Q1 Results

Wednesday, 28th March 2021

Introduction

Johan Torgeby

President and CEO, SEB

Hi everyone. This is Johan Torgeby from SEB, and I would like to welcome you all to this Q1 report presentation on a fantastically sunny day in Stockholm which has not been a common feature this spring. I hope you guys are all well, and let us jump into it. We will start with the financial performance of the bank, and I will hand over to our CFO, Masih Yazdi.

Financial Performance

Masih Yazdi

CFO, SEB

Development in financial marks

Thank you, Johan, and good morning, everyone on the call. So I will start on slide two with the development of the financial markets. I am sure you are very aware of what is happened during the last quarter, that we have seen very strong equity markets. We have seen credit spreads continue to go down slightly, and then we have seen long-term rates go up, which has deepened the yield curve, and all of these developments have had implications on our Q1 financial results.

Highlights in Q1 2021

We can move on to the next slide, slide three, noting the highlights in Q1. To start with, we note that we have a return on equity of 13.8% in the quarter on a capital buffer above the regulatory requirements of 780 basis points. This is actually the highest profit ever in SEB's history, but as we are holding more capital now than we have done in the past, the return on equity is not the highest ever.

We also say in this quarter that given the improving macroeconomic outlook, we now expect that expected credit losses will normalise already in 2021, and by normalisation here, we mean around eight to ten basis points or about 2 billion, given the size of the current balance sheet. We also note that the largest division, LC&FI, large corporate and financial institutions, they continue to strengthen their position in the market and this quarter report a return on business equity of 14.9%. And then Johan will come back with the establishment of the new division for private banking, the Private Wealth Management and Family Office divisions.

Financial summary Q1 2021

If we move on to slide five and look at the financial summary for Q1 and I am going to compare it to Q1 2020. All through this presentation, we can see that the operating income is up 32%. Costs or expenses are pretty much unchanged, and given much lower expected credit losses, we see an operating profit increase of 153%. You should note here that on a year-on-year basis, we have a negative FX effect of almost 300 million on income and a positive FX effect of almost around 100 million on costs. Just keep that in mind.

And then to the right to see the expected credit losses in basis points. Three basis points to cost-income ratio 0.43, the capital that we will come back to later and the return on equity of 13.8%.

Net interest income development

Moving to slide six, the net interest income development is +3% compared to Q1 last year. That is mainly driven by slightly higher lending than Q1 last year and primarily driven by lower funding costs. And this is not predominantly with spreads coming down. It is the case that we have seen strong deposit inflow in the bank, which has allowed us to do less wholesale funding, which has lowered the funding costs of the bank.

Quarter on quarter, net interest income is down. That is mainly driven by higher regulatory fees and a shorter quarter in Q1 versus Q4. We noted in Q4 that the net interest income coming from our markets business was elevated about 100 million above the normal level. We note that it continues to be elevated in Q1 of about the same level as it was in Q4.

Also, on NAI, I would just note that there is a negative FX effect on a year-on-year basis of around 80 million. We can see that mortgage lending has accelerated. It is about 70% higher Q1 this year versus Q1 last year, although that was a low base. But we see an acceleration there at the same time as corporate lending growth continues to be muted.

Net fee & commission income development

Moving on to slide seven: Net fee and commission income. Also, here we see a 3% year-on-year growth, but there are quite large movements underneath this aggregate number. We see an improvement in asset management to a large degree, driven by the strong equity prices, and we see an improvement in investment banking related fees compared to Q1 last year.

At the same time, the lower corporate lending demand has led to lower lending fees. We see slightly lower fees coming from our markets business and also the fact that Q1 last year was the last normal quarter or close to normal quarter in terms of card turnover; we see a negative effect from card and payment fees versus Q1 last year.

You should also note that when it comes to the FX effect, it is about 140 million negative year-on-year, and so the net fee and commission income line would have been up 6% compared to the 3% had FX stayed where it was. We note that we continue to have a strong pipeline for investment banking, and only a small fraction of that has been materialised during Q1.

Net financial income development

Let us move on to slide eight. Net financial income development. Here is obviously the big swing factor, 3 billion above our contribution from the Q1 level last year. We have seen a good development in our markets business mainly within fixed income. And we have seen a recovery of the negative XPA effect we had in Q1 last year. So, the -1.3 billion, we can see that if we sum up the last four quarters, that is actually fully in line with the -1.3 billion. So that has been fully recovered in the last four quarters.

Historically, we have said that this line should be about 1.2 to 1.4 billion if you exclude XVA effects and exclude the Treasury business. We now believe that we can increase that guidance slightly given the strong position we feel that we have in our markets business, mainly within fixed income, and also given the steeper yield curves. We believe that we in the future, on average, should be able to generate 1.3 to 1.5 billion. So about 100 million higher than the previous guidance, excluding Treasury and XVA effects.

Operating leverage

If I move on to the next slide; the one we always use, the operating leverage. Obviously, it looks very good right now, keeping costs pretty much unchanged compared to the average cost level for the last year on a quarterly basis, but with a strong income growth, we see a strong operating leverage, but obviously, three more quarters to go. So we will see what happens.

Strong asset quality and balance sheet

Moving on to the next slide, just a few key ratios. I think the ones worth noting, in addition to what we have talked about already, are the customer deposits, a very significant growth that seems to be continuing, which has some potentially negative implications in the long-term. But right now, it allows us to do less wholesale funding, which is positive for net interest income.

We also disclose the net stable funding ratio for the first time this quarter. It is going to be mandatory from next quarter. But we do it already right now, and you can see it is around 111%. So clearly above the regulatory requirements that will be put into force.

Capital development

And then on capital, I will just move on right away to the next slide, so, slide 11, looking at the capital development. So we have seen a reduction of the buffer from 840 basis points in Q4 to 780 basis points in Q1.

First of all, the strong profit generation in Q1 taking away the expected payout of 50% of the profit has added 42 basis points, which is a pretty good number. At the same time, we have seen an increase in market risk, and we have seen negative FX effects and also a small increase of the asset side. When it comes to market risk, we note that the risk exposure amount related to that is at a very high level, 55 billion compared to around 40 billion on a normal quarter. And we think that this over time will come down again to approximately the same levels we have seen in the past. So we think that part is fairly temporary.

Obviously, FX is difficult to predict, but right now the krona is a bit stronger than it was at quarter-end.

Development of the credit portfolio

Then, finally, for me, move on to slide 12 if you look at the development of the credit portfolio and just a reminder here. The credit portfolio is the combination of the on-balance-sheet lending as well as the off-balance-sheet commitments. I think the numbers worth noting here are the corporate FX adjusted credit growth. That is down 2% Q on Q. This is mainly driven by the off-balance-sheet commitments. If you look at the adjusted lending side on corporates, there's a small increase Q on Q.

On Swedish mortgages, again, this is both lending as well as the mortgage commitments we have, which is accelerating to a 9% year-on-year growth level. If you just look at the lending side, the growth rate is about 6%. And during Q1, we took slightly higher than our back book when it comes to mortgages. So around the 15% market share in Q1.

Also, we can see that when it comes to CRE, there is a negative growth rate, both on a quarterly basis as well as year-on-year basis, which is pretty much in line with the strategy we have in the bank.

With that, I will move on to Johan and some thematic slides on sustainability, savings and international expansion.

Sustainability, Savings and International Expansion

Johan Torgeby

President and CEO, SEB

Thank you, Masih. Those are exactly the three themes I would like to address today, starting with our sustainability work. On page 14 is just an update on some progress we have made when it comes to policies, procedures and the different types of initiatives that we have engaged in in the first quarter.

Taking an active role in the sustainability transition

First, we have probably two of the most topical policies for the bank, the fossil policies for the bank for lending and the fossil policy for investment management, both being updated and sharpened and quite a lot increased in detail. The purpose is, of course, to reduce any negative CO_2 footprint SEB generates directly or indirectly through its engagement with clients, and these are our first step in trying to accelerate that journey.

On IM, it is about what do the funds that we manage investment invest in. And we have also tightened that framework. And I am also very optimistic to see that we now talk about things like paragraph nine and paragraph eight. And for the first time, it feels like we are starting to have a common standard for what and how to classify some of the investment activities as we do. As we all know, it is a tricky area where every institution chooses its own objectives in order to understand what it is all about.

And lastly, there is pretty much a new movement from when we signed principles for responsible banking in 2019. And that is the new UN-sponsored call for action called Net Zero Banking Alliance. And we have signed this as one out of 40 types of bank joining forces in order to, in the next 18 months, try to put the common standard, how to report what to do and how banking should be viewed in the context of what is Paris aligned and making sure that we are a positive force for positive transition.

Supporting our customers in their sustainability transition

On the next page, we go into a more business update on sustainable finance, which you have heard me say many, many times is the most interesting thing from a future growth perspective for financial institutions like SEB; to make sure that you are relevant, picked by the clients, that you have valuable advice in order to be part of the whole world's transition. This is not Nordic. It is not for SEB. So here I have just shown the sustainable finance characteristics from 2013.

And first, we can just conclude this is growing dramatically, and we are getting close to a full year number for 2020 of $800 billion in total volume in these six or seven or so different categories. This year's first quarter indicates if this pace is maintained, we will double this year's volumes compared to last year. So right now, Q1 is a fantastically encouraging sign to the tone that we have set in the past, that this might be the super-cycle for sustainable finance starting. And this is a very long-term prospect.

What I would like to highlight is everyone knows about green bonds. They have been around since 2008, but there are so many other things happening, and right now, I just want to present the market around sustainability-linked notes, bonds and loans. These are the SLL's, and as you can see, the light green area in the global market is one of the fastest-growing in the last three years.

To the right, we have taken the sustainability-linked loans; these are bank loans to companies and just done our market-share splits. So we have the largest part of this market as 20% and the issuance in our part of the world has been $16 billion, and some examples of clients doing it.

Two things to point out; the loan market in Europe is vastly larger than the bond market. Hence, the green bond market is targeting a smaller constituency of all the corporates that borrow money. We often talk about the 70-30 versus the US has 30-70 when it comes to bonds versus loans. So in order for the loan market to adapt to sustainable loans, it is a much greater opportunity, as we have many smaller companies in Europe. They are more or less 100% dependent on the bank market. They have bank loans and no bonds.

What is more a novelty is that the sustainability-linked bonds also are starting here. There is a global market last year that grew fifteen times, but it is a very small portion yet. So the SLL's amounted to $12 billion, and we have done maybe the most notable one with H&M, which I think was a really landmark transaction to define how these things can be.

What is incrementally interesting with SLL's is that they are not only green. They are partly green, but a company can decide any sustainability criteria relevant to their ambition, their footprint and what they want to achieve and link it directly to the use of proceeds to the financial cost of that financing and even event of default if one wants to.

So this is creating enormous flexibility to put in inclusion, diversity, gender, using recycled material, etc. in order to show and make a hard commitment. The other thing that managers of businesses say around the SLL's that they have an enormous impact internally. So once you have signed or done one of these transactions, the whole organisation automatically gets aligned because the financial result is now directly, contractually dependent on you living up to whatever you have said are the key criteria for your business.

Large international presence

Next page, we will step back a bit. And these next three slides are really the context of why, as you probably have seen, we have announced that we will try to expand our corporate business in Holland, Austria and Switzerland. So I will try to share now why we are confident in trying this on. And it is based on the last ten years of strategies. It is actually, to me, very much a continuation of what we have done in the past.

So a quick reminder, SEB is trying to be a very internationally capable institution for Northern European clients. So we are in 22 places, and we are committed to the international network and the business that we have outside Sweden. We define our market in home markets versus the international network. The home market is where the clients reside. And up until now, that is been in the Nordics, Baltic's, Germany and the UK. And we have an international network anywhere between New York and Shanghai where we do not source clients. We service the clients we have in an attempt to give them a global 24/7 capability.

We are predominantly focused on large corporate; I think it is around 70%. There is no retail banking in this except for in the Baltics and Sweden. So it is all large corporate. But for the financial centres in New York, Singapore, Hong Kong and London, we also have a meaningful financial institutions business of roughly 30% of this business.

In 2010, we decided to do what we then called the Nordic German growth expansion. This meant to bring in roughly 500 new clients on a base of just shy of 2000 in the countries outside Sweden, where we had nowhere near the Swedish market share. That now, ten years later, I think we can conclude was a good thing, as we know that the wholesale banking industry has struggled a lot with generating any type of growth. And it is a very highly competitive market with an enormous increase of capital allocated to its business. So we all know it has been a challenge for everybody.

To the right, we show that we did not have these clients in 2009 and from the growth of income for large corporate and financial institutions from 13 billion in 09 to 22.3 billion last year, we split out the share coming from those clients that we added in these growth initiatives. And in 2020, that was 19% of total income.

You could argue you have had a quite modest growth on the part that we did not decide to grow as everyone has. But we have succeeded there in a decent way. But the key was, of course, to bank more clients and make sure that we service them in the deepest, broadest possible way. That has generated this 19%, which equates to 4.1 billion krona.

Increased financial contribution from geographies over time

On the next page, I just want to share with you the international split, the return on equity, cost income and the resources that goes into this type of international business. And out of those growth numbers that have been generated, it is very clear that all countries have contributed in a meaningful way The UK as at 4%, and please remember, that is not part of that ten-year. It is five-year. So we are halfway through on the UK compared to the others. However, Norway, Germany, Denmark, Finland all have had a meaningful impact in generating this.

Looking at the cost efficiency and the capital efficiency of having SEB outside in the world, we have now shared today the return on equity measured here as a roadmap for the different countries, the cost-income and the resources in terms of fees that goes into this. And for us, this is very much the conclusion that there is scalability on our platform. Many of the central costs to run a business like this, the investments one has to do in markets, in derivatives, in different advisory areas, are actually taken in Stockholm, and it is scalable. So going into a new area, you need people and not that many of them to meet clients in order to provide the products and services that SEB has at its disposal already produced.

The other is that when we now enter into new markets, this is very much true as well. There will be very marginal cost differences. We are talking a few tens of people to begin with, and I will come back to that. What is more important is maybe the DNA change, if you want to express it like that, that this has resulted in.

In 2010, 66% of the large core business was Swedish. And slowly but surely, after an initiative like this, we have now more than 50% outside Sweden. And this is thanks to Norway, Germany, Denmark, Finland, UK and in the international network, growing faster than Sweden as we acquire new customers. This means that we have gone from a very Swedish bank to a much more broad bank in a Nordic, German, UK perspective, and what we are now talking about is taking this next step where all – call it in the narrative that we put on here, we are becoming more of a northern European institution, as we will have mostly northern European countries as part of our business.

Strong development in total client income across geographies

On the following page, I will just share the income growth of those 19% per country. Here one can see that over the last ten years, we have had a CAGR. So compounded average growth rates per year of 3%. That is a stable very good business, but it is really part of the strategy; we have a position to defend, and it is very hard. We have most of the clients we wish to have, but the growth opportunity has clearly come in the last ten years in the other markets.

Now we are getting to a very similar position in the other markets to Sweden. So from today, there is still a lot to do, but not nowhere near what we have done over the last ten years. But both, I would say in Norway and Finland, we are very close to having the same type of market presence as we do in Sweden when it comes to large corporates; Denmark, we have a little bit more to go. And in Germany, we have a completely different strategy because we are not trying to become a dominant bank in Germany, but a niche bank for the clients that we have selected. The same in the UK.

Expanding the corporate banking business

So to conclude this part, I just want to summarise what this humble expansion that we are planning to now put in motion is about. So the Netherlands is a new market for us, so we will establish ourselves for the first time. We will have to wait for Corona to not restrict our travelling for this to come up. But we just appointed a country head for the Netherlands who will just now start the work of mapping out exactly how we should approach this.

We will initially coverage from Sweden, so there will be no office, or any incremental cost associated with opening it up. But the plan is to have some type of physical presence in Holland, I guess most likely Amsterdam. And we are talking perhaps at the first stage, up to ten people or so.

Austria and Switzerland, we are strengthening our services to cater for their needs in those countries, but we already have it through our German operation. And we actually have a few of the German-speaking countries, clients in Germany, despite them not being headquartered in Germany. So this is really about expanding our coverage possibilities of these markets from Germany. So we are not opening up an effort, and we will centre this effort around our office in Munich, which has a very good infrastructure to do this. And how large is this? What clients are we pursuing?

So I have listed here some of the key just frames for what we call customer acceptance criteria. And those are that we want a minimum of a billion sales. So we are looking at large corporate. Most of them, if not all, will start with being listed investment-grade types of companies. So good for average asset quality and in industries that we are skilled in covering.

So we do not go for everything. We take the ones that we think are most relevant for us and where we have the right expertise and track record from the previous ten years. This could result in roughly 50 to 100 large corporate clients being in the scope of becoming clients of SEB if we are successful, and this is very much in line with the UK. So some of this actually looks a little bit like the UK and gets back into a little bit of frame regarding what we are talking about. But they are marginal from a financial impact point of view in the short run, but as you have seen, very meaningful in the decade type of perspective to changing slowly but surely the position of your institution.

Accelerating SEB's savings and investments business

Lastly, on page 20, we are talking a lot about investment and savings and having in the business plan, as I presented previously, a very strong emphasis and focus in this area. You know that in several areas, it is hard for us to conclude that we have done everything we can, and hence it is time to make some changes and move forward in a different way than we have in the past.

And I just have three things this quarter. First, today, we have announced that we will break out private banking. Private banking in SEB has more than a thousand billion Swedish krona of assets under management. It is one of our historically strongest business areas, and we would like to bring it to the next level. Hence, we are breaking it out, and we are making it a division of the bank reporting to me directly. And we take a very strong businessperson in William Paus, currently co-head of LC&FI to run this effort. And it is a focus on private banking outside Sweden, also in Sweden, focus on family office, the new generation, the next generation, and particularly female, which is a very interesting thing to see, that we are not attracting some of the people we are finding very wanted to come to us, and we need to change our ways. This is about client satisfaction and profitability and having this as a main part of SEB in the future.

Secondly, on the digital capabilities for the savings and investment areas, we have talked a lot about the formidable success some companies have shown in using tools of technology in order to reinvent the way you meet clients and doing it in a cost-efficient way. And here are two responses to that which have taken some time. But we are very at least encouraged that we are getting somewhere. So we have now launched two.

The first one is about robo-advice or automatic investment advice, algorithmic-based automatic advice. And we have just launched the SEB bot advisor, as we call it, for our 700,000 customers in the pension area. This is a client segment that for many, many decades puts in a small premium and is a low touch type of client base. And it has always been a challenge how to take care of them in the best possible way as they are clients saving for their time after they end professional life. With this bot, we hope to meet them all in a customised individual way during the life they live and over time, help them to allocate their pension assets in a smarter way.

We also, next Tuesday, plan to go live with our online trading capabilities for equities. We have tried it for two weeks now. We only have about 100 people in the bank who have used it. And this is really for a capability that we have lacked for some time to allow SEB's two million clients in Sweden and in the future two million clients in the Baltics to get direct access to single stocks and single financial securities in their mobile channel in a real-time type of way. So this is a minimum viable product. It is not going to be launching a formidable new bank, but absolutely the most critical function will now be available.

With those words, I would like to thank you for your attention, and, I do not know, maybe hand over to the operator, and we will open up for Q&A.

Q&A

Andreas Haakenson (Danske Bank): Good morning, everyone. The first question, we had a long debate with one other Swedish bank yesterday about mortgage market shares. And you seem to be doing significantly better at taking quite a bit of market share at the moment. Could you tell us how are you doing that in your view? Where are you taking it? Are you taking it in the main growth areas? Are you competing on price? Or what are you doing right in your view? That is the first question.

Johan Torgeby: Okay, thank you. First, I think I will just give it context. I mean, it is a remarkable last three months. House prices are up more than 20 %, and single flat homes are lagging a bit, but still up 7-8%, or so. So I think one needs to conclude it is a remarkable positive driving force in the mortgage market right now. If this is maintained, you do not need to make too much of an assessment. The demand for mortgages will go up unless you think all LTVs will go down. And there's no reason to think that. The question for me is the sustainability of this price move and the current levels. So that is all positive.

The other positive for us is that once it has been mostly centred around the larger cities. This is where the price tags have gone up the most and also on single-family houses, which we have a larger portion of. This has been the opposite – the opposite scenario for many, many years. But that is, of course, where we have a much higher market share with probably 20% plus in the areas where this is happening right now compared to the average of 14 and have a quite low market share on the country side.

The other area, as you remember, we did have a pretty self-critical position on the mortgage market some three or four years back and rechanged a lot of the simple stuff that you need to do in order to be relevant. And I am not talking about price. It is about picking up the phone when they call. It is about making sure that it is serviced in the fastest possible way. And also, the follow up is very, very critical.

We still have no larger ambition to increase the market share, but it seems to have been working for the last time. On the pricing, we are not doing this by lowering the price, but there is definitely a price pressure around this market as more entrants are coming in. Focus is clear from everybody, and particularly now if it is a bit positive in the underlying it is, of course, an important area for many of us to perform. Masih, would you like to add anything?

Masih Yazdi: No, I think that is it. I mean, price is an important factor, but it is definitely not the most – it is the most important factor, but there are many other factors you have to put in place. We just launched a few weeks ago the mortgage commitments in a mobile app, so you can get it from there. So the lead times are becoming extremely important, as you can see that they – the time to buy a flat or a house is getting shorter and shorter. So the buyers are extremely stressed to get the mortgage commitments and the mortgages timely. So I think your handling of that process and the pace you can do that is becoming more and more important.

Johan Torgeby: That is it. I mean, we track nowadays the time on the telephone bank, etc. in order to, as I pointed out in 2018, these are things we need to address. And it is still not easy. I mean, we are still working and have more to do, but it is definitely part of doing it right.

Andreas Haakenson: Thanks for that. And then just maybe a bit more detailed question. On your fees and commissions, we issued securities and advisory doing okay. I guess not amazing, but you have been quite weak on ECM over the last year, and you are much stronger on the M&A side, on the advisory side. Do you have a feeling that in 2021 we could see actually a year of M&A rather than small-ticket ECM, or what is your feeling on activity on those two areas? Thanks.

Johan Torgeby: Yes, I do not know if I am hopeful or if I am making a prediction, but yes. There is definitely no reason to think that the things that have been active, as you correctly point out, have not been a perfect fit for us. So the smaller type of ECM businesses, there are some very strong, let us call them niche investment banks, who have done very well. We are, of course, having as part of our business plan to enter into that in a much better way. So we have just staffed up what we call the growth corporate banking unit, which is going to go for the hundreds of thousands of SMEs that we actually have in the bank whom we have not serviced with, let us call it, investment-banking-like services.

M&A is a bit too early to call, but there's definitely something happening now when optimism has a little bit more come back, and we kind of see that the vaccines might work. This pandemic, we might be at the beginning of the end of this type of journey. And we can clearly see that on the pipeline and on the work level, in the investment bank and the corporate bank, it is exceptionally high. It is often very high, but now I think there is – there is some at least connotation that this will be spreading not only to the small but also the larger deals can be. And that is, of course, when it is time for us to show and test what our market position is if that happens.

Andreas Haakenson: Okay. Thanks very much.

Magnus Andersson (EBG): Okay. Thank you, and good morning—first, more of a high-level question just on operational leverage. You have had a quite impressive cost-income ratio trend with a continuous decline since 2010 despite similar money-laundering accusations that have resulted in cost increases in other banks.

If you look ahead, you are now at a 43% cost-income ratio in Q1. It was a very strong quarter, obviously, but you were at 46% just for a one-off in 2020. So if you think about this and the coming, let us say, two or three years throughout your next business plan, I mean, how low can you go? Do you think that this can continue, given ramping up your IT platforms to initiate the partnership with Google Cloud, etc.? Where is the bottom? Or are we at the bottom now?

Johan Torgeby: Magnus, do not put these numbers into your Excel sheet after I say these things, but this is how I am thinking about it. And I will ask Masih to clarify with the new financial targets.

Operational leverage does not need to come by falling cost-income. There is another way which is a more stable way—–falling cost, income, you have to stop at some point, otherwise, it goes to zero. That is by having income growing more than cost. That is the important bit. It does not mean that you can grow in dollars and cents, so you increase the profits. And if you look at the financial targets, this quarter was, of course, a huge positive driver from lower credit losses and a recovery of NFI and a stable growth in the NII and fees and commission. But we are not indicating to you that we can do this trick for another ten years.

Masih Yazdi: Yes, I will just try to phrase it in a way you can put in an Excel sheet, maybe. So yes, I mean, the low-cost-income ratio this quarter is obviously driven to some extent by market valuations, and those will typically not be repeated. And if you look at the financial aspirational targets we set last quarter, we say there in the long-term that we expect to have the cost-income ratios. If we achieve our target of 15% return on equity, that will be on a cost-income ratio of 0.45. So we do not believe that we need to be at much lower levels than that to reach the return on equity target that we have.

And I think what we are emphasising is that we want to see income grow. And if there are investments needed that will drive up the cost line to get that revenue generation, we are prepared to do so as long as we continue to be an efficient bank and we have the cost-income ratio that is competitive in the market. So I think just repeating what Johan said, it is not about taking the cost levels down because we have seen that being tried in other banks and elsewhere. That typically leads to a negative revenue effect, maybe not immediately, but sometimes it does. We think it is more important to invest so that you can get the revenue generation and improve profits through that.

Magnus Andersson: Okay. Thank you. And when are you going to present your new three-year plan?

Masih Yazdi: We will very likely do that by year-end, as we typically do. So in conjunction with the Q4 report.

Magnus Andersson: Yes, okay, good. Thank you. And then just more details on NII. We saw that your markets – it was elevated in this quarter thanks to fortunately that market-related NII remained, and you expect this to normalise at some point. I mean, do you think it will happen in Q2? Is it just impossible to say? It could very well remain.

Masih Yazdi: Maybe it is possible to say. It is impossible for me to say. We typically see that it – as long as when it is low or high the next quarter, it typically goes down to a more normalised level. This is pretty uncommon that we have seen two quarters in a row on exactly the same level. So yes, I think you should just assume that to be conservative next quarter it goes down to a normalised level. If it does not happen, then we will see it then.

Magnus Andersson: Okay, and on NII, have you any updated sensitivity analysis of how your short-term rates would impact you, assuming that lending margins are unchanged?

Masih Yazdi: Yes. We just updated that. So, for short-term rates, we are talking about just Swedish krona. If the repo rate goes up by 0.25, that will have a positive effect of just over a billion. This is the gross effect. So, assuming no change to lending margins and if it goes down by 0.25, that is around a billion. So slightly more positive if it goes up compared to if it goes down; the balance sheet has grown, and deposits have grown, but it is also the case that we have made some changes to our deposit pricing model. So the sensitivity has gone down. But as the volumes have gone up, the implications of a rate change are pretty similar to what we had about a year ago.

Magnus Andersson: Okay. Thank you very much. That is all for me.

Richard Chan (Nordea): Yes, good morning. First questions on the lower funding costs from not reissuing maturing bonds. If you could give any guidance given the continued strong inflow of deposits and how you see that in the coming quarters.

Johan Torgeby: Yes, I can try to do that. I think it will be something that will continue for some time, that we will see wholesale funding maturing that we will not fully replace. So hopefully, that will be a small tailwind also in the coming quarters. But it is also difficult to say if spreads go up on the wholesale funding we need to do and if something happens in the market that might not materialise in a lower funding cost. But assuming the same spreads we have today and assuming that we keep the deposits we have on a balance sheet today, we should see less wholesale funding issuance in the coming quarters than what we have maturing.

Richard Chan: Okay, thanks. And then on the corporate loan demand, if you could share any insights on any indications of improvements there and if there are any specific segments or sectors that are sticking out in any direction, positively or negatively.

Johan Torgeby: Sure, there are no sectors I can think of, but I would say this; that the first half of this year is very much in line with, I think what we tried to explain in Q3 and Q4, and that is a base effect that March, April and May last year, we saw this explosion from COVID response from clients in asking for new credit. It did not materialise in real loans, but all those are now falling off; March, April, May and will not be refinanced.

So the underlying kind of credit exposure should have a little bit of a pause, just like we see this quarter in the first half of this year for no other reason than that one. Then that does not mean anything for the long-term prospects for our client activity. So one needs to go into the pipeline and the optimism for businesses to start to expand and having capital-intensive plans that need to be financed.

And there, I can just make an observation for the long-term that I have been rarely more optimistic on where balance sheet deployment can take place in the future when it comes to lending to the sustainable transition. The numbers we see from our clients coming out now rapidly are staggering in terms of investment needs. And this is very much fixed capacity in the CO_2 challenged areas, which is a lot of anything from factory to energy to raw material extraction, et cetera. So that is a super trend where we see we could come from.

And then, coupled with my previous comment on just M&A, ECM for the areas that we have not seen being very active, it is also a very positive backdrop if that optimism continues, and we will start seeing more transactions.

Richard Chan: Thanks. And then finally, just a quick one on your credit exposure towards fossil fuels, and if you could share any guidance on how much you would see the cap being lowered annually.

Johan Torgeby: Yes, we do not have any numbers yet, but we will come out with those numbers. We are modelling like crazy right now. There's a lot of different engagements. This is where the ambition is. We will come out and have a, in our world, quite significant reduction in the relative exposure to this industry. And that is not industry as the classification of a company, but what part of that company is particularly damaging, and try to become an adviser in the sustainability financial sense to those companies to accelerate that transition.

And lately, as I have shown when it comes to loan advice, leading these transactions, sustainability advice, M&A advice, energy advice, we are, I must say, doing very well right now.

So those things will come out when it comes to coal and certain other areas, mining, thermal coal mining; that is very clear in the policy; that is just out. And we have put down a few dates there. We will not take any new exposure. That is actually from 15th. So there's nothing; no new clients, no new projects.

The ones we do have, we do have clients with some exposure to that industry. We are phasing that out by 2030, one could say, with a couple of exceptions; it is actually in my presentation. And then the one we are modelling is very much the traditional EMP business, the oil extraction business, which is not going to go away in five years. But we would like to show a clear path in line with all our commitments in order for it to be transparent and that everyone can follow it. And I will not commit, but I am really hopeful that we will come out soon.

Richard Chan: Okay. Thank you.

Nicholas [?] (BNB): Thanks. So starting off with a question on cost. I was wondering if you have any reflections of so far whether new ways of working during the pandemic has any structural impact on your cost base like use of office premises or travelling or anything else you can think of at this point.

Masih Yazdi: Hi Nicholas, I will start with that one. Yes, I mean, we know that there's going to be a new way of working and we will implement a new policy shortly on how people can work remotely. So people will be in the office less than they have been in the past. And I think in general, banks do see this as a possibility to reduce office space and see an improved cost level, given that. But at the same time, you have seen indications in the market that when companies do that, they actually want to have more office space when they are at work because they worked differently in the past.

So it is actually fairly early to be able to call that exactly how it is going to develop. But we are seeing it as an opportunity to start with, and then we have to follow the market and see exactly how this develops and how we need to reshape our office space as well. But yeah, it is an opportunity, and we are just going to follow it and make sure that we utilise it if it emerges.

Nicholas: Okay, thanks. And then on loan losses, I think your guidance now implies around 600 million per quarter for the remaining quarters this year in loan losses. So, could you comment anything on why you expect loan losses to come up from the Q1 level?

And then secondly, also on loan losses, I think your earlier guidance was that normalised losses would be between 2 to 2.5 billion per year. Now you are saying two, and at the same time your balance sheet has grown I think over the recent quarters. Is this a reflection that you have somewhat revised your view on the long-term cost of risk in the balance sheet? Or is it just a rounding detail we are noticing here?

Johan Torgeby: Yes, so if I start with that guidance. If you look at this quarter of Q1, we had a very low level, but we also had three fairly large recoveries this quarter, up to about 300 million. So these are exposures that we had reserved for last year, and we have seen now they have materialised. So we have seen some debt to equity conversions, for example. We have seen that the reserves that we had done on a name-on-name basis were higher than the actual losses in the end.

If we look at the underlying level this quarter, it is closer to 500 million, or between four and five hundred million. So the guidance for the remaining quarter is not too far away from that level, but then surely, we are a bit conservative on what could happen if you see a contraction of the fiscal support of different programmes that have been in place. So yes, it is just based on that, that there is some conservatism when it comes to the second half of the year and the fact that the underlying level this quarter was higher than you can see in the numbers.

On that guidance, I think we have said normalised by 2022, 2023 is between two to two and a half. That is more a reflection that we do expect the balance sheet to grow over time. With the current size of the balance sheet, it is about two billion, but if the balance sheet does grow, obviously, the expected losses could go up in line with that growth in the balance sheet.

Nicholas: Okay. Thanks. That is clear. And then, finally, a follow-up question on the sustainability. You were talking about, yes, capping the exposure to fossil fuels, and yes, at the same time, there is strong demand for renewable financing. So if you could elaborate, if you expect the demand for renewable financing to offset the decline, you would expect to see in your fossil fuel exposure on the balance sheet. So the net effect of those over the coming, I guess five to ten years. And then also any margin implications from such a transition in the balance sheet. Do you expect any net effect on the profitability on this part of the balance sheet and, yes, profitability implications from the bank, please?

Johan Torgeby: Yes, I will take that. The hypothesis, as you were rightly pointing out, it is a five to ten-year horizon, is very much that it will be widely better for us in the opportunity of the super-cycle renewable, but also financing transition which is doing us bad compared to what we – through the cap is avoiding to grow in. And by the way, we have a cap already. We have had a cap for a long time, and that cap is lowered all the time. So you can track in the numbers that, to a certain extent, several areas of the higher risk areas, such as regardless of sustainability, we have used that. We also have it, as I have talked to you guys about before, on real estate and structured finance and emerging markets exposure in order to protect the asset quality of the bank. We are just tightening it much more now due to a new phenomenon. That is because of that transition of the world into a low carbon society.

The margins are almost impossible to say. Volumes are very clear. That is in our favour over a long period of time; that is our hypothesis. Margins are, in my book, inconclusive. I would say there's no major change, but there are two indications to point out. The green bond market has currently noted the highest discount for being green versus brown we have ever seen. But we are talking a few basis points. So it is tiny because credit risk and economic value are still very important factors when one decides to value financial security. But there is at least the first sign that a company can fund themselves cheaper, and we can lend cheaper if it is deemed to be future proof.

The other aspect is the opposite from the positive. It is to avoid the negative. And that is a very important factor. Namely that the risk of anyone who invests in financial security or has risk on that you are risking of stranded assets or having exposure to non-future-proof business lines. That is also avoiding that risk. So that is always a risk. And as you are more cautious in this area, you are reducing that. And that is a negative P&L effect you are avoiding if you do it this way. So I would say those two.

So on the margin, positive, but hard to say. And right now, I do want to point out there is such a hype around many of these new companies, etc. So right now, it is the credit quality, which is the no. Not the purpose or the intention; those are fantastic. But as we see that financial prices are going up quite dramatically in certain areas of the economy, we need to also have some tight underwriting standards, so you do not go and overextend yourself in the short run. In the long run, there's no debate. This should increase as a portion of the balance sheet and as a portion of our business as a whole.

Nicholas: Okay. That is interesting. Thanks.

Namita Samtani (Barclays): Hi. I have got two questions, please. Just coming back to the Swedish mortgage market. A peer of yours has been vocal about wanting to be more aggressive in the larger cities, which is a big part of your business. So just curious to know if you feel threatened by this and how you would defend your position in the larger cities.

And my second question is on the market risk RWA's that you expect to normalise, but you talk about an upgrade in training guidance. So I am not sure how these two statements go together. So if you could give some additional colour, and should we expect this type of volatility in the core tier one ratio quarter on the quarter? Thanks.

Masih Yazdi: Yes, I will start with the second question, and I did not really catch the first one, so I will allow Johan to take that one.

Johan Torgeby: Okay. I think I caught it.

Masih Yazdi: Okay, our market rate. Yes, I think in general you have to look at different things happening at the same time. So obviously, the nominal amount of trading bonds you have on your platform to facilitate for client trading has an implication on the capital requirements, but also a much more important implication is the market events. So what is happening to spreads? What is happening to volatility? Which has a big effect on VAR and stressed VAR. And in the first quarter, it is a combination of those two. Us holding more bonds on our balance sheet to facilitate customer activity. But it is also a large implication coming from market movements. So I think what we are guiding for that we will see that part that is driven by market movements come down in the future. That is what we are seeing. So the REA should come down to closer to the average historical level. It does not mean that it will come down to exactly the average level, but clearly down from the very elevated levels we have seen in Q1.

Johan Torgeby: Yes, and if I understood the first questions correctly, it was around the strategy for the mortgage. And I would not say, if I understood you, that we are aggressively pursuing anything. But I would say this; that we want to grow with our clients. There was an underlying growth in the housing market and in the mortgage market. And we are very inclined to maintain a super-relevant position. So we are there for roughly 15% as the first rule.

This means that we do not have a market share KPI as an important one. It is not that we are trying to take another 5% in the classic market, but maintaining a good integrity around the underwriting standards, making sure that we service clients, so we do not – we do not want to go down – we do not want to have an offering not worth its name amongst our clients.

Now, that being said, this is partly related to this more cautious market share approach. Not that growth is not being seen. That is a function of how the housing market goes and how the clients of ours are investing in larger properties and getting some bigger houses and getting families, etc. But there is something very interesting happening as mortgages have been very historically closely connected to the physical meeting.

And as we are now getting very close, I think, to the inflexion point where the whole mortgage process in Sweden can be digitised. We are not there yet, but we are working together with the other banks to get the transfer of deeds, the last portion of a housing transaction, digitised. It means that all of a sudden, I think the physical meeting will be reduced in importance. You always need to have it if a client wants to see you or talk to you, but it is not going to be so highly correlated to where you have the branch, and the next phase of branch offices in retail banking will be affected because right now mortgages are a key area where we still need to see people. It is a big life decision, and it is still a manual process.

So that means that we could definitely come into the next generation of digital retail banking where this becomes completely – it is not important, where you have your branch, because most of this market, we go online. And then, of course, we will try to be as competitive as we can and no longer have the relative advantage of being fairly low on a number of branches and geographical spread, which is clearly a benefit if you need to have a lot of face-to-face meetings.

So we have our 100 branches, and we look very positively on the digital side in the future of mortgages but let us call it a cautious market share and a very strong focus on delivering a good product to our clients.

Namita Samtani: Thanks. Sorry, what I meant to ask was I am just referring to Swedbank talking about – yesterday saying that they wanted to be more aggressive in larger cities. So I was just wondering how you feel about that and how you would defend your actual position.

Johan Torgeby: Okay. Yes, I did not think about that, but well, bring it on.

Namita Samtani: Cool. Thanks very much. Thank you.

James Holland (Carnegie): Thank you. Actually, two follow-ups. Firstly, you talked about the credit growth and optimism amongst your customers. In terms of timing, how eager are they to start making these investments? Do they need a big buffer after COVID-19 is over? What is the feeling there from your side?

Johan Torgeby: Yes, I think it is too early to call. So I am not daring to be super optimistic. But it is a timing matter, as you point out. I think there are three things that need to happen and take it for my personal assessment of the current situation rather than any academic proof.

First is that the supply chains have been disrupted after COVID. Everyone needs to make sure that in the future, you have a secure supply chain. So the dependence, particularly for companies in our part of the world, is huge on international trade and making sure you get critical components. And if you remember, the automotive industry last spring had a huge problem because maybe one or two, very few critical components got stuck on the way here.

So I think many people are changing their view and the risk assessment of the supply chain dependence. That in itself is an investment, but that is something that needs to be, before you start and doing. The other one is the demand side, so we have seen a pretty good demand for local services. If it is not travel or holidaymaking, you see that there has been a decent demand for services. You have not been able to spend the money if you have had lockdowns, and you have actually had a very good demand for retail goods, so people have been buying TVs and renovating perhaps instead of traveling. When that gets normalized, there will be also a potential demand side that will come, and we have seen now that we have shortages in certain industries that is at the supply side. The supply chain cannot right now meet what we see on the demand side, so that is happening right now. Here, we listened to our own economist yesterday. They are actually quite positive – call it tonality – around purchasing, managers' views of the future, etc., which I think is a good summary of supply and demand.

Then there needs to be an equity market type of owners' type of desire for companies to transform and strategically change, not only organic. This to me is very much about the optimism and the confidence in the boardrooms, that you want to go and acquire growth or you want to build your business organically in size. There, I think that we are getting to an inflection point to see if that is actually going to occur or not, and looking at the activity levels in our own Bank there seems to be a lot going on.

Then you always have this new type of entrepreneurship of the world, and I mean new startups, fintech, other tech companies, sustainability companies and the whole expansion of the private equity industry, which is, of course, a fantastically strong engine behind listings and equity market transactions in the future. So, that is a [inaudible] we also are working with.

James Holland: Okay, thank you very much. Then I have a quick question on capital[?]. I wanted to understand if there is anything excess you have to say – the decision on the dividend caps[?] that you are waiting for before you can make any call on how and when to distribute capital[?], i.e. let us assume we have it now before September, what else is needed for the board to make a call?

Masih Yazdi: Now, obviously that is the main input we need. As we talked about the cash, we also look at the strategy we are planning for, for the next coming years. I think, given the capital position we have today, that is not going be a gamechanger when it comes to the over-capitalization of the Bank, and I probably can address that. So, it is deemed, it would be fair[?] to say, that we are waiting for them, and past that we can decide on exactly timing and in what proportion we do dividends and share buybacks.

James Holland: Do you have a desire to do this quickly, or is that a filter, [inaudible] to say?

Masih Yazdi: I can't really answer that. We have a target of being between 100 to 300 and are going to work our way towards that target in a timely fashion.

James Holland: Fair enough, thank you very much.

Geoff Dawes (Société Générale): Good morning, everyone. Geoff Dawes here from SocGen. A quick question, I will not keep you any longer. In terms of your merchant banking division, deposits are now greater than loans, probably for the first time ever. I have not looked through the history, but it is quite an abnormal place to be. In terms of looking forward, do you see that as an abnormal situation; or is it just kind of a response to a new funding model from corporates and this will become more normal going forward – that they will use the markets balance sheet much more than your own balance sheet going forward?

If so, can you give an idea of how this shows up in the revenues for the Group, so the distribution between NII fees and everything else; and whether, on a net basis, it is more or less profitable for you?

That is the main question, thank you.

Masih Yazdi: Thank you, Geoff. I think, first of all, this is not predominantly driven by the lending side; it is driven by the deposit side, so we have not seen a very strong structural trend on the large corporates going through capital markets. That has been happening for some time, but it is not the reason why we have a low depreciation[?] announced[?] and a 5 below 1 for the first time. It is driven by the deposit side, it is driven by QE. As long as you have this amount of extra money in the system, you are going to see this end up on a bank's balance sheet in one way or the other. It could be a deposit from financial institutions, corporates or households, but either way it will end up on a bank's balance sheets.

Right now, given that the large corporate customers and the financial institutions are professional, it does not have big implications on our revenue side really because the market pricing on deposits is efficient. We can charge negative deposits rates, so it is not a big problem here. It would become a problem if it happens on the household side where we still have a clear difference between the size of the lending and the deposits. I think it is driven by deposits, it is not driven by lending. Right now, it does not have a clear, negative effect, but we will have this situation as long as you have QE at the levels you have today. Central banks need to withdraw the money that is supplied to the market for this to reverse at some point.

Geoff Dawes: Yes, that is very clear. On the flipside as well, on the credit side, do you see corporates using the market balance sheet much more than your own? Is that part of the push higher in fee income?

Masih Yazdi: That has been a trend for some time in Europe as we are lagging the US in terms of how much corporates are using banks' balance sheets relative to the markets, but that, in a cyclical point of view, is more driven by credit spreads in the market. Last year when you had the height of the pandemic and markets froze, we could see that they came to us and used our balance sheet much more. Right now, spreads are very low, so the companies that do have access to capital markets can utilize that to a larger degree than they did a year ago. However, that goes up and down in cycles, and typically our spread, our funding cost, moves slower than the companies that we lent money to. So, when you have spreads widening, they come to us instead because that is going to be cheaper for them. It moves in cycles but is an underlying trend towards more capital markets financing – but at a fairly slow pace.

Geoff Dawes: Yes, great, that is really clearly, really helpful. Thank you.

Chris Hartley (Redburn): Hi, one question on the private losses and the expected normalization of that down to 8-10 basis points. Is there an assumption in there that some of the conservatism that was put on last year will unwind this year; or are you saying the 8-10 basis points is because the world is back to normal and the front book loads that you are writing are in 8-10 basis points, and so we are still to see whether the provisions from last year were overly conservative and we may or may not get right back on top of that production to 8-10 basis points?

Masih Yazdi: Yes, that assumption on normalized credit losses for this year is based on that we do not utilize any of the model overlays that we have put on. If you look at last year, we have put on SEK 1.3 billion, we have added another SEK 100 million in Q1. Assuming that we do not utilize any of that, then we think that ECL will be around 8-10 basis points or SEK 2 billion this year.

Chris Hartley: So, there is still potentially a little bit more benefit from that if you do not end up needing those overlays?

Masih Yazdi: It depends. We have to wait and see what happens. If we are concerned about bankruptcies going up maybe in 2022, if you see a withdrawal of stimulus and stimulus packages in 2022 rather than 2021, we might want to keep that for 2022 instead or further on. However, it depends on what happens to the recovery of the economy and how stimulus packages are removed or scaled down, so we have not decided exactly whether we use those model overlays or not this year or next year or the years after. However, the guidance in itself is based on us not utilizing it this year.

Chris Hartley: Perfect. Yes, that is really clear. Thanks very much.

Riccardo Rovere (Mediobanca Securities): Good morning to everybody. Thank you for taking my questions – two or three if I may. To get back, one second, on the expected credit losses. Now, if the situation is going in [inaudible] already in 2021, is it fair to say that we should not expect any material negative risk migration with regards to risk rates in the calculation of credit risk, a capital requirement, if the situation is going to normalize already this year? This is the first question.

The second question I have is on the change in the funding mix. Now, Endrel[?] has been postponed. To what extent can you go on postponing the issuance of medium to long-term funding; and if you had to issue today senior non-preferred, but it costs much more than a normal senior?

And then the third question I have: with the share price at around SEK 105-110, would you be ready, prepared to sacrifice share [inaudible] on the altar of cash buybacks or M&A bolt-on acquisitions? Does it change anything, the fact that the share price is SEK 110 or so?

Mashih Yazdi: I will start. There is a clear distinction between expected credit losses and risk migration, so even though we have changed the guidance on ECL for this year, we do still believe that we are going to see a negative risk migration. Again, we did not see that to a large degree in Q1, but I will try to explain why we expect to see that. We typically, if you look at our large corporates, do annual reviews of them and find a new risk class for them, once every year at least if there is not a new deal coming up. Now, we are going to get their annual reports for 2020, which will be an input in that, and obviously some of them did see their profits come down in 2020 versus 2019. That new input in the new grading of those companies will, to some degree, lead to a negative risk migration. It does not mean they go into default; it just means that maybe if there was risk class 7, it could be a risk class 8 now because of the financials deteriorating a bit in 2020. So, that is one of the reasons we do still believe that you are going to see some negative risk migration in 2021.

On the funding mix, it is correct that Endrel is one of the restricting factors on how much we can take down senior unsecured funding, as well as senior non-preferred, so we have to check that and see that we have the outstanding share of senior funding – preferred funding and non-preferred – that we need. Right now, I have not checked lately, but I think it is about a 20 basis points difference for us to issue senior non-preferred versus senior preferred. However, that goes up and down quite a lot, but right now it is fairly low.

On the valuation of the Bank and whether that changes our disposition between dividends and share buybacks, I would say no, not really. It is difficult for us to guess how the share price will move in the future, and we just have to assume that it is a fair value at each point in time. So, when we have decided on exactly how we are going to do this, we will do it in that fashion a bit irrespective of the share price at that point in time.

Riccardo Rovere: That is fine. All right, thanks.

Martin Leitgeb (Goldman Sachs): Good morning, thank you for taking my questions. My first question is just to follow up on flow share comments in Swedish mortgages. Two of your competitors reported so far indicate that they intend to increase their flow share going forward, and I was wondering is SEB happy to see the flow share dropping, potentially dropping below the stock share level for a period of time; or do your comments earlier in the call essentially mean that you want to be around the 14% mark going forward?

Secondly, if we look at average negotiated pricing for SEB mortgages, that seems to have edged lower over the period of the last 12 months, a period in which your flow share has increased. I was wondering how should we think about negotiated pricing going forward, and do you see the trend to continue, that negotiated pricing, whether that is three months or six, and continues to edge lower? Or, do you see the trend there [inaudible] with some of the smaller players in the [inaudible] that meant that negotiated pricing could actually start edging higher?

Related to that, I was wondering if you could give us an indication how of your new mortgage business in Sweden is on a fixed term versus variable basis?

Finally, a third question if I may. I was wondering what implications the large increase in deposits in Q1 has on NII and NIM, and apologies if I missed it; I did not fully understand it in the previous answer. Related to that, I know you do not give guidance on NII progression from the year, but it is fair to assume that NII continues to gradually expand, or could there be a scenario where NII will stay flat of even edge lower from here? Thank you.

Johan Torgeby: Thank you. I will do my best on those four or five and then ask Masih to complement. We would not be happy if our part of, as you expressed it, flow share goes down, so we will, of course, do our utmost to maintain relevance to the same extent. That is nothing new. I think we have seen competition increasing over time in the mortgage market. As you point out too, there might be more right now from competitors out there, but it is nothing new and is always a fight to try to maintain your clients to pick you.

The other one was on negotiated prices. I think we are of the view that there is some type of underlying margin pressure in terms of negotiating prices are coming down, and also the disruption from fixed price. In Swedish we say something called [Swedish, 01.16.29]. That means 'negotiated and done, take it or leave it' type of pricing. And I think all those effects are pointing in one direction that there is, of course, a lower price point potentially. I do think, however, the zero interest rate, the zero deposit rate is a very strong cushion that banks need to have these two communicating with each other. Should we have increased rates and we have a different position on the deposit size, the dynamic will change for pricing of mortgages. However, there is a lot of stability there and they are very low, the levels as an outright level, as they are.

For SEB compared with others, we of course look at the same statistics you do. This is not something that we know daily or weekly – what is happening – but we know that the larger mortgages tend to be much lower in price point than the smaller. What has increased lately, we believe, is the larger. The larger cities have a lower average price than the countryside, because it is larger and it also may be tough for clients to submit and negotiate, etc. This is, of course, the area that we are, so this is not to be mixed up with any strategy or attempt from SEB to try to gain market share whilst not having a good offer in order to protect it. We are trying to have a quality-driven service, rather than using price.

Masih, anything to add before the NIM question?

Masih Yazdi: No. Should I take the NIM?

Johan Torgeby: The fixed variable on the new business we do, it is increasing in fixed. Do you know the number?

Masih Yazdi: Yes. I don't know the exact numbers now, but fixed has been increasing structurally for some time as a fixed; one, two, three years at least is approximately the same price as three months. However, we have to come to you on that one exactly what the mix has been in the latest quarter.

On NII, we will not guide on how that is going to develop. I think we see some lending growth just in corporates and especially in mortgages right now; we see some tailwinds from funding costs. Then, on the front book, there is some margin pressure on mortgages, and then you are going to see regulatory costs going up or down and other implications. However, we will see how that is going to pan out, but obviously last year we had 10% NII growth; it will not be near that level this year.

I have the number on fixed and variable; it is about 50/50.

Martin Leitgeb: Perfect. Thank you very much.

Antonio Reale (Morgan Stanley): Good morning and thank you for taking my question. You just answered the question on NII, but I have another one on your international expansion plan, please. If I look at northern European corporate banks, they deliver with terms that are, on average, below 10% and which will be diluted to your group RoE. I guess your decision to enter this market implies that [inaudible] allocate the capital you project is higher than that. My question is what makes you confident that is the case, and what would you be doing differently than a domestic Dutch corporate bank, for you to be able to remunerate capital adequately? Thank you.

Johan Torgeby: Yes, thank you. It is the $10 million question about why do certain banks succeed and others do not, and we have our subjective view on this. The first thing I want to point out is that when you talk large corporate, it is more or less a given market world price on credit, so you cannot negotiate, you do not get a different price. These are often constructed on the corporates that we talk about here in combinations of ten banks helping one corporate, and there is a very multi-bilateral type of negotiation to find the price. The credit market in the public sense is also a very important factor. We know roughly what the price of credit is, hence the real differentiating factor is the cost side, the efficiency and the fast decision process. Here we are of the belief that we can do this in a very cost efficient way. This is very scalable on the existing processes and infrastructure that we have, so that is a main difference.

The other one is the funding cost outright. If you look at a loan priced at 50 basis points and take, for example, Holland, you can immediately look at where the bank is funding itself and can do the kind of profit, and that varies a lot depending on what type of credit rating and what price you face in your own institutional market. Deposits and all other things come into this as well, as well as cost of equity, or course.

Then you have what is unique, and every institution, every bank has their own niche. We are, of course, always having this. We start with being a niche provider for international companies in Nordics. If any large international companies have any business in Norway, Denmark, Finland or Sweden, that is how we, of course, have a place at the table, because all of them do. Even though it might be small in the company's perspective, for us it might be very significant. Think of any global brand. They have a business in Sweden, they are selling their products here and need a local bank for that need. There is not bank in the world who can cater for everything.

The other one is that we have a very underestimated, vast international network. When we go into other countries, they often have no clue that we have a very functioning corporate bank in China or in the US, and we can often be part, after time, in those types of RFPs for the business all these companies do. If you were to look at the international network that we do have, you will see that a lot of the income is actually coming from these new markets that we have entered lately. That means that you are, in the eyes of clients, a bit of a niche provider, but you are more often than not, after five years in our history, being invited into the core group. The core group needs to be a diverse group catering for any company's need.

Then I do not want to sound like I am bragging but I have worked for a couple of institutions, and there is a very fast process in this bank for corporate lending if required. These things are critical once a client has a problem or an acquisition, that you have fast access to management, senior representatives of the bank and can do credit decisions in a fast way. That is something you can say but until you have tried it, you do not know. These things take time, often decades, but we know that we are a fairly nimble, small Nordic bank which is quite different from some. That is also something we find clients often appreciating. That is not to say that we are always the easiest to deal with or anything like that.

Then we have a rather full service capability outside lending, which is, of course, the core to your first point. We do not do this expansion to come in at the return on equity that the average of European corporate banks is enjoying; we are doing it to have a higher return on equity for LC&FI, and that is currently our long-term aspiration of 13%. These are all, over time, planned to be accretive on that notion.

Masih Yazdi: Can I just add if you look at the slide 17, look at the German financials. You can see that the cost-to-income ratio for our German business is 0.3, which is allowing us to return 13% in Q1 for that business. Obviously, the biggest difference between us is that cost/income ratio.

There is another angle to this as well. We have what we believe is a very scalable platform in Sweden. The more we expand, the more customers we add to that platform, the lower the cost will be for the remaining business in Sweden because we can allocate some of that cost to the new businesses we add. It also not only adds to the income generation of that division, it also reduces the cost level that is allocated to the remaining part that we did not expand. I think that is an important angle as well. Scaling your business has become extremely important in any business these days, and we feel that within wholesale banking we have a scalable business and are utilizing that even further now.

Johan Torgeby: A final remark: when we do any of these, we start with client satisfaction. What this is about, to begin with, is to meet these new companies and see if we have a mutual understanding of co-existing together and doing something fantastic together. Customer satisfaction is the key. If we cannot get there, we will not; if we can, there is always an economic opportunity to engage.

Antonio Reale: Very clear. Thank you for the answers.

Sofie Peterzens (JP Morgan): My first question would be if you could give an update on the money laundering. I see you still have the same comment in the Q1 report, but I would also flag that when we did get the Danske

Bank, who reported this morning, they are flagging that they might need to do additional money-laundering investigations internally; and that it sounds from that, that the US authorities are looking at cases across Europe. If you could give an update on the money-laundering case.

Then the second question would on the banking tax. Have you heard anything on the banking tax? Do you think it is going ahead? How should we think about it?

Then my final question would be a little bit related to the previous question, but how should we think about excess capital, and how much capital is all your growth plans in private banking, private wealth management, Austria, Switzerland, Netherlands? How much capital is that going to consume, and how should we think about the capital progression going forward? How much is that going to be, going to build[?] these growth projects?

On the private banking project, are you planning to also expand in your international markets, or is it purely in your home markets? Thank you.

Masih Yazdi: Sofia, I will start and ask if you want add. On AML, we have not changed our disclosure because nothing has really happened during Q1. We continuously have discussions with the authorities that are asking questions to us and continuously provide them with new information. So, it is still happening, but nothing material that led us to change our disclosure. We have said that if something happens, if we have any indications of anything in terms of sanction process or anything material changing, we will disclose that to the market if that happens.

On the banking tax, I haven't heard anything new, to be honest. That typically comes up in the autumn proposal on the budget from the government. As they have flagged that this will be introduced in 2022, this autumn they should have that in their budget, so we have to wait and see. There might come out something just before that. They typically flag some things before the budget comes out a few weeks or months before that, so I think maybe this summer you could see something.

On excess capital, the way we look it at is that we try to normalize the regulatory requirements we can expect in the future. We know that right now it is 12.5%. We know that the Pillar 2 guidance will be added; we think that is going to be about 1 percentage point. It is very likely that the Swedish [inaudible] buffer will be increased back again to 2.5%. If you look at that, our goal to regulatory [inaudible] will be around 15%. If you add the management buffer, that takes you to 16-18%, and then anything above that would be excess capital.

The initiatives we have launched in terms of growth outside of the current home markets, private banking, everything else, it does not really move the needle, to be honest. It is very little in terms of capital. If you look at how much capital we generate – in Q1, 84 basis points pre-dividend – we do generate a lot of capital to be able to finance the future growth we expect. In terms of the current situation, with the excess capital, that is very unlikely to be needed for the expansion plans that we have.

Sofie Peterzens: Great, that is very clear, thank you. On the private banking, is it purely in the Nordics that you are going to focus, or are you also supplying in Germany, the UK and the other countries?

Johan Torgeby: Yes, we are going to start with the focus on the Nordics outside Sweden because the market position is very different in Sweden versus outside Sweden in the Nordics, but Germany and the UK are also in scope as they are defined as home markets. Further international scope is not included. We will not start opening up the private banking, private wealth management business outside the geographical remit where we currently exist, so do not mix it with the international network. However, with one little clear difference: if you are a Nordic, German or UK person who has a relationship and you move abroad, there is no limitations for us to continue to help you if you move to a different country where maybe SEB is not present, but we call that the international network. Singapore and Luxembourg is currently already the two centres for taking care of the international people who are out in the world. We have these two international centres, and that we will continue to build on.

Sofie Peterzens: That's very clear, thank you.

Johan Torgeby: Then I say a big thank you to all and wish you a healthy time until we see you next time. Thank you.

[END OF TRANSCRIPT]