

Quarterly Report

January – March 2020



STOCKHOLM 29 APRIL 2020

SEB

”We stand strong to help our customers weather the storm, as we have done many times before.”



Statement from Johan Torgeby

We live in extraordinary times

The global economy took a dramatic turn in the first quarter. The Covid-19 epidemic turned into a pandemic threatening the health and lives of people around the world. The following lockdown of economies globally resulted in significant reductions in production, demand and global trade. Small and medium-sized corporates in the most exposed sectors, such as hotels, restaurants, and tourism, experienced a sharp decline in demand. For many of them this resulted in severe liquidity and financing needs. Similarly, larger corporates experienced both demand and supply disruptions as global supply chains were challenged by the national lockdowns. More than 80 per cent of the global workforce is estimated to have been affected by full or partial workplace closures, according to the International Labour Organization, and unemployment rates are increasing.

In parallel with the pandemic, there was a sharp drop in oil prices globally, which gives rise to both economic and geopolitical concerns. Recently, some oil prices even turned negative, manifesting the exceptionality of the situation we are in.

Governments, central banks and financial supervisory authorities across our home markets and elsewhere have, in order to limit the negative impact on global economic growth, acted decisively by implementing crisis-relief measures. In Sweden the size of these measures is currently estimated to around 16 per cent of GDP. These numbers are significant, but the economic recovery will remain dependent on the effectiveness of these policy responses, the measures taken to safeguard international trade, as well as the duration of the Covid-19 pandemic.

Recently, some countries have started to gradually re-open and ease restrictions. In order for a Covid-19 exit strategy to be safe and efficient, collaboration both within and across countries will be key.

SEB has a critical function in society

Unlike the global financial crisis in 2008, the Covid-19 pandemic is more of an exogenous shock to the global economy and banks are an important part of the solution. SEB entered this crisis from a position of strength with a solid capital and liquidity position. We are now using this strength to support our customers' individual needs to the best of our abilities. We offer lending solutions and advisory services, such as grace periods on loan repayments to corporates as well as private individuals, while also enabling them to access government-related support measures.

Being able to offer a wide range of relief measures is essential since there is no one-size-fits-all solution to our customers' needs. In a recent survey done by the Confederation of Swedish Enterprise, it was concluded that more than 50 per cent of Swedish corporates experienced financing or liquidity shortages while only eight per cent considered additional financing as a potential solution. Similarly, in a survey by SEB targeting sole proprietors, also known as solopreneurs, who represent more than 70 per cent of all businesses in Sweden, only 17 per cent stated that bank loans would solve their needs. The majority, nearly 80 per cent, would primarily use their savings to manage their current liquidity and financing needs.

That said, demand for loans has increased significantly. To date this year, we have processed pandemic-related credit requests corresponding to an amount of around SEK 133bn, which is more than twice the volume that we would typically see during a full year. We also granted grace periods on household mortgage lending and corporate lending for those customers in need of additional liquidity. Similarly, we have granted grace periods for pension contribution payments to corporates providing occupational pensions to their employees.

Our ability to transfer capital is a critical function in society and is reinforced in times like these, as we enable capital to flow to where it is needed the most. In collaboration with issuers within the public as well as the private sector, including World Bank, the Nordic Investment Bank and the medtech company Getinge, SEB

has arranged several Covid-19 related transactions such as social bonds, health bonds and commercial papers – all with the purpose of supporting people, companies and countries affected by the Covid-19 pandemic.

Our employees enable business continuity

As a bank, we have a dual responsibility: to remain available for our customers and at the same time safeguard the health of our employees. SEB has implemented several measures to protect the employees.

In these exceptional times, our employees have made an outstanding effort to ensure that our business remains up and running and that our customers are being served as needed. At peak levels, we experienced an increase of around 30 per cent in incoming calls to our customer service centre, with the majority being related to financial advisory driven by the Covid-19 pandemic. During a few peak days in March, our employees also processed transactions within Trading and Fund Operations corresponding to volumes of three to five times normal levels.

Underlying business remained robust

Turning to SEB's financial performance, the consequences of the Covid-19 pandemic had a negative impact on the reported quarterly financial result although the underlying business remained robust.

Net interest income increased by 5 per cent quarter-on-quarter, mainly due to higher deposit margins following the Swedish central bank's repo rate hike in December, a lower resolution fund fee and loan volume growth.

Net fee and commission income fell seasonally quarter-on-quarter but increased by 8 per cent versus the first quarter last year, as higher lending and secondary market fees more than offset somewhat lower payment fees.

Net financial income was negative, decreasing by 128 per cent quarter-on-quarter. This was mainly a result of adverse market valuations. However, SEB's Markets business contributed positively as volatility and client activity levels were higher during the quarter.

Operating expenses decreased by 6 per cent compared with the last quarter, partly as a result of seasonal effects but also as a result of SEB's internal restrictions on physical interactions amid the Covid-19 pandemic. Operating expenses were in line with SEB's target level for 2021.

Net expected credit losses increased by 50 per cent, from an already elevated level in the prior quarter (254 per cent year-on-year), as a result of additional portfolio-level provisions made considering the deteriorating macroeconomic outlook and a lower oil price. The full-year level of expected credit losses

remains highly uncertain as it will depend on the pace of the global economic recovery.

At the end of the quarter, SEB's capital buffer amounted to 310 basis points.

Standing by our customers throughout the storm

The quarterly operating profit of SEK 3bn and the return on equity of 6.0 per cent must be seen in light of recent developments. And while it is not a question of if but rather a question of when this pandemic will come to an end, we still have low visibility on how deep the expected economic recession will be and when corporates can resume operations and people can return to work. As mentioned, collaboration will be essential to achieve a safe and efficient exit strategy and we are constructively engaging in dialogues with the Swedish government, the central bank and other relevant authorities in order to limit the negative impact of Covid-19 on economic growth.

Making forecasts and predictions is never an easy task. Rarely though has it been more difficult than today. We need to stay humble and expect the unexpected. No one knows the full effects of the Covid-19 pandemic, and we must be prepared for many different scenarios.

While the overall economic effects of a pandemic are negative, we have identified new business opportunities given changing needs and behaviours as a result of Covid-19. We will therefore use the next coming months to evaluate the lessons we have learned and establish an action plan on how to address these opportunities as part of our business plan going forward.

It has always been, and continues to be, our highest priority to support our customers. We stand strong to help them weather the storm, as we have done many times before. By cherishing our long-term customer relationships also in these challenging times, we aim to create long-term value for our shareholders as well as for society at large.

It is understandable to be worried in these turbulent and challenging times, but we cannot get paralysed. We must be brave but careful in order to limit the spread of the disease, and to safeguard people's well-being as well as the economy. Our thoughts go out to everyone affected by the crisis.



President and CEO

First quarter 2020

The quarter in brief

- Underlying business remained robust, the result mainly impacted by negative market valuation effects following the Covid-19 outbreak
- Asset quality remained strong, but the uncertain macroeconomic outlook and lower oil prices required additional provisioning
- Strong capitalisation and comfortable liquidity position to continue supporting our customers

Summary

SEK m	Q1			Q4			Jan-Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Total operating income	10 089	14 089	-28				10 089	11 907	-15	50 134
Total operating expenses	-5 646	-6 026	-6				-5 646	-5 622	0	-22 945
Net expected credit losses	-1 494	- 997	50				-1 494	- 422		-2 294
Operating profit	2 950	7 063	-58				2 950	5 864	-50	24 894
NET PROFIT	2 355	5 831	-60				2 355	4 681	-50	20 177
Return on equity, %	6.0	15.5					6.0	12.7		13.7
Basic earnings per share, SEK	1.09	2.70					1.09	2.16		9.33

Volumes and key ratios

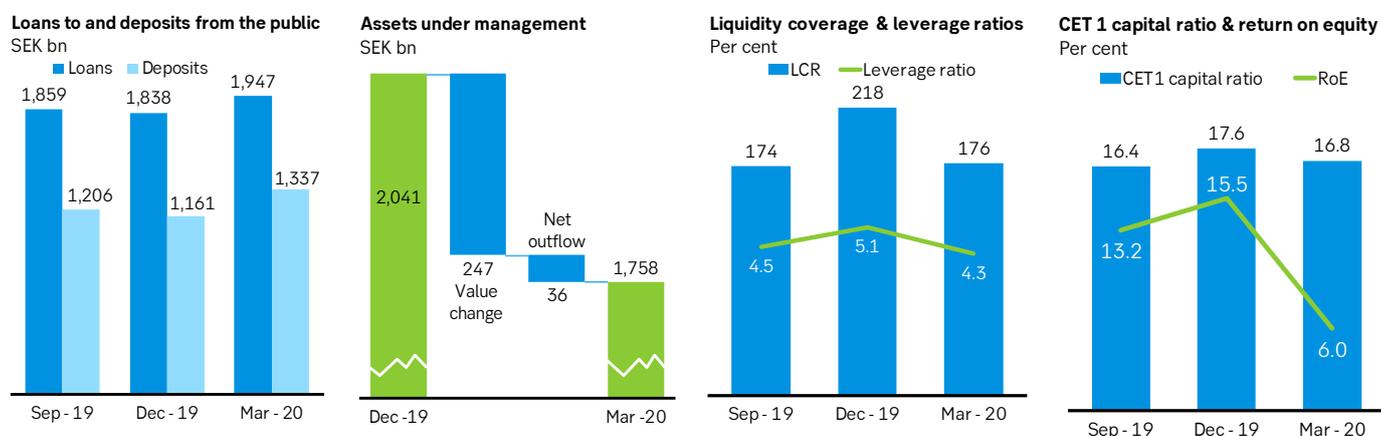


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Comparative numbers (in parenthesis throughout the report)

The selection of comparative numbers has changed to better reflect the recent business development. Unless otherwise stated:

- the result for the reporting quarter is compared with the prior quarter
- business volumes are compared with the balances in the prior quarter both for the Group and for the business segments.

The first quarter

Following a positive start of the year, the effects of the Covid-19 pandemic began to make a mark towards the middle of the quarter. The financial effects were material and affected the result in many ways. *Operating profit* decreased by 58 per cent to SEK 2,950m from SEK 7,063m in the strong fourth quarter 2019. Compared with the first quarter 2019, the *operating profit* decreased by 50 per cent. *Net profit* amounted to SEK 2,355m (5,831).

Operating income

Total operating income decreased by SEK 4,000m, 28 per cent, compared with the fourth quarter 2019 and amounted to SEK 10,089m (14,089). Compared with the first quarter 2019, operating income decreased by 15 per cent.

Net interest income amounted to SEK 6,201m, which represented an increase of 5 per cent compared with the fourth quarter 2019 (5,930) and an increase of 16 per cent year-on-year. In December 2019, the Swedish central bank announced a repo rate increase from -0.25 to zero per cent.

SEK m	Q1		
	2020	2019	2019
Customer-driven NII	6 860	6 454	6 366
NII from other activities	-659	-524	-1 021
Total	6 201	5 930	5 345

Customer-driven net interest income increased by SEK 406m compared with the fourth quarter 2019 from a positive lending volume effect. Towards the end of the quarter customers demanded traditional lending in order to prepare for the Covid-19 economic effects. In the more positive interest rate environment, deposit margins improved significantly.

The negative effect on net interest income from other activities (including for instance funding and other Treasury activities, trading and regulatory fees) was SEK 135m higher than the fourth quarter 2019. One explanatory factor was that Treasury's internal compensation to the divisions for deposits was higher than the fourth quarter, resulting in a higher interest expense for Treasury. There was also a negative effect from an AT1 bond, to be called in May 2020, where the replacement was arranged in the fourth quarter 2019. The resolution fund fee was SEK 177m lower than the fourth quarter. 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 345m (522).

Net fee and commission income decreased by 7 per cent from the seasonally strong fourth quarter 2019 and amounted to SEK 4,624m (4,989). Year-on-year, net fee and commission income increased by 8 per cent. Corporate customers grew cautious given the Covid-19 related development and capital market activity was significantly lower. Gross fees from the issuance of securities and advisory services decreased by SEK 219m to SEK 251m in the first quarter. Traditional lending increased towards the end of the quarter and gross lending fees were stable compared with the fourth quarter but increased by 13 per cent compared with one year ago. Following a strong beginning of the year, the financial markets declined significantly towards the end of the quarter and the gross fee income from custody and mutual funds, excluding performance fees, decreased by SEK 49m to SEK 1,945m. Year-on-year, this income improved by SEK 163m. Performance fees amounted to SEK 51m, an increase of SEK 9m compared with the fourth quarter. Year-on-year performance fees increased by SEK 39m. Net payment and card fees decreased by 17 per cent, to SEK 896m, compared with the fourth quarter, explained by seasonality between quarters as well as Covid-19 reducing card turnover, in particular in the corporate segment. The net life insurance commissions related to the unit-linked insurance business decreased by 16 per cent compared with the fourth quarter 2019, to SEK 254m.

Net financial income decreased by SEK 3,626m to SEK -804m. Year-on-year, net financial income decreased by SEK 2,922m. Both comparison periods were characterised by unusually favourable market conditions. After the breakout of Covid-19, both interest rates and equity values turned unfavourable with significant impact on SEB. With the widening credit spreads, the fair value credit adjustment¹⁾ decreased to SEK -1,282m versus SEK 267m in the fourth quarter. The market valuation of certain strategic holdings decreased by SEK -703m quarter-on-quarter. Other life insurance income, net, decreased from SEK 219m in the fourth quarter to SEK -113m, primarily in the traditional portfolios both in Sweden and the Baltic countries. The main driver for the remaining decrease of SEK -1,042m quarter-on-quarter was valuations within Treasury operations (see page 23) and Markets which were unusually favourable in the fourth quarter. Markets' underlying business, however, contributed positively as market volatility and customer activity was high.

Net other income amounted to SEK 68m (349). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item. There was a realised capital gain relating to the sale of shares in LR Realkredit in the amount of SEK 259m in the fourth quarter 2019.

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 were seasonally lower and decreased by 6 per cent to SEK 5,646m (6,026). They were unchanged compared with the first quarter 2019.

Staff costs decreased by 5 per cent compared with the fourth quarter. With the lower SEB share price, the cost for long-term variable remuneration programmes decreased. The effect of the lock-down partially affected other expenses, which decreased by 8 per cent, with fewer consultants and lower travelling costs among other things. Supervisory fees amounted to SEK 41m (39).

The cost target in the business plan for 2019-2021 is described on page 10. 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 50 per cent to SEK 1,494m. Asset quality remained strong in the quarter and the impact of the wide-ranging lock-down measures was not yet visible in asset quality indicators such as observed defaults or past due loans.

The effect of the Covid-19 pandemic on the macroeconomic development and subsequently on individual customers is highly uncertain at this early stage of the outbreak. The impact of the governmental aid and support programs are equally difficult to forecast. The rapidly changing environment, uncertain macroeconomic outlook combined with the fast decline in oil prices has led the bank to make an adjustment to the modelled expected credit losses for expected future asset quality deterioration in several sectors. This model overlay amounted to SEK 1.1bn, of which SEK 500m for oil-related exposures. See further comments on uncertainties on page 10.

Income tax expense

In line with the decrease in operating result income tax expense amounted to SEK 595m (1,232) with an effective tax rate of 20 per cent (17).

Return on equity

Return on equity for the first quarter 2020 decreased to 6.0 per cent (15.5).

Other comprehensive income

Other comprehensive income amounted to SEK -989m (3,360). The value of SEB's pension plan assets exceeded the defined benefit obligations to the employees. The pension obligation decreased slightly when the discount rate changed from 1.1 to 1.35 per cent. At the same time, in the unfavourable financial markets, the value of the pension assets was lower, and the net value of the defined benefit pension plans decreased which affected other comprehensive income by SEK -1,832m (3,699).

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 571m (-337).

Business volumes

Total assets at 31 March 2020 amounted to SEK 3,286bn, representing an increase of SEK 429bn in the first quarter (2,857).

Loans

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

Loans to the public increased by SEK 109bn during the first quarter and amounted to SEK 1,947bn (1,838). Loans to non-financial corporations increased by SEK 34bn and household lending increased by SEK 5bn. 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.

SEB measures and monitors its credit risk exposure in the credit portfolio, which includes loans, contingent liabilities and derivatives. More information about the credit portfolio is available on page 8.

Deposits and borrowings

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

Deposits and borrowings from the public increased by SEK 176bn to SEK 1,337bn (1,161). Deposits from non-financial corporations and households increased by SEK 75bn in the first quarter 2020.

Assets under management and custody

Total assets under management amounted to SEK 1,758bn (2,041). Driven by the stock market depreciation during the first quarter, the market value decreased by SEK 247bn. Some customers realised their investments and the net outflow of assets amounted to SEK 36bn during the quarter.

Assets under custody decreased mainly driven by the stock market depreciation during the first quarter and amounted to SEK 8,992bn (10,428).

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

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

SEB's credit portfolio, which includes loans, contingent liabilities and derivatives, increased by SEK 89bn to SEK 2,587bn in the first quarter (2,498). The corporate credit portfolio increased by SEK 56bn, 4 per cent, reflecting a broad-based growth across segments. The household credit portfolio increased by SEK 14bn and the commercial and residential real estate management portfolios increased by SEK 12bn combined.

Gross loan exposures in stage 2 decreased by SEK 3,087m to SEK 69,372m, while gross loan exposures in stage 3 (credit impaired) increased during the quarter by SEK 1,494m to SEK 12,890. This increase was driven by changes in credit risk and currency effects. See expected credit loss comment on page 7. The gross credit-impaired loans (stage 3) were 0.71 per cent of total loans (0.67).

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) measures. Average VaR in the trading book for the first quarter amounted to SEK 158m compared with SEK 98m for the fourth quarter 2019. 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 increased by SEK 26bn during the quarter. SEK 19bn of long-term funding matured during the quarter (of which SEK 11bn covered bonds, and SEK 8bn senior debt). During the quarter new issuance amounted to SEK 64bn of which SEK 53bn constituted covered bonds, and SEK 11bn senior non-preferred debt.

In order to support market liquidity and to ensure that banks provide credits when needed by businesses experiencing a liquidity shortage due to the effects of Covid-19, central banks established facilities in which banks were encouraged to participate. SEB did not require additional funding in the quarter but participated in the Swedish central bank's two-year facility and in the Norwegian and Danish

central banks' short-term facilities in order to support these programmes.

The liquid assets defined according to the liquidity coverage requirements amounted to SEK 660bn at 31 March 2020 (470). From 16 March 2020, the Swedish Financial Supervisory Authority (SFSA) 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 the end of the quarter, the LCR was 176 per cent (218).

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 111 per cent (109).

Rating

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 cyclicity.

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.

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. In March, Moody's confirmed the stable outlook of the Swedish banking system due to the strong capital position and capital generation capacity of banks. As of 28 April 2020, Moody's and S&P had not taken any rating action relating to SEB's credit ratings as a result of Covid-19.

Capital position

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

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

SEB's Common Equity Tier 1 (CET1) capital ratio was 16.8 per cent (17.6). SEB's applicable CET1 capital requirement per the end of the first quarter was 13.7 per cent (15.1), whereof the pillar 2 requirement was 3.5 per cent, including 2 per cent systemic risk. The main reason for the decreased CET 1 capital requirement was that the SFSA's countercyclical capital buffer requirement was lowered in response to the effects of the Covid-19 pandemic, from 2.5 to zero per cent. 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 310 basis points.

Risk exposure amount

SEK bn	
Balance 31 Dec 2019	746
Underlying credit risk change	24
- where of asset size	11
- where of asset quality	-2
- where of foreign exchange movements	15
Underlying market risk change	9
- where of CVA risk	2
Underlying operational risk change	0
Model updates, methodology & policy, other	3
- where of credit risk	3
Balance 31 Mar 2020	782

The total risk exposure amount (REA) increased by SEK 36bn to SEK 782bn, whereof SEK 27bn is related to credit risk. Credit volume growth and foreign exchange movements were the main contributors to the increase in credit risk REA. The impact on credit risk REA from model and methodology updates was an increase of SEK 2.5bn, of which SEK 2bn is related to securitisation exposures and the remainder is related to updated credit risk models in Lithuania. Market risk REA increased by SEK 9bn, mainly driven by an increase in VaR towards the end of the quarter.

In accordance with the SFSA's requirements, the additional REA related to the mortgage risk-weight floor was reclassified from a Pillar 2 to a Pillar 1 requirement per 31 December 2018. This REA amounted to SEK 98bn at the end of the first quarter (96).

Internally assessed capital requirement

As per 31 March 2020, the internally assessed capital requirement, including insurance risk, amounted to SEK 74bn (68). 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 70bn (65).

Business development

During the first quarter, we increasingly concentrated our efforts on supporting customers in matters related to the Covid-19 pandemic. At the same time, the ongoing process of sharpening our product and service offering as well as our processes continued, a selection of which is found below.

Advisory leadership

Our digitalisation and automation journey continued. Digital onboarding for sole proprietors was expanded to include limited joint-stock companies in the set-up phase. Around 1,000 applications were made during March. Similarly, the automatic credit decision function for household mortgage commitments was extended to include apartments in housing cooperations. Around 38 per cent of household mortgage commitments can now be processed digitally.

We strengthened our sustainability function by gathering all expertise within the bank and taking a comprehensive approach to sustainability from a strategic as well as a business perspective. The Chief Sustainability Officer will be an additional member of the Group Executive Committee.

We launched another sustainable alternative to our already existing occupational pension offering. Advice in the form of measuring the sustainability impact of the company's pension programmes coupled with a range of sustainable pension funds at discount rates are part of the offer. Also targeting businesses, SEB is piloting a sustainability program in collaboration with the audit and consulting company Grant Thornton, aiming to support medium-sized companies in developing sustainable business models.

In collaboration with issuers within the public as well as the private sector, including the World Bank, the Nordic Investment Bank and the medtech company Getinge, SEB has arranged – and provided our investing customers opportunities in – social and health bonds as well as commercial paper – all with the purpose of supporting those affected by Covid-19.

Reflecting our effort to deliver world-class service to our customers, SEB was ranked as number one by mid-corporates in Sweden in a customer satisfaction survey run by Prospera.

Operational excellence

SEB completed the replacement of its core banking system in the Baltic division, enabling all three countries to operate on the same technological platform and thus facilitating efficient and more customer-oriented products and services.

Using blockchain technology, we now offer corporate customers a predictable and reliable real-time solution for instant intra-company payments in Europe and the US.

Extended presence

Blockchain technology forms the basis for the open industry platform, Contour, which was recently launched in Singapore with the purpose of facilitating the relatively cumbersome processes of handling letters of credit within the trade finance industry. Contour is based on R3's Corda blockchain and was founded by SEB and six other global banks together with three service providers.

Furthermore, we entered – as the first bank – the collaborative initiative Nordic Smart Government, launched by the Nordic Ministers of Business. The initiative aims to simplify daily life for small and medium-sized companies by creating digital connections with governmental units via API structures.

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 31 March 2020, the cost target implies a cost level of around SEK 23.3bn 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 first quarter 2020 was negligible since average exchange rates in SEB's main currencies were virtually flat.

Compared with year-end 2019, the weaker Swedish krona increased loans to and deposits from the public by SEK 33bn and SEK 25bn, respectively. Total REA increased by SEK 16bn while the effect on total assets was SEK 56bn.

Uncertainties

The pandemic outbreak of the coronavirus 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 will be extensive in SEB's home markets. SEB's direct exposure to industry sectors that were immediately impacted as the outbreak reached the bank's home markets, such as hotels and restaurants, airlines, and tourism, is limited. However, wider effects are expected also in other sectors. At the same time, the recent oil price development is a challenge for the oil and gas industry.

The economic consequences of the pandemic are increasingly becoming more visible in terms of rising notices of unemployment, lower consumption, lower inflation expectations, and slower housing markets. As a result, sharp negative effects on GDP in 2020 are expected. Although medium to longer term effects are still uncertain, a recovery is expected in 2021. SEB will continuously assess the asset quality of its credit portfolio using several different scenarios for the pandemic and the economic development. The assessment includes the effects of the measures taken by governments and the full consequences on the economy. A model overlay on portfolio-level was made in the first quarter in light of the highly uncertain macroeconomic outlook and pressured oil prices. SEB continues to monitor the macroeconomic development and the impact on the asset quality in the coming quarters.

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 for all banks. The Swedish central bank does not currently forecast any change to its repo rate, which is currently zero per cent, until the end of 2022.

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. Anti-money laundering (AML) reviews are ongoing in several jurisdictions, including the Nordic and the Baltic countries. As part of its ongoing supervisory review, the SFSA has publicly stated that it has initiated a sanction evaluation process regarding SEB's governance and control of measures against money laundering in the bank's subsidiaries in the Baltic countries. The outcome of the sanction evaluation process to be communicated by the SFSA was postponed to June 2020. The outcome of this process is uncertain and could lead to sanctions.

Annual general meeting

The Annual General Meeting (AGM) was originally scheduled for 23 March 2020. Given the Covid-19 restrictions on events

and travels introduced by the authorities in Sweden, the board on 19 March 2020 postponed the AGM.

Also given Covid-19, the board's original dividend proposal for 2019 motivated by the bank's strong capital position as well as a solid financial result, needed to be reassessed given the global development and to the extent SEB's customers will need further financing and support. To ensure sufficient room for SEB to act in the interest of customers and shareholders, the board is analysing the situation before re-evaluating the dividend proposal for 2019.

The board has decided that the AGM will be held on 29 June 2020. SEB will publish an invitation to the AGM no later than four weeks prior to the new date in accordance with regular procedures.

Financial statements – SEB Group

Income statement, condensed

SEK m	Note	Q1			Jan–Mar			Full year 2019
		2020	2019	%	2020	2019	%	
Net interest income	2	6 201	5 930	5	6 201	5 345	16	22 950
Net fee and commission income	3	4 624	4 989	-7	4 624	4 292	8	18 709
Net financial income	4	- 804	2 822		- 804	2 118		7 617
Net other income		68	349	-81	68	153	-56	858
Total operating income		10 089	14 089	-28	10 089	11 907	-15	50 134
Staff costs		-3 619	-3 807	-5	-3 619	-3 633	0	-14 660
Other expenses		-1 598	-1 746	-8	-1 598	-1 590	0	-6 623
Depreciation, amortisation and impairment of tangible and intangible assets		- 429	- 474	-10	- 429	- 399	7	-1 662
Total operating expenses		-5 646	-6 026	-6	-5 646	-5 622	0	-22 945
Profit before credit losses		4 443	8 063	-45	4 443	6 285	-29	27 190
Gains less losses from tangible and intangible assets		0	- 3	-113	0	0		- 2
Net expected credit losses	5	-1 494	- 997	50	-1 494	- 422		-2 294
Operating profit		2 950	7 063	-58	2 950	5 864	-50	24 894
Income tax expense		- 595	-1 232	-52	- 595	-1 182	-50	-4 717
NET PROFIT		2 355	5 831	-60	2 355	4 681	-50	20 177
Attributable to shareholders of Skandinaviska Enskilda Banken AB		2 355	5 831	-60	2 355	4 681	-50	20 177
Basic earnings per share, SEK		1.09	2.70		1.09	2.16		9.33
Diluted earnings per share, SEK		1.08	2.68		1.08	2.15		9.28

Statement of comprehensive income

SEK m	Q1			Jan–Mar			Full year 2019
	2020	2019	%	2020	2019	%	
NET PROFIT	2 355	5 831	-60	2 355	4 681	-50	20 177
Cash flow hedges	- 51	58		- 51	- 173	-71	- 298
Translation of foreign operations	622	- 395		622	335	86	145
Items that may subsequently be reclassified to the income statement:	571	- 337		571	162		- 153
Own credit risk adjustment (OCA) ¹⁾	272	- 2		272	- 18		- 53
Defined benefit plans	-1 832	3 699		-1 832	- 595		1 366
Items that will not be reclassified to the income statement:	-1 560	3 697		-1 560	- 614	154	1 313
OTHER COMPREHENSIVE INCOME	- 989	3 360		- 989	- 452	119	1 160
TOTAL COMPREHENSIVE INCOME	1 366	9 191	-85	1 366	4 230	-68	21 336
Attributable to shareholders of Skandinaviska Enskilda Banken AB	1 366	9 191	-85	1 366	4 230	-68	21 336

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

Balance sheet, condensed

SEK m	31 Mar 2020	31 Dec 2019
Cash and cash balances at central banks	329 384	146 691
Loans to central banks	2 578	4 494
Loans to credit institutions ²⁾	58 830	46 995
Loans to the public	1 947 400	1 837 605
Debt securities	317 935	238 578
Equity instruments	62 028	78 482
Financial assets for which the customers bear the investment risk	277 416	316 776
Derivatives	225 482	139 427
Other assets	64 814	47 598
TOTAL ASSETS	3 285 866	2 856 648
Deposits from central banks and credit institutions	203 268	88 041
Deposits and borrowings from the public ¹⁾	1 336 827	1 161 485
Financial liabilities for which the customers bear the investment risk	278 974	317 574
Liabilities to policyholders	26 733	26 547
Debt securities issued	902 390	858 173
Short positions	33 202	27 343
Derivatives	187 964	122 192
Other financial liabilities	1 978	2 449
Other liabilities	157 357	97 144
Total liabilities	3 128 693	2 700 947
Equity	157 174	155 700
TOTAL LIABILITIES AND EQUITY	3 285 866	2 856 648

1) Deposits covered by deposit guarantees 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	Other reserves ¹⁾						Equity
	Share capital	OCA ²⁾	Cash flow hedges	Translation of foreign operations	Defined benefit plans	Retained earnings	
Jan-Mar 2020							
Opening balance	21 942	-339	15	-170	3 898	130 355	155 700
Net profit						2 355	2 355
Other comprehensive income (net of tax)		272	-51	622	-1 832		-989
Total comprehensive income		272	-51	622	-1 832	2 355	1 366
Equity-based programmes ⁴⁾						137	137
Change in holdings of own shares						-30	-30
Closing balance	21 942	-67	-36	452	2 066	132 817	157 174
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-Mar 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 2018	21 942	-286	313	-315	2 533	124 360	148 545
Net profit						4 681	4 681
Other comprehensive income (net of tax)		-18	-173	335	-595		-452
Total comprehensive income		-18	-173	335	-595	4 681	4 230
Dividend to shareholders						-14 069	-14 069
Equity-based programmes ⁴⁾						-214	-214
Change in holdings of own shares						-81	-81
Closing balance	21 942	-304	140	20	1 937	114 676	138 410

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-Mar 2020	Jan-Dec 2019	Jan-Mar 2019
Number of shares owned by SEB, million	2020	2019	2019
Opening balance	31.5	30.3	30.3
Repurchased shares for equity-based programmes	0.1	8.7	4.5
Sold/distributed shares	-2.9	-7.4	-3.4
Closing balance	28.7	31.5	31.3
Market value of shares owned by SEB, SEK m	1 926	2 774	2 523

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–Mar			Full year
	2020	2019	%	2019
Cash flow from the profit and loss statement	- 17 231	- 13 850	24	4 002
Increase (-)/decrease (+) in portfolios	- 64 723	- 54 363	19	- 100 712
Increase (+)/decrease (-) in issued short term securities	46 925	110 020	- 57	179 214
Increase (-)/decrease (+) in lending	- 116 764	- 84 047	39	- 168 396
Increase (+)/decrease (-) in deposits and borrowings	290 507	105 528	175	2 801
Increase/decrease in other balance sheet items	41 119	21 149	94	21 578
Cash flow from operating activities	179 832	84 438	113	- 61 513
Cash flow from investment activities	- 295	- 282	5	- 612
Cash flow from financing activities		- 14 069	- 100	- 5 227
Net increase in cash and cash equivalents	179 537	70 087	156	- 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	7 479	4 709	59	7 108
Net increase in cash and cash equivalents	179 537	70 087	156	- 67 352
Cash and cash equivalents at the end of period¹⁾	346 351	294 375	18	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

	Q1	Q4	Jan–Mar		Full year
	2020	2019	2020	2019	2019
Return on equity, %	6.0	15.5	6.0	12.7	13.7
Return on tangible equity, %	6.3	16.4	6.3	13.4	14.5
Return on total assets, %	0.3	0.8	0.3	0.7	0.7
Return on risk exposure amount, %	1.2	3.0	1.2	2.6	2.7
Cost/income ratio	0.56	0.43	0.56	0.47	0.46
Basic earnings per share, SEK	1.09	2.70	1.09	2.16	9.33
Weighted average number of shares ¹⁾ , millions	2 164	2 162	2 164	2 163	2 162
Diluted earnings per share, SEK	1.08	2.68	1.08	2.15	9.28
Weighted average number of diluted shares ²⁾ , millions	2 177	2 177	2 177	2 175	2 175
Net worth per share, SEK	78.09	78.42	78.09	70.54	78.42
Equity per share, SEK	72.58	71.99	72.58	64.00	71.99
Average shareholders' equity, SEK, billion	156.8	150.4	156.8	147.7	146.9
Net ECL level, %	0.25	0.18	0.25	0.08	0.10
Stage 3 Loans / Total Loans, gross, %	0.71	0.67	0.71	0.56	0.67
Stage 3 Loans / Total Loans, net, %	0.38	0.36	0.38	0.35	0.36
Liquidity Coverage Ratio (LCR) ³⁾ , %	176	218	176	160	218
<u>Own funds requirement, Basel III</u>					
Risk exposure amount, SEK m	781 687	745 637	781 687	739 047	745 637
Expressed as own funds requirement, SEK m	62 535	59 651	62 535	59 124	59 651
Common Equity Tier 1 capital ratio, %	16.8	17.6	16.8	17.1	17.6
Tier 1 capital ratio, %	18.7	20.8	18.7	19.2	20.8
Total capital ratio, %	21.2	23.3	21.2	21.7	23.3
Leverage ratio, %	4.3	5.1	4.3	4.6	5.1
Number of full time equivalents ⁴⁾	15 261	15 034	15 207	14 796	14 939
Assets under custody, SEK bn	8 992	10 428	8 992	8 475	10 428
Assets under management, SEK bn	1 758	2 041	1 758	1 790	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 60,206 shares and 2,893,089 shares have been sold. Thus, at 31 March 2020 SEB owned 28,666,438 Class A-shares with a market value of SEK 1,926m.

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 the 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	Q1	Q4	Q3	Q2	Q1
	2020	2019	2019	2019	2019
Net interest income	6 201	5 930	5 983	5 692	5 345
Net fee and commission income	4 624	4 989	4 693	4 735	4 292
Net financial income	- 804	2 822	1 196	1 482	2 118
Net other income	68	349	70	287	153
Total operating income	10 089	14 089	11 942	12 197	11 907
Staff costs	-3 619	-3 807	-3 603	-3 618	-3 633
Other expenses	-1 598	-1 746	-1 607	-1 680	-1 590
Depreciation, amortisation and impairment of tangible and intangible assets	- 429	- 474	- 379	- 410	- 399
Total operating expenses	-5 646	-6 026	-5 589	-5 708	-5 622
Profit before credit losses	4 443	8 063	6 353	6 489	6 285
Gains less losses from tangible and intangible assets	0	- 3	1	0	0
Net expected credit losses	-1 494	- 997	- 489	- 386	- 422
Operating profit	2 950	7 063	5 864	6 103	5 864
Income tax expense	- 595	-1 232	-1 092	-1 211	-1 182
NET PROFIT	2 355	5 831	4 772	4 892	4 681
Attributable to shareholders of Skandinaviska Enskilda Banken AB	2 355	5 831	4 772	4 892	4 681
Basic earnings per share, SEK	1.09	2.70	2.21	2.26	2.16
Diluted earnings per share, SEK	1.08	2.68	2.20	2.25	2.15

Business segments – SEB Group

Income statement by segment

Jan-Mar 2020, SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life	Investment Management & Group functions	Eliminations	SEB Group
Net interest income	2 664	3 002	849	-8	-276	-30	6 201
Net fee and commission income	1 674	1 315	399	605	607	25	4 624
Net financial income	-473	109	32	-118	-352	-3	-804
Net other income	-20	12	0	-5	82	-1	68
Total operating income	3 845	4 437	1 280	475	61	-9	10 089
Staff costs	-1 026	-874	-225	-220	-1 278	4	-3 619
Other expenses	-1 322	-970	-278	-184	1 150	5	-1 598
Depreciation, amortisation and impairment of tangible and intangible assets	-16	-19	-8	-6	-379		-429
Total operating expenses	-2 365	-1 863	-511	-410	-507	9	-5 646
Profit before credit losses	1 481	2 575	770	64	-446	0	4 443
Gains less losses from tangible and intangible assets	0	0	0		0		0
Net expected credit losses	-907	-519	-77	0	10	0	-1 494
Operating profit	574	2 055	693	64	-436	0	2 950

Jan-Mar 2019, SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life	Investment Management & Group functions	Eliminations	SEB Group
Net interest income	2 278	2 772	762	-3	-373	-90	5 345
Net fee and commission income	1 478	1 284	376	600	528	26	4 292
Net financial income	1 355	147	70	154	393	-1	2 118
Net other income	11	7	-1	51	94	-9	153
Total operating income	5 121	4 210	1 207	801	641	-74	11 907
Staff costs	-1 033	-872	-203	-218	-1 312	5	-3 633
Other expenses	-1 284	-961	-262	-172	1 020	69	-1 590
Depreciation, amortisation and impairment of tangible and intangible assets	-17	-14	-8	-5	-356		-399
Total operating expenses	-2 334	-1 846	-473	-395	-647	74	-5 622
Profit before credit losses	2 787	2 364	734	406	-6	0	6 285
Gains less losses from tangible and intangible assets	0		0		0		0
Net expected credit losses	-322	-71	-20	0	-2	-7	-422
Operating profit	2 465	2 293	715	406	-8	-7	5 864

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	Q1		%	Jan–Mar			Full year 2019
	2020	2019		2020	2019	%	
Net interest income	2 664	2 450	9	2 664	2 278	17	9 371
Net fee and commission income	1 674	1 824	-8	1 674	1 478	13	6 558
Net financial income	-473	1 434		-473	1 355		4 462
Net other income	-20	22		-20	11		221
Total operating income	3 845	5 730	-33	3 845	5 121	-25	20 613
Staff costs	-1 026	-1 170	-12	-1 026	-1 033	-1	-4 293
Other expenses	-1 322	-1 363	-3	-1 322	-1 284	3	-5 186
Depreciation, amortisation and impairment of tangible and intangible assets	-16	-17	-5	-16	-17	-4	-69
Total operating expenses	-2 365	-2 550	-7	-2 365	-2 334	1	-9 548
Profit before credit losses	1 481	3 180	-53	1 481	2 787	-47	11 065
Gains less losses from tangible and intangible assets	0	0	-84	0	0	-69	1
Net expected credit losses	-907	-879	3	-907	-322	182	-1 812
Operating profit	574	2 301	-75	574	2 465	-77	9 254
Cost/Income ratio	0.61	0.45		0.61	0.46		0.46
Business equity, SEK bn	69.0	69.3		69.0	63.8		67.9
Return on business equity, %	2.5	10.2		2.5	11.8		10.4
Number of full time equivalents ¹⁾	2 104	2 085		2 100	2 028		2 057

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

- Increased demand for traditional bank lending following the Covid-19 outbreak
- Elevated credit spreads affected the fair valuation of counterparty risk significantly
- Operating profit amounted to SEK 574m and return on business equity was 2.5 per cent

Comments on the quarter

The positive sentiment from 2019 continued into the first part of the quarter but changed rapidly with rising concerns about the consequences of the spread of Covid-19.

Large Corporate clients carefully monitored their liquidity positions and their demand for traditional bank lending increased. In addition, demand for cash management services was high. At the same time, customers were increasingly cautious which led to an increased need for hedging of currency and commodities exposures in particular. The economic uncertainty initially led to significantly lower activity in the capital markets as well as decreased volumes in mergers and acquisitions, however with an uptick towards the end of the quarter.

For the *Financial Institutions segment*, the year started with unexpected low client activity. The foreseen rate hikes did not materialise, and clients were cautious. Following the global outbreak of Covid-19, the financial market activity level was extremely high, with widening credit spreads, record volatility and large movements in currencies. Accordingly, clients hedged currency and interest rate risk to a greater extent. The overall equity market trend was to divest, but SEB's larger Nordic institutional clients were in general passive, waiting for markets to calm and prices to stabilise.

New allocations in alternative investments, such as infrastructure, were postponed due to the turmoil. However, demand for sustainable investments remained high. Assets under custody decreased to SEK 8,892bn (10,428), a consequence of the falling asset prices.

Operating income amounted to SEK 3,845m. Net interest income increased to SEK 2,664m from higher lending and deposit volumes, as well as a lower resolution fund fee. Net fee and commission income decreased to SEK 1,674m as a result of the lower capital markets and mergers and acquisitions activity. Net financial income decreased significantly and was negative, SEK -473m, mainly due to a significant change in credit spreads which affected the fair value credit adjustment¹⁾ negatively. However, Markets' underlying business contributed positively as volatility and customer activity was high during the quarter. Operating expenses decreased to SEK 2,365m. Net expected credit losses amounted to SEK 907m with a net expected credit loss level of 30 basis points, mainly as a result of the model overlay on portfolio level for oil-related exposures.

¹⁾ Unrealised valuation change from counterparty risk (CVA) and own credit risk standing in derivatives (DVA).

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	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Net interest income	3 002	2 669	12	3 002	2 772	8	3 002	2 772	8	10 721
Net fee and commission income	1 315	1 453	-9	1 315	1 284	2	1 315	1 284	2	5 546
Net financial income	109	122	-11	109	147	-26	109	147	-26	507
Net other income	12	8	43	12	7	74	12	7	74	25
Total operating income	4 437	4 253	4	4 437	4 210	5	4 437	4 210	5	16 798
Staff costs	-874	-843	4	-874	-872	0	-874	-872	0	-3 372
Other expenses	-970	-1 113	-13	-970	-961	1	-970	-961	1	-3 979
Depreciation, amortisation and impairment of tangible and intangible assets	-19	-17	14	-19	-14	40	-19	-14	40	-68
Total operating expenses	-1 863	-1 972	-6	-1 863	-1 846	1	-1 863	-1 846	1	-7 418
Profit before credit losses	2 575	2 280	13	2 575	2 364	9	2 575	2 364	9	9 380
Gains less losses from tangible and intangible assets	0	-3	-91	0			0			-4
Net expected credit losses	-519	-92		-519	-71		-519	-71		-393
Operating profit	2 055	2 185	-6	2 055	2 293	-10	2 055	2 293	-10	8 983
Cost/Income ratio	0.42	0.46		0.42	0.44		0.42	0.44		0.44
Business equity, SEK bn	45.9	44.6		45.9	45.0		45.9	45.0		44.9
Return on business equity, %	13.7	15.0		13.7	15.6		13.7	15.6		15.3
Number of full time equivalents ¹⁾	3 553	3 478		3 536	3 600		3 536	3 600		3 564

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

- Higher net expected credit losses related to the Covid-19 pandemic
- SEB was ranked as number one by mid-corporates in Sweden in Prospera's customer satisfaction survey
- Operating profit amounted to SEK 2,055m and return on business equity was 13.7 per cent

Comments on the quarter

Customer satisfaction for advisory services, as measured by Net Promoter Score (NPS) remained at high levels throughout the first quarter for Personal Banking customers while customer satisfaction decreased slightly for small and medium-sized companies.

Operating profit decreased by 6 per cent. Net interest income increased by 12 per cent or SEK 333m, driven by the repo rate increase, reduction of the resolution fund fee and deposit volume growth. Net fee and commission income decreased by 9 per cent due to lower transaction volumes within the card business, explained by seasonality between quarters as well as Covid-19 reducing card turnover, in particular in the corporate segment. This was partially offset by increased brokerage income. Total operating expenses decreased by 6 per cent, mainly due to the previous quarter having seasonally higher costs. Net expected credit losses increased significantly during the period and amounted to SEK 519m with a net expected credit loss level of 21 basis points. The increase is due to the model overlay on portfolio level for the corporate segment as a result of the macroeconomic uncertainties.

In the corporate segment, the net inflow of new full-service customers continued. Expanded engagements with existing customers combined with new customers contributed

to increased lending and deposit volumes, mainly driven by the small and medium-sized companies segment. The corporate lending increase of SEK 5bn was however fully offset by decreased credit card utilisation and corporate lending therefore decreased somewhat and amounted to SEK 252bn (253).

Among private customers, the mortgage business continued to grow, resulting in increased volumes but with a slightly lower net new sales market share compared with the previous quarter. Mortgage volumes grew by SEK 4bn and amounted to SEK 514bn. Mutual fund volumes decreased towards the end of the quarter while deposits increased more than seasonally expected. Within Private Banking the last month of the quarter was particularly characterised by high customer activity and decreasing assets under management related to the negative development in the stock markets.

In total, lending volumes increased by SEK 4bn to SEK 827bn. Deposits volumes grew by SEK 16bn and amounted to SEK 473bn.

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	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Net interest income	849	831	2	849	762	11	849	762	11	3 218
Net fee and commission income	399	426	-6	399	376	6	399	376	6	1 638
Net financial income	32	111	-71	32	70	-54	32	70	-54	321
Net other income	0	-4	-93	0	-1	-76	0	-1	-76	-8
Total operating income	1 280	1 364	-6	1 280	1 207	6	1 280	1 207	6	5 169
Staff costs	-225	-221	2	-225	-203	11	-225	-203	11	-856
Other expenses	-278	-310	-10	-278	-262	6	-278	-262	6	-1 123
Depreciation, amortisation and impairment of tangible and intangible assets	-8	-8	4	-8	-8	5	-8	-8	5	-30
Total operating expenses	-511	-539	-5	-511	-473	8	-511	-473	8	-2 009
Profit before credit losses	770	825	-7	770	734	5	770	734	5	3 159
Gains less losses from tangible and intangible assets	0	1	-62	0	0	49	0	0	49	2
Net expected credit losses	-77	-17		-77	-20		-77	-20		-58
Operating profit	693	810	-14	693	715	-3	693	715	-3	3 104
Cost/Income ratio	0.40	0.40		0.40	0.39		0.40	0.39		0.39
Business equity, SEK bn	13.3	11.0		13.3	10.5		13.3	10.5		10.8
Return on business equity, %	17.9	25.2		17.9	23.3		17.9	23.3		24.7
Number of full time equivalents ¹⁾	2 339	2 350		2 345	2 314		2 345	2 314		2 350

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

- Limited financial effect from the Covid-19 pandemic
- Increased corporate deposits as investments were realised
- Operating profit amounted to SEK 693m and return on business equity was 17.9 per cent

Comments on the quarter

The first quarter started on a positive note with a strong Baltic financial position. However, the Covid-19 pandemic appeared in March and restriction measures with a significant impact on sectors under quarantine were introduced.

In the private segment, increased mortgage lending led the stable portfolio growth in local currency, while the margin on new lending remained above the average of the portfolio. Usage of cards and payment products in the private segment was, however, affected by the reduced demand toward the end of the quarter. The usage of SEB's digital service offerings continued to increase, both in the number of video meetings and a higher share of sales transacted digitally.

Business volumes in the corporate segment increased slightly, and customers were cautious, while margins across the portfolio have stabilised.

Substantial effects from the Covid-19 pandemic on asset quality indicators have yet to materialise in the Baltic portfolios. Total lending volumes grew by 1 per cent in local currency in the first quarter and amounted to SEK 166bn (157). The steady growth in deposits continued in the private segment, while corporate customer deposits increased as their equity investments were realised. Total deposit volumes grew by 4 per cent in local currency in the first quarter and amounted to SEK 167bn (153).

Compared with the fourth quarter operating profit decreased by 14 per cent also in local currency, or by SEK 117m, to SEK 693m. Net interest income increased by 2 per cent in local currency due in part to higher lending volumes and expanded margins. Net fee and commission income was 6 per cent lower in local currency, due to the previous quarter's high seasonal activity, but also from decreased activity in the final weeks of the quarter as a result of the restrictions related to the Covid-19 pandemic.

Net financial income decreased by 71 per cent in local currency, due mostly to the decline in market valuations of government bonds in the Baltic treasuries' liquidity portfolios, in light of the general increase of credit spreads in the bond market resulting from the increased market volatility related to the Covid-19 pandemic.

Operating expenses were 5 per cent lower in local currency mainly due to the administrative fee, SEK 19m, in the previous quarter arising from the closure of the previously disclosed anti-money laundering review conducted by the Latvian Financial and Capital Market Commission.

Net expected credit losses in the quarter amounted to SEK 77m with a net expected credit loss level of 16 basis points. The increase is due to the model overlay on portfolio level as a result of the macroeconomic uncertainties.

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	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Net interest income	-8	-5	68	-8	-3	142	-8	-3	142	-16
Net fee and commission income	605	648	-7	605	600	1	605	600	1	2 531
Net financial income	-118	207		-118	154		-118	154		711
Net other income	-5	15		-5	51		-5	51		77
Total operating income	475	866	-45	475	801	-41	475	801	-41	3 304
Staff costs	-220	-221	-1	-220	-218	1	-220	-218	1	-860
Other expenses	-184	-183	1	-184	-172	7	-184	-172	7	-706
Depreciation, amortisation and impairment of tangible and intangible assets	-6	-5	6	-6	-5	10	-6	-5	10	-21
Total operating expenses	-410	-410	0	-410	-395	4	-410	-395	4	-1 587
Profit before credit losses	64	456	-86	64	406	-84	64	406	-84	1 716
Gains less losses from tangible and intangible assets										
Net expected credit losses	0	0		0	0	-10	0	0	-10	-1
Operating profit	64	456	-86	64	406	-84	64	406	-84	1 715
Cost/Income ratio	0.86	0.47		0.86	0.49		0.86	0.49		0.48
Business equity, SEK bn	5.5	5.4		5.5	5.4		5.5	5.4		5.4
Return on business equity, %	4.4	31.2		4.4	27.8		4.4	27.8		29.4
Number of full time equivalents ¹⁾	1 054	1 061		1 051	1 057		1 051	1 057		1 046

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

- Asset values and operating profit heavily affected by the Covid-19 pandemic causing adverse market movements
- Positive development in sales and premium income
- Operating profit amounted to SEK 64m and return on business equity was 4.4 per cent

Comments on the quarter

The Covid-19 pandemic had a significant impact on the financial markets and thereby on the asset values and operating profit of the division. Given the uncertainty and significant drop in market values, customers sought advisory services to a higher degree, but generally chose not to reallocate their investments.

Total assets under management for both the traditional and unit-linked insurance segments amounted to SEK 343bn (395), net of inflows, market value decrease and internal fund allocations.

Operating profit decreased by SEK 392m compared with the last quarter to SEK 64m. Net fee and commission income decreased by 7 per cent compared with the last quarter due to the lower asset values in the unit-linked business. Net financial income decreased from SEK 207m to SEK -118m. The volatility in the fixed income markets affected the income from traditional portfolios both in Sweden and the Baltic countries. The sickness and health insurance business was also affected by lower investment returns and increase in claims. Approximately SEK 277m of the decrease in income is an unrealised value adjustment.

The market share for the Swedish life insurance business increased, driven by strong performance from portfolio bond and collective occupational pension. SEB's market share, measured as premium income, increased to 8.1 per cent¹ in the last quarter of 2019, which was 0.6 percentage points higher than the previous quarter. Sales in the first quarter were up 29 per cent for the division compared with the first quarter last year mainly related to continued strong development of portfolio bond insurance and collective occupational pension in the Swedish market.

¹ Latest available markets statistics from the Swedish insurance trade association.

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	Q1		Q4		Jan–Mar			Full year
	2020	2019		%	2020	2019	%	2019
Net interest income	-276	-11			-276	-373	-26	-378
Net fee and commission income	607	659	-8		607	528	15	2392
Net financial income	-352	936			-352	393		1605
Net other income	82	309	-73		82	94	-12	554
Total operating income	61	1 892	-97		61	641	-90	4 173
Staff costs	-1 278	-1 355	-6		-1 278	-1 312	-3	-5 294
Other expenses	1 150	1 212	-5		1 150	1 020	13	4 465
Depreciation, amortisation and impairment of tangible and intangible assets	-379	-427	-11		-379	-356	7	-1 475
Total operating expenses	-507	-570	-11		-507	-647	-22	-2 304
Profit before credit losses	-446	1 322			-446	-6		1 869
Gains less losses from tangible and intangible assets	0	-1			0	0		-1
Net expected credit losses	10	-9			10	-2		-22
Operating profit	-436	1 311			-436	-8		1 846
Number of full time equivalents ¹⁾	6 210	6 061			6 176	5 797		5 922
SEB labelled mutual funds, SEK bn ²⁾	562	685			562	631		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's assets under management fulfilling SEB's sustainability criteria amounted to SEK 207bn
- Negative valuation effects primarily in Treasury and certain strategic holdings lowered net financial income
- Operating profit amounted to SEK-436m

Comments on the quarter

Investment Management and Group functions are reported combined but are distinctly different. Their combined operating profit of SEK -436m is best commented one by one.

Investment Management: The quarter started on a positive note but following the market turmoil towards the middle of the quarter in the wake of Covid-19, asset values decreased sharply, and SEB-labelled mutual funds decreased to SEK 562bn (685). Management of Baltic pension funds in the amount of SEK 34bn was moved to the Life division. Net sales for the quarter amounted to SEK -4bn and the value change amounted to SEK -85bn. Average assets under management for the quarter were slightly down compared with the previous quarter and as a consequence, base commissions amounted to SEK 528m, a 1 per cent decrease compared with the previous quarter. Assets under management fulfilling SEB's sustainability criteria amounted to SEK 207bn (256) representing 37 per cent of total SEB-labelled mutual funds.

Total operating income amounted to SEK 583m (584). Performance fees were flat compared with the fourth quarter, at SEK 46m. Operating expenses decreased by 6 per cent to SEK 229m. The decrease was mainly explained by lower staff costs than in the fourth quarter as well as seasonally lower expenses in the first quarter. Operating profit amounted to SEK 354m (337).

Treasury: Net interest income decreased in the first quarter compared with the fourth quarter 2019 primarily due to internal transfer pricing of deposits. Further, most of the effect from pre-financing of the 2014 USD 1.1bn AT1 bond to be called in May 2020 was reflected in net interest income. Net financial income was lower due to a significant turn-around in the mark-to-market valuation effect on swap hedges for funding purposes and own issued securities in the German run-off operations compared with the fourth quarter.

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 negative market valuation effects of SEK 703m on certain strategic holdings.

In other income, there was a realised capital gain relating to the sale of shares in LR Realkredit in the amount of SEK 259m in the fourth quarter 2019.

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	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Interest income ¹⁾	10 342	10 448	-1	10 342	9 949	4	10 342	9 949	4	41 722
Interest expense	-4 141	-4 518	-8	-4 141	-4 604	-10	-4 141	-4 604	-10	-18 772
Net interest income	6 201	5 930	5	6 201	5 345	16	6 201	5 345	16	22 950
1) Of which interest income calculated using the effective interest method	8 540	8 776	-3	8 540	8 592	-1	8 540	8 592	-1	35 217

Note 3 Net fee and commission income

SEK m	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Issue of securities and advisory services	251	470	-47	251	232	8	251	232	8	1 312
Secondary market and derivatives	622	519	20	622	523	19	622	523	19	2 047
Custody and mutual funds	1 996	2 036	-2	1 996	1 794	11	1 996	1 794	11	7 782
<i>Whereof performance fees</i>	51	42	21	51	12		51	12		121
Payments, cards, lending, deposits, guarantees and other	2 760	2 867	-4	2 760	2 705	2	2 760	2 705	2	11 293
<i>Whereof payments and card fees</i>	1 454	1 607	-10	1 454	1 483	-2	1 454	1 483	-2	6 299
<i>Whereof lending</i>	769	762	1	769	683	13	769	683	13	2 869
Life insurance commissions	381	425	-10	381	435	-12	381	435	-12	1 741
Fee and commission income	6 009	6 317	-5	6 009	5 690	6	6 009	5 690	6	24 176
Fee and commission expense	-1 385	-1 328	4	-1 385	-1 398	-1	-1 385	-1 398	-1	-5 467
Net fee and commission income	4 624	4 989	-7	4 624	4 292	8	4 624	4 292	8	18 709
<i>Whereof Net securities commissions</i>	2 079	2 283	-9	2 079	1 764	18	2 079	1 764	18	8 179
<i>Whereof Net payment and card fees</i>	896	1 080	-17	896	939	-5	896	939	-5	4 096
<i>Whereof Net life insurance commissions</i>	254	302	-16	254	282	-10	254	282	-10	1 198
<i>Whereof Other commissions</i>	1 395	1 325	5	1 395	1 307	7	1 395	1 307	7	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
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
Q4 2019							
Issue of securities and advisory	455	12	5	0	-2		470
Secondary market and derivatives	401	110	6	0	3	0	519
Custody and mutual funds	872	421	48	44	1 593	-941	2 036
Payments, cards, lending, deposits, guarantees and other	1 194	1 301	548	56	120	-352	2 867
Life insurance commissions				816		-391	425
Fee and commission income	2 920	1 844	606	916	1 715	-1 684	6 317
Jan-Mar 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-Mar 2019							
Issue of securities and advisory	224	3	4		0		232
Secondary market and derivatives	398	122	4	0	0	0	523
Custody and mutual funds	802	347	44	39	1 403	-842	1 794
Payments, cards, lending, deposits, guarantees and other	1 142	1 245	471	56	113	-322	2 705
Life insurance commissions				790		-355	435
Fee and commission income	2 566	1 717	524	885	1 517	-1 519	5 690

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	Q1		Q4		Jan–Mar			Full year
	2020	2019	%		2020	2019	%	2019
Equity instruments and related derivatives	-1 489	755			-1 489	838		2 628
Debt instruments and related derivatives	- 456	582			- 456	- 59		- 37
Currency and related derivatives	1 513	1 132	34		1 513	1 097	38	4 119
Other life insurance income, net	- 113	219			- 113	152		722
Other	- 259	134			- 259	89		185
Net financial income	- 804	2 822			- 804	2 118		7 617
<i>Whereof unrealized valuation changes from counterparty risk and own credit standing in derivatives</i>	<i>-1 282</i>	<i>267</i>			<i>-1 282</i>	<i>- 6</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 first quarter the effect from structured bonds offered to the public was approximately SEK -1 160m (Q4 2019: 345) in Equity related derivatives and a corresponding effect in Debt related derivatives SEK 1 455m (Q4 2019: -115).

Note 5 Net expected credit losses

SEK m	Q1		Q4		Jan–Mar			Full year
	2020	2019	%		2020	2019	%	2019
Impairment gains or losses - Stage 1	- 476	25			- 476	- 47