets and liabilities measured at fair value

Level 3: Valuation techniques with significant unobservable inputs

Level 3 valuation techniques incorporate significant inputs that are unobservable. These techniques are generally based on extrapolating from observable inputs for similar instruments, analysing historical data or other analytical techniques. Examples of Level 3 financial instruments are more complex OTC derivatives, long dated options for which the volatility is extrapolated or derivatives that depend on an unobservable correlation. Other examples are instruments for which there is currently no active market or binding quotes, such as unlisted equity instruments, private equity holdings and investment properties.

If the fair value of financial instruments includes more than one unobservable input, the unobservable inputs are aggregated in order to determine the classification of the entire instrument. The level in the fair value hierarchy within which a financial instrument is classified is determined on the basis of the lowest level of input that is significant to the fair value in its entirety.

Significant transfers and reclassifications between levels

Transfers between levels may occur when there are indications that market conditions have changed, e.g. a change in liquidity. The Valuation/Pricing committee of each relevant division decides on material shifts between levels. The largest open market risk within Level 3 financial instruments remains in the traditional life insurance investment portfolios within the insurance business.

Changes in level 3, SEK m	Opening balance	Reclassi- fication	Gain/loss in Income statement ¹⁾	Gain/loss in Other compre- hensive income	Purchases	Sales	Settle- ments	Transfers into Level 3	Transfers out of Level 3	Exchange rate differences	Closing balance
	1 Jan 2020										30 Jun 2020
Assets											
Debt securities	5		-9			-5	6	296			293
Equity instruments	13 050		-573		2 109	-853				6	13 739
Financial assets for which the customer bear the investment risk	631		-52		3	-9			-54	4	523
Derivatives	478		12		88		-70				508
Investment in associates	381		-3		36					1	415
Total	14 544		-625		2 236	-867	-64	296	-54	10	15 476
Liabilities											
Financial liabilities for which the customer bear the investment risk	625		-52			-8			-54	3	514
Short positions	41		-53			11				1	0
Derivatives	342		-57			88	60				433
Total	1 008		-162			91	60		-54	3	946

1) Fair value gains and losses recognised in the income statement are included in Net financial income and Net other income.

Sensitivity of Level 3 assets and liabilities to unobservable inputs

The table below illustrates the potential Profit or Loss impact of the relative uncertainty in the fair value of assets and liabilities that for their valuation are dependent on unobservable inputs. The sensitivity to unobservable inputs is assessed by altering the assumptions to the valuation techniques, illustrated below by changes in index-linked swap spreads, implied volatilities, credit spreads or comparator multiples. It is unlikely that all unobservable inputs would be simultaneously at the extremes of their ranges of reasonably possible alternatives.

SEK m	30 Jun 2020				31 Dec 2019			
	Assets	Liabilities	Net	Sensitivity	Assets	Liabilities	Net	Sensitivity
Derivative instruments ²⁾⁵⁾	507	-433	74	18	478	-342	136	36
Debt securities ¹⁾	293		293	15				
Equity instruments ³⁾⁶⁾⁷⁾	3 222		3 222	644	3 187	-40	3 147	632
Insurance holdings - Financial instruments ⁴⁾⁵⁾⁷⁾⁸⁾	10 638		10 638	1 237	9 960		9 960	1 110

1) Sensitivity quantified as the absolute value of range prices per maturity bucket multiplied by exposure in bps, and standard deviation multiplied by the confidence interval 1.28 and exposure in basis points.

2) Volatility valuation inputs for Bermudan swaptions are unobservable. Volatilities used for ordinary swaptions are adjusted further in order to reflect the additional uncertainty associated with the valuation of Bermudan style swaptions. The sensitivity is calculated from shift in implied volatilities and aggregated from each currency and maturity bucket.

3) Valuation is estimated in a range of reasonable outcomes. Sensitivity analysis is based on 20 per cent shift in market values.

4) Sensitivity for debt securities is generally quantified as shift in market values of 5 per cent except for credit opportunity 10 per cent and for distressed debt and structured credits 15 per cent.

5) Shift in implied volatility by 10 per cent.

6) Sensitivity analysis is based on a shift in market values of hedge funds 5 per cent, private equity of 20 per cent, structured credits 15 per cent.

7) Sensitivity from a shift of investment properties/real estate funds market values of 10 per cent and infrastructure/infrastructure funds market values of 20 per cent.

8) The sensitivity show changes in the value of the insurance holdings which do not at all times affect the P/L of the Group since any surplus in the traditional life portfolios are consumed first.

Note 10 Exposure and expected credit loss (ECL) allowances by stage

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Stage 1 (12-month ECL)			
Debt securities	12 951	14 728	14 589
Loans ¹⁾	1 658 392	1 738 616	1 623 030
Financial guarantees and Loan commitments	720 957	638 327	636 447
Gross carrying amounts/Nominal amounts Stage 1	2 392 300	2 391 671	2 274 066
Debt securities	-1	-1	-1
Loans ¹⁾	-1 287	-1 035	-643
Financial guarantees and Loan commitments	-402	-290	-189
ECL allowances Stage 1	-1 689	-1 326	-832
Debt securities	12 951	14 727	14 588
Loans ¹⁾	1 657 105	1 737 581	1 622 387
Financial guarantees and Loan commitments	720 555	638 037	636 258
Carrying amounts/Net amounts Stage 1	2 390 611	2 390 345	2 273 234
Stage 2 (lifetime ECL)			
Loans ¹⁾²⁾	65 133	69 372	72 459
Financial guarantees and Loan commitments	16 080	16 256	13 900
Gross carrying amounts/Nominal amounts Stage 2	81 213	85 629	86 360
Loans ¹⁾²⁾	-1 496	-1 288	-1 058
Financial guarantees and Loan commitments	-228	-203	-127
ECL allowances Stage 2	-1 724	-1 491	-1 185
Loans ¹⁾²⁾	63 637	68 085	71 401
Financial guarantees and Loan commitments	15 852	16 053	13 773
Carrying amounts/Net amounts Stage 2	79 489	84 138	85 174
Stage 3 (credit impaired/lifetime ECL)			
Loans ¹⁾³⁾	14 927	12 890	11 396
Financial guarantees and Loan commitments ³⁾	825	457	441
Gross carrying amounts/Nominal amounts Stage 3	15 753	13 347	11 836
Loans ¹⁾³⁾	-6 694	-5 999	-5 211
Financial guarantees and Loan commitments ³⁾	-263	-91	-138
ECL allowances Stage 3	-6 957	-6 090	-5 349
Loans ¹⁾³⁾	8 233	6 891	6 184
Financial guarantees and Loan commitments ³⁾	562	366	303
Carrying amounts/Net amounts Stage 3	8 796	7 256	6 487

The note continues on the next page.

Note 10, continued. Exposure and expected credit loss (ECL) allowances by stage

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Total			
Debt securities	12 951	14 728	14 589
Loans ¹⁾²⁾³⁾	1 738 452	1 820 878	1 706 885
Financial guarantees and Loan commitments ³⁾	737 862	655 040	650 788
Gross carrying amounts/Nominal amounts	2 489 266	2 490 646	2 372 262
Debt securities	-1	-1	-1
Loans ¹⁾²⁾³⁾	-9 477	-8 321	-6 912
Financial guarantees and Loan commitments ³⁾	-893	-584	-454
ECL allowances	-10 370	-8 907	-7 367
Debt securities	12 951	14 727	14 588
Loans ¹⁾²⁾³⁾	1 728 976	1 812 556	1 699 972
Financial guarantees and Loan commitments ³⁾	736 969	654 456	650 335
Carrying amounts/Net amounts	2 478 895	2 481 740	2 364 895

1) Excluding demand deposits credit institutions and including trade and client receivables presented as other assets.

2) Whereof gross carrying amounts SEK 1,339m (1,316; 1,372) and ECL allowances SEK 0m (2; 2) under Lifetime ECLs - simplified approach for trade receivables.

3) Whereof gross carrying amounts SEK 2,962m (2,509; 2,309) and ECL allowances SEK 1,507m (1,222; 1,002) for Purchased or Originated Credit Impaired loans.

The table shows gross carrying amounts for exposures on balance and nominal amounts for exposures off-balance divided by stage as a mean to put ECL allowances in context to overall exposure levels. For trade receivables a simplified approach based on past-due information is used to calculate loss allowances.

Stage 3 loans / Total loans, gross, %	0.86	0.71	0.67
Stage 3 loans / Total loans, net, %	0.48	0.38	0.36
ECL coverage ratio Stage 1, %	0.07	0.06	0.04
ECL coverage ratio Stage 2, %	2.12	1.74	1.37
ECL coverage ratio Stage 3, %	44.16	45.63	45.19
ECL coverage ratio, %	0.42	0.36	0.31

Development of exposures and ECL allowances by stage

Gross exposures in Stage 3 increased by SEK 2,406m to SEK 15,753m in the second quarter mainly due to certain oil-related exposures migrating from Stage 2. In the second quarter, ECL allowances in Stage 1 and 2 increased mainly due to more negative macroeconomic scenarios, while the model overlay for the oil portfolio affected ECL allowances in Stage 2 and 3. ECL allowances in Stage 3 also increased due to a handful of counterparties in the LC&FI division, predominantly in the oil portfolio.

The note continues on the next page.

Note 10, continued. Exposure and expected credit loss (ECL) allowances by stage

Measurement of ECL allowances

SEB uses both models and expert credit judgement (ECJ) for calculating ECL allowances. The degree of judgement depends on model outcome, materiality and information available and ECJ may be applied to incorporate factors not captured by the models. Expert credit judgement was used for the Covid-19- and oil-related model overlays made in the first and second quarters of 2020. The model overlays were determined through top-down scenario analysis combined with bottom-up customer analysis of larger corporate customers in the Large Corporates & Financial Institutions, Corporate & Private Customers and Baltic divisions and exposed sector analysis for other customer segments.

Significant increase in credit risk (SICR)

SEB uses both quantitative and qualitative indicators for determining significant increase in credit risk. Following the Covid-19 pandemic, governments have enabled measures to support corporates and private individuals, including amortisation exemptions for household mortgages. In line with the SFSA's recommendations, such measures do not automatically trigger a significant increase in credit risk, and thereby a transfer to stage 2 and increased ECL allowances, under EBA's guidelines.

Key macroeconomic variable assumptions for calculating ECL allowances

SEB reviews and updates the macroeconomic scenarios and scenario probability weightings for calculation of ECL allowances on a quarterly basis. The scenarios and probability weightings applied changed significantly in the second quarter following SEB's revised economic outlook as a result of the Covid-19 pandemic. The economic forecasts of the three scenarios - base, positive and negative scenarios - are based on different assumptions around how rapidly economies will reopen, which may depend both on strategic trade-offs between medical and economic aspects, but also to what extent there will be setbacks in the form of renewed outbreaks when restrictions are lifted. The base scenario assumes that economies reopen gradually and cautiously starting in May 2020, implying that there will be a relatively clear economic recovery in Q3 as consumption patterns in some areas normalise and industrial production that is dependent on functioning cross-border supply chains restarts. In many other areas, it is assumed that it will take time before the situation normalises.

The main macroeconomic variable assumptions of the base scenario used for the ECL allowances as of 30 June 2020 are set out below. Individual scenarios for SEB's home markets are used.

Base scenario assumptions	2020	2021	2022
World GDP (PPP) growth	-3.3%	5.7%	4.0%
OECD GDP growth	-7.0%	5.1%	3.0%
Sweden			
GDP growth	-6.5%	5.0%	3.0%
Household consumption expenditure growth	-5.0%	3.0%	4.0%
Interest rate (STIBOR)	0.15%	0.15%	0.15%
Residential real estate price growth	-12.0%	0.0%	3.0%
Baltic countries			
GDP growth	-8.7% – -9.8%	5% – 6.5%	3.5% – 4.0%
Unemployment rate	9.8% – 10.2%	8.5% – 8.8%	7.5% – 7.6%
Inflation rate	0.3% – 0.8%	1.8% – 2.8%	2.2% – 2.5%
Nominal wage growth	0.3% – 1.0%	3.0% – 3.5%	4.5%

The negative scenario assumes that economic recovery is significantly delayed compared to the base scenario and that important parts of the economy do not restart during the second half of 2020. The positive scenario assumes that the virus spread situation turns out to be more favourable than expected or that for other reasons economies reopen earlier than in the main scenario.

The probability of the three scenarios was estimated to 60 per cent for the base scenario, 20 per cent for the positive scenario, and 20 per cent for the negative scenario.

Should the positive and negative scenarios be assigned 100 per cent probability, the model calculated ECL allowances would decrease by 7 per cent and increase by 12 per cent respectively compared to the probability-weighted calculation.

SEB's measurement of ECL allowances and related assumptions according to IFRS9 can be found on pages 88-89 and 122-123 in the Annual Report 2019.

Note 11 Movements in allowances for expected credit losses (ECL)

SEK m	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)	Total
Loans and Debt securities				
ECL allowance as of 31 December 2019	644	1 058	5 211	6 913
New and derecognised financial assets, net	180	-357	474	298
Changes due to change in credit risk	509	767	1 996	3 272
Changes due to modifications	1	13	0	14
Changes due to methodology change	-35	50	-1	14
Decreases in ECL allowances due to write-offs			-959	-959
Exchange rate differences	-11	-35	-29	-75
ECL allowance as of 30 Jun 2020	1 287	1 496	6 694	9 477
Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2019	189	127	138	454
New and derecognised financial assets, net	41	-9	-48	-15
Changes due to change in credit risk	209	107	173	489
Changes due to methodology change	-33	9	0	-24
Exchange rate differences	-4	-6	0	-10
ECL allowance as of 30 Jun 2020	402	228	263	893
Total Loans, Debt securities, Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2019	832	1 185	5 349	7 367
New and derecognised financial assets, net	221	-365	426	282
Changes due to change in credit risk	719	873	2 169	3 761
Changes due to modifications	1	13	0	14
Changes due to methodology change	-68	59	-1	-9
Decreases in ECL allowances due to write-offs			-959	-959
Exchange rate differences	-15	-41	-28	-85
ECL allowance as of 30 Jun 2020	1 689	1 724	6 957	10 370

Note 12 Loans and expected credit loss (ECL) allowances by industry

SEK m	Gross carrying amounts				ECL allowances				Net carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	(12-month ECL)	(lifetime ECL)	(credit impaired/ lifetime ECL)		(12-month ECL)	(lifetime ECL)	(credit impaired/ lifetime ECL)		
30 Jun 2020									
Banks	76 487	1 348	5	77 839	-3	-2	-2	-7	77 833
Finance and insurance	115 866	1 332	12	117 211	-33	-25	-5	-64	117 147
Wholesale and retail	71 965	2 805	726	75 496	-104	-77	-554	-735	74 761
Transportation	33 239	776	82	34 097	-42	-41	-15	-99	33 999
Shipping	52 766	1 790	1 967	56 523	-31	-37	-1 039	-1 108	55 415
Business and household services	155 384	7 081	2 517	164 982	-277	-207	-1 083	-1 566	163 415
Construction	13 070	1 097	213	14 380	-23	-28	-73	-124	14 257
Manufacturing	90 815	3 559	2 593	96 967	-115	-81	-1 194	-1 391	95 576
Agriculture, forestry and fishing	19 622	1 393	118	21 133	-19	-11	-42	-72	21 062
Mining, oil and gas extraction	22 249	3 980	3 447	29 676	-72	-503	-1 279	-1 854	27 822
Electricity, gas and water supply	43 498	333	229	44 060	-29	-36	-91	-155	43 905
Other	34 769	3 238	82	38 089	-35	-27	-39	-101	37 988
Corporates	653 244	27 384	11 987	692 615	-780	-1 073	-5 415	-7 268	685 347
Commercial real estate management	162 817	2 025	498	165 340	-90	-28	-147	-265	165 075
Residential real estate management	120 324	1 319	42	121 685	-50	-3	-2	-54	121 631
Real Estate Management	283 140	3 345	540	287 025	-139	-31	-149	-319	286 706
Housing co-operative associations	53 463	7 281	2	60 747	-3	0	0	-3	60 744
Public Administration	14 317	76	55	14 448	-1	-2	-4	-8	14 441
Household mortgages	539 276	21 944	1 137	562 357	-72	-139	-371	-582	561 776
Other	38 464	3 755	1 201	43 420	-288	-249	-752	-1 290	42 131
Households	577 741	25 699	2 338	605 778	-360	-388	-1 123	-1 872	603 906
TOTAL	1 658 392	65 133	14 927	1 738 452	-1 287	-1 496	-6 694	-9 477	1 728 976
31 Dec 2019									
Banks	64 952	1 665	0	66 617	-5	-2	0	-7	66 610
Finance and insurance	111 610	960	57	112 627	-33	-10	-5	-49	112 579
Wholesale and retail	78 052	3 080	1 092	82 224	-48	-38	-706	-792	81 433
Transportation	35 169	581	41	35 791	-17	-4	-14	-35	35 757
Shipping	54 975	1 871	1 771	58 616	-24	-11	-669	-704	57 912
Business and household services	136 838	9 673	843	147 354	-154	-408	-421	-983	146 372
Construction	11 201	1 083	201	12 484	-8	-9	-83	-101	12 384
Manufacturing	97 737	3 280	2 671	103 688	-56	-44	-1 331	-1 431	102 257
Agriculture, forestry and fishing	21 654	1 501	190	23 345	-8	-7	-44	-58	23 287
Mining, oil and gas extraction	26 608	5 695	1 343	33 645	-12	-53	-558	-624	33 021
Electricity, gas and water supply	43 940	407	211	44 558	-17	-34	-78	-129	44 429
Other	39 564	2 762	151	42 477	-22	-46	-49	-117	42 360
Corporates	657 347	30 894	8 571	696 812	-398	-666	-3 959	-5 022	691 789
Commercial real estate management	150 747	2 287	377	153 410	-14	-12	-140	-166	153 244
Residential real estate management	114 923	1 804	48	116 775	-8	-1	-1	-10	116 765
Real Estate Management	265 670	4 091	425	270 186	-22	-13	-141	-176	270 009
Housing co-operative associations	52 598	7 410	3	60 011	0	0	-2	-3	60 008
Public Administration	15 284	276	53	15 613	-1	-4	-2	-6	15 607
Household mortgages	527 100	22 765	1 137	551 003	-49	-136	-360	-546	550 457
Other	40 079	5 358	1 207	46 644	-167	-239	-747	-1 153	45 491
Households	567 179	28 124	2 344	597 646	-216	-375	-1 107	-1 698	595 948
TOTAL	1 623 030	72 459	11 396	1 706 885	-643	-1 059	-5 212	-6 913	1 699 972

The tables above show only the exposures and ECL allowances for Loans and excludes Debt securities, Financial guarantees and Loan commitments. Loans are excluding demand deposits from credit institutions and including trade and client receivables presented as other assets.

SEB consolidated situation

Note 13 Capital adequacy analysis

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Own funds			
Common Equity Tier 1 capital	132 491	131 346	131 155
Tier 1 capital	146 492	146 388	155 398
Total own funds	165 259	165 552	173 382
Own funds requirement			
Risk exposure amount	745 457	781 687	745 637
Expressed as own funds requirement	59 637	62 535	59 651
Common Equity Tier 1 capital ratio	17.8%	16.8%	17.6%
Tier 1 capital ratio	19.7%	18.7%	20.8%
Total capital ratio	22.2%	21.2%	23.3%
Own funds in relation to own funds requirement	2.77	2.65	2.91
Regulatory Common Equity Tier 1 capital requirement including buffer	10.1%	10.1%	11.5%
of which capital conservation buffer requirement	2.5%	2.5%	2.5%
of which systemic risk buffer requirement	3.0%	3.0%	3.0%
of which countercyclical capital buffer requirement	0.1%	0.1%	1.5%
Common Equity Tier 1 capital available to meet buffer ¹⁾	13.3%	12.3%	13.1%
Leverage ratio			
Exposure measure for leverage ratio calculation	3 395 891	3 418 557	3 063 481
of which on balance sheet items	2 870 907	2 881 737	2 554 625
of which off balance sheet items	524 984	536 820	508 856
Leverage ratio	4.3%	4.3%	5.1%

¹⁾ CET1 ratio excluding buffers and minimum capital requirement of 4.5%.

Note 14 Own funds

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Shareholders equity according to balance sheet ¹⁾	160 214	157 174	155 700
Deductions related to the consolidated situation and other foreseeable charges ²⁾	-18 575	-15 913	-14 075
Common Equity Tier 1 capital before regulatory adjustments ³⁾	141 639	141 261	141 626
Additional value adjustments	-1 264	-1 915	-1 033
Intangible assets	-6 556	-6 674	-6 688
Deferred tax assets that rely on future profitability	-6	-6	
Fair value reserves related to gains or losses on cash flow hedges	46	36	-15
Negative amounts resulting from the calculation of expected loss amounts			-816
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-85	-474	19
Defined-benefit pension fund assets	-1 124	-748	-1 761
Direct and indirect holdings of own CET1 instruments	-161	-134	-176
Total regulatory adjustments to Common Equity Tier 1	-9 149	-9 915	-10 471
Common Equity Tier 1 capital	132 491	131 346	131 155
Additional Tier 1 instruments ⁴⁾	14 002	15 043	24 243
Tier 1 capital	146 492	146 388	155 398
Tier 2 instruments	19 366	20 341	19 326
Net provisioning amount for IRB-reported exposures	1 050	472	309
Holdings of Tier 2 instruments in financial sector entities	-1 650	-1 650	-1 650
Tier 2 capital	18 766	19 164	17 985
Total own funds	165 259	165 552	173 382

¹⁾ The Swedish Financial Supervisory Authority has approved SEB's application to use the net profit in measuring own funds on condition that the responsible auditors have reviewed the surplus, that the surplus is calculated in accordance with applicable accounting frameworks, that predictable costs and dividends have been deducted in accordance with EU regulation No 575/2013 (CRR) and that the calculation was made in accordance with EU regulation No 241/2014.

²⁾ Depending on how the Covid-19 situation develops, the Board may assess a dividend payment later this year, if deemed appropriate. Hence the accumulated dividend has been excluded from CET1 capital.

³⁾ The Common Equity Tier 1 capital is presented on a consolidated basis, and differs from total equity according to IFRS. The insurance business contribution to equity is excluded and there is a dividend deduction calculated according to Regulation (EU) No 575/2013 (CRR).

⁴⁾ Following an approval from the Swedish FSA in March to call the 2014 AT1-instrument of USD 1.1bn, this instrument was excluded from the bank's Tier 1 and from total own funds from 31 March 2020.

Note 15 Risk exposure amount

SEK m	30 Jun 2020		31 Mar 2020		31 Dec 2019	
	Risk exposure amount	Own funds requirement ¹⁾	Risk exposure amount	Own funds requirement ¹⁾	Risk exposure amount	Own funds requirement ¹⁾
Credit risk IRB approach						
Exposures to central governments or central banks	14 879	1 190	13 942	1 115	12 283	983
Exposures to institutions	48 191	3 855	58 414	4 673	54 421	4 354
Exposures to corporates	365 412	29 233	390 814	31 265	369 055	29 524
Retail exposures	64 484	5 159	66 683	5 335	67 255	5 380
of which secured by immovable property	40 357	3 229	40 930	3 274	39 616	3 169
of which retail SME	5 219	418	5 867	469	7 094	567
of which other retail exposures	18 908	1 513	19 885	1 591	20 546	1 644
Securitisation positions	2 176	174	2 217	177	1 195	96
Total IRB approach	495 142	39 611	532 071	42 566	504 210	40 337
Credit risk standardised approach						
Exposures to central governments or central banks	344	28	259	21	1 361	109
Exposures to institutions	664	53	902	72	1 057	85
Exposures to corporates	5 468	437	6 576	526	6 505	520
Retail exposures	13 242	1 059	13 804	1 104	13 691	1 095
Exposures secured by mortgages on immovable property	1 917	153	2 092	167	2 278	182
Exposures in default	79	6	80	6	82	7
Exposures associated with particularly high risk	998	80	963	77	933	75
Exposures in the form of collective investment undertakings (CIU)	55	4	54	4	58	5
Equity exposures	3 638	291	4 038	323	3 589	287
Other items	10 311	825	10 105	808	10 735	859
Total standardised approach	36 716	2 937	38 873	3 110	40 290	3 223
Market risk						
Trading book exposures where internal models are applied	28 396	2 272	24 573	1 966	21 195	1 696
Trading book exposures applying standardised approaches	9 412	753	11 255	900	6 913	553
Total market risk	37 809	3 025	35 827	2 866	28 107	2 249
Other own funds requirements						
Operational risk advanced measurement approach	46 963	3 757	47 227	3 778	47 444	3 796
Settlement risk	32	3	40	3	0	0
Credit value adjustment	8 272	662	9 486	759	7 932	635
Investment in insurance business	16 633	1 331	16 633	1 331	16 633	1 331
Other exposures	3 850	308	3 981	318	4 870	390
Additional risk exposure amount ²⁾	100 040	8 003	97 550	7 804	96 151	7 692
Total other own funds requirements	175 790	14 063	174 916	13 993	173 030	13 842
Total	745 457	59 637	781 687	62 535	745 637	59 651

¹⁾ Own funds requirement 8% of risk exposure amount according to Regulation (EU) No 575/2013 (CRR).

²⁾ Additional risk exposure amount according to Article 458, Regulation (EU) No 575/2013 (CRR), for risk-weight floors in the Swedish mortgage portfolio.

Note 16 Average risk-weight

The following table summarises average risk-weights (risk exposure amount divided by exposure at default, EAD) for exposures, where the risk exposure amount is calculated according to the internal ratings based (IRB) approach. Repos

and securities lending transactions are excluded from the analysis, since they carry low risk-weights, and can vary considerably in volume, thus making numbers less comparable.

IRB reported credit exposures (less repos and securities lending)			
Average risk-weight	30 Jun 2020	31 Mar 2020	31 Dec 2019
Exposures to central governments or central banks	2.5%	2.6%	3.7%
Exposures to institutions	22.1%	23.7%	24.9%
Exposures to corporates	28.5%	30.4%	30.2%
Retail exposures	9.7%	10.1%	10.3%
of which secured by immovable property	6.8%	7.0%	6.9%
of which retail SME	49.8%	53.1%	57.3%
of which other retail exposures	30.7%	31.9%	31.8%
Securitisation positions	17.0%	18.1%	9.6%

Skandinaviska Enskilda Banken AB (publ) – parent company

Income statement

In accordance with FSA regulations	Q2			Q1		Q2		Jan–Jun			Full year
SEK m	2020	2020	%	2019	%	2020	2019	%	2019		
Interest income	7 956	8 806	-10	8 753	-9	16 762	17 090	-2	34 826		
Leasing income	1 346	1 390	-3	1 448	-7	2 736	2 872	-5	5 792		
Interest expense	-3 126	-3 909	-20	-4 370	-28	-7 035	-8 618	-18	-17 217		
Dividends	617	2		1 195	-48	619	3 893	-84	5 168		
Fee and commission income	3 407	3 590	-5	3 416	0	6 997	6 577	6	13 544		
Fee and commission expense	- 764	- 884	-14	- 791	-3	-1 648	-1 590	4	-3 083		
Net financial income	2 857	- 351		1 276	124	2 506	2 856	-12	5 838		
Other income	86	218	-61	183	-53	304	582	-48	1 762		
Total operating income	12 378	8 863	40	11 111	11	21 241	23 663	-10	46 631		
Administrative expenses	-5 051	-4 024	26	-4 040	25	-9 075	-8 083	12	-16 345		
Depreciation, amortisation and impairment of tangible and intangible assets	-1 498	-1 438	4	-1 430	5	-2 936	-2 838	3	-5 749		
Total operating expenses	-6 549	-5 462	20	-5 470	20	-12 011	-10 921	10	-22 094		
Profit before credit losses	5 829	3 401	71	5 641	3	9 230	12 742	-28	24 537		
Net expected credit losses	-2 409	-1 402	72	-328		-3 811	- 685		-2 044		
Impairment of financial assets		- 220	-100			- 220	- 315	-30	- 741		
Operating profit	3 420	1 779	92	5 314	-36	5 199	11 742	-56	21 752		
Appropriations	346	238	46	445	-22	584	765	-24	2 694		
Income tax expense	-1 453	- 242		- 857	69	-1 695	-1 723	-2	-4 189		
Other taxes	39	115	-66	1		154	1		48		
NET PROFIT	2 353	1 890	25	4 903	-52	4 243	10 785	-61	20 305		

Statement of comprehensive income

	Q2			Q1		Q2		Jan–Jun			Full year
SEK m	2020	2020	%	2019	%	2020	2019	%	2019		
NET PROFIT	2 353	1 890	25	4 903	-52	4 243	10 785	-61	20 305		
Cash flow hedges	- 10	- 51	-80	- 155	-94	- 61	- 328	-81	- 298		
Translation of foreign operations	- 56	- 53	7	7		- 109	36		33		
Items that may subsequently be reclassified to the income statement:	- 66	- 104	-36	- 148	-55	- 170	- 292	-42	- 265		
OTHER COMPREHENSIVE INCOME	- 66	- 104	-36	- 148	-55	- 170	- 292	-42	- 265		
TOTAL COMPREHENSIVE INCOME	2 287	1 786	28	4 755	-52	4 073	10 493	-61	20 040		

Balance sheet, condensed

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Cash and cash balances with central banks	291 292	300 546	110 104
Loans to central banks	891	2 521	2 904
Loans to credit institutions	75 213	92 728	89 546
Loans to the public	1 690 872	1 719 157	1 601 243
Debt securities	336 489	293 866	211 417
Equity instruments	41 967	44 784	61 802
Derivatives	152 351	221 446	135 713
Other assets	120 163	123 831	105 943
TOTAL ASSETS	2 709 239	2 798 879	2 318 672
Deposits from central banks and credit institutions	209 920	231 206	126 891
Deposits and borrowings from the public ¹⁾	1 268 117	1 169 407	973 834
Debt securities issued	778 821	902 239	857 968
Short positions	36 225	33 202	27 343
Derivatives	134 546	184 438	119 511
Other financial liabilities	2 256	1 978	2 449
Other liabilities	135 571	134 995	72 267
Untaxed reserves	19 875	19 875	19 875
Equity	123 908	121 540	118 535
TOTAL LIABILITIES, UNTAXED RESERVES AND EQUITY	2 709 239	2 798 879	2 318 672
1) Private and SME deposits covered by deposit guarantee	228 123	217 147	210 576
Private and SME deposits not covered by deposit guarantee	132 623	124 425	110 625
All other deposits	907 370	827 835	652 633
Total deposits from the public	1 268 117	1 169 407	973 834

Pledged assets and obligations

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Pledged assets for own liabilities	455 600	528 954	486 823
Other pledged assets	121 887	125 626	86 088
Pledged assets	577 487	654 580	572 911
Contingent liabilities	148 429	151 372	146 166
Commitments	644 189	579 183	578 619
Obligations	792 617	730 555	724 786

Capital adequacy

SEK m	30 Jun 2020	31 Mar 2020	31 Dec 2019
Own funds			
Common Equity Tier 1 capital	115 516	114 402	113 893
Tier 1 capital	129 518	129 445	138 136
Total own funds	148 217	148 794	155 921
Own funds requirement			
Risk exposure amount	677 597	708 659	668 708
Expressed as own funds requirement	54 208	56 693	53 497
Common Equity Tier 1 capital ratio	17.0%	16.1%	17.0%
Tier 1 capital ratio	19.1%	18.3%	20.7%
Total capital ratio	21.9%	21.0%	23.3%
Own funds in relation to capital requirement	2.73	2.62	2.91
Regulatory Common Equity Tier 1 capital requirement including buffers	7.1%	7.1%	8.6%
of which capital conservation buffer requirement	2.5%	2.5%	2.5%
of which countercyclical capital buffer requirement	0.1%	0.1%	1.6%
Common Equity Tier 1 capital available to meet buffers ¹⁾	12.5%	11.6%	12.5%

¹⁾ CET1 ratio excluding buffers and minimum capital requirement of 4.5%.

Signatures of the President and the Board

The President and the Board of Directors declare that this financial report for the period 1 January 2020 through 30 June 2020 provides a fair overview of the parent company's and the group's operations, their financial position and results and describe material risks and uncertainties facing the parent company and the group.

Stockholm, 15 July 2020

Marcus Wallenberg
Chair

Sven Nyman
Vice chair

Jesper Ovesen
Vice chair

Signhild Arnegård Hansen
Director

Anne-Catherine Berner
Director

Winnie Fok
Director

Lars Ottersgård
Director

Helena Saxon
Director

Anna-Karin Glimström
*Director**

Charlotta Lindholm
*Director**

Johan Torgeby
*President and Chief Executive Officer
Director*

* Appointed by the employees

Auditor's review report

To the Board of Directors in Skandinaviska Enskilda Banken AB (publ), 502032-9081

Introduction

We have reviewed the condensed interim financial statements (interim report) for Skandinaviska Enskilda Banken AB (publ) as at 30 June 2020 and for the six-month period ending as at this date. The Board of Directors and the President and Chief Executive Officer are responsible for the preparation and presentation of the interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We have conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review differs from and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that this interim report is not prepared, in all material respects, in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies regarding the group, and in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies regarding the parent company.

Stockholm, 15 July 2020

Ernst & Young AB

Hamish Mabon

Authorised Public Accountant

Contacts and calendar

Results presentation at telephone conference

The presentation of the results will be held (in English) at 9.30 am, Swedish time, on 15 July 2020 at a conference call. Please call, at least 10 minutes in advance, +44 (0)203 0095710 and quote conference id: 6967887. The conference can be followed live on sebgroupp.com/jir where a replay will also be available afterwards.

The President and CEO, Johan Torgeby, and the Chief Financial Officer, Masih Yazdi, will present and comment upon the results, followed by a Q&A session with Johan Torgeby, Masih Yazdi and Christoffer Geijer, Head of Investor Relations.

Further information is available from:

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sebgroupp.com
Corporate organisation number: 502032-9081

Further financial information is available in SEB's Fact Book and in the additional Pillar 3 disclosures which are published quarterly on sebgroupp.com/jir.

Financial information calendar 2020

22 October 2020 Quarterly Report January-September 2020 The silent period starts on 1 October 2020

The financial information calendar for 2021 will be published in conjunction with the Quarterly Report for January-September 2020.

Definitions

Including Alternative Performance Measures¹⁾

Items affecting comparability

To facilitate the comparison of operating profit between current and previous periods, items with significant impact that management considers affect the comparability or are relevant for the understanding of the financial result, are identified and presented separately, for example impairment of goodwill, restructuring, gains and losses from divestments and other income or costs that are not recurring.

Operating profit

Total profit before tax.

Operating profit before items affecting comparability

Total profit before items affecting comparability and tax.

Net profit

Total profit after tax.

Return on equity

Net profit attributable to shareholders in relation to average²⁾ shareholders' equity.

Return on equity excluding items affecting comparability

Net profit attributable to shareholders, excluding items affecting comparability and their related tax effect, in relation to average²⁾ shareholders' equity.

Return on tangible equity

Net profit attributable to shareholders in relation to average²⁾ shareholders' equity less intangible assets.

Return on tangible equity excluding items affecting comparability

Net profit attributable to shareholders, excluding items affecting comparability and their related tax effect, in relation to average²⁾ shareholders' equity less intangible assets and items affecting comparability.

¹⁾ *Alternative Performance Measures, APMs, are financial measures of historical or future financial performance, financial position, or cash flows, other than those defined in the applicable financial reporting framework (IFRS) or in the EU Capital Requirements Regulation and Directive CRR/CRD IV. APMs are used by SEB when relevant to assess and describe SEB's financial situation and provide additional relevant information and tools to enable analysis of SEB's performance. APMs on basic earnings per share, diluted earnings per share, net worth per share, equity per share, return on equity, return on tangible equity, return on total assets and return on risk exposure amount provide relevant information on the performance in relation to different investment measurements. The cost/income ratio provides information on SEB's cost efficiency. APMs related to lending provide information on provisions in relation to credit risk. All these measures may not be comparable to similarly titled measures used by other companies.*

²⁾ *Average year-to-date, calculated on month-end figures.*

³⁾ *Average, calculated on a daily basis.*

Return on business equity

Operating profit by division, reduced by a standard tax rate, in relation to the divisions' average²⁾ business equity (allocated capital).

Return on total assets

Net profit attributable to shareholders, in relation to average²⁾ total assets.

Return on risk exposure amount

Net profit attributable to shareholders in relation to average²⁾ risk exposure amount.

Cost/income ratio

Total operating expenses in relation to total operating income.

Basic earnings per share

Net profit attributable to shareholders in relation to the weighted average³⁾ number of shares outstanding before dilution.

Diluted earnings per share

Net profit attributable to shareholders in relation to the weighted average³⁾ diluted number of shares. The calculated dilution is based on the estimated economic value of the long-term equity-based programmes.

Net worth per share

The total of shareholders' equity, the equity portion of any surplus values in the holdings of debt securities and the surplus value in life insurance operations in relation to the number of shares outstanding.

Equity per share

Shareholders' equity in relation to the number of shares outstanding.

Core gap ratio

Structural liquidity risk measure defined as total liabilities deemed to mature beyond one year in relation to total assets deemed to mature beyond one year.

Expected credit losses, ECL

Probability-weighted credit losses with the respective risk of a default.

ECL allowances

The allowance for expected credit losses on financial assets, contract assets, loan commitments and financial guarantee contracts.

Net ECL level

Net credit impairments in relation to the opening balance of the year of debt securities, loans to the public and loans to credit institutions measured at amortised cost, financial guarantees and loan commitments, net of ECL allowances.

ECL coverage ratio

ECL allowances in relation to underlying gross carrying amounts for loans and debt securities as well as nominal amounts of financial guarantees and loan commitments.

Stage 3 loans / Total loans, gross

Gross carrying amount for stage 3 loans (credit-impaired loans) in relation to gross carrying amount for total loans measured at amortised cost (excluding demand deposits credit institutions and including trade and client receivables presented as other assets).

Stage 3 loans / Total loans, net

Carrying amount for stage 3 loans (credit-impaired loans) in relation to carrying amounts for total loans measured at amortised cost (excluding demand deposits credit institutions and including trade and client receivables presented as other assets).

Definitions**According to the EU Capital Requirements Regulation no 575/2013 (CRR)****Risk exposure amount**

Total assets and off-balance sheet items, risk-weighted in accordance with capital adequacy regulations for credit risk and market risk. The operational risks are measured and added as risk exposure amount. Risk exposure amounts are only defined for the consolidated situation, excluding insurance entities and exposures deducted from own funds.

Common Equity Tier 1 capital

Shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets and certain other regulatory adjustments defined in EU Regulation no 575/2013 (CRR).

Tier 1 capital

Common Equity Tier 1 capital plus qualifying forms of subordinated loans liabilities, so-called additional tier 1 instruments.

Tier 2 capital

Mainly subordinated loans liabilities not qualifying as Tier 1 capital contribution.

Own funds

The sum of Tier 1 and Tier 2 capital.

Common Equity Tier 1 capital ratio

Common Equity Tier 1 capital as a percentage of risk exposure amount.

Tier 1 capital ratio

Tier 1 capital as a percentage of risk exposure amount.

Total capital ratio

Total own funds as a percentage of risk exposure amount.

Leverage ratio

Tier 1 capital as a percentage of total assets including off balance sheet items with conversion factors according to the standardised approach.

Liquidity Coverage Ratio (LCR)

High-quality liquid assets in relation to the estimated net liquidity outflow over the next 30 calendar days.

The excel file Alternative Performance Measures, available on sebgroupp.com/ir, provides information on how the measures are calculated.

This is SEB

Our vision	To deliver world-class service to our customers.
Our purpose	We believe that entrepreneurial minds and innovative companies are key to creating a better world. We are here to enable them to achieve their aspirations and succeed through good times and bad.
Our overall ambition	To be the undisputed leading Nordic bank for corporations and institutions and the top universal bank in Sweden and the Baltic countries.
Whom we serve	2,000 large corporations, 1,100 financial institutions, 272,000 SME and 1.4 million private full-service customers bank with SEB.
Business plan focus areas	<p><i>Advisory leadership</i> – Offer customers proactive, customised and valuable advice, based on their specific needs and behaviours, through human and digital interaction.</p> <p><i>Operational excellence</i> – Improve customer value by increasing the pace of digitalisation and automation while extending the use of data and analytics.</p> <p><i>Extended presence</i> – Meet our customers on their terms in their digital ecosystems and offer a combination of products and services from SEB and our partners.</p>
Values	Guided by our Code of Business Conduct and our core values: customers first, commitment, collaboration and simplicity.
People	Around 15,000 highly skilled employees serving customers from locations in some 20 countries – covering different time zones, securing reach and local market knowledge.
History	More than 160 years of business, trust and sharing knowledge. The bank has always acted responsibly in society promoting entrepreneurship, international outlook and long-term relationships.

Additional financial information is available in SEB's Fact Book which is published quarterly on sebgroup.com/ir.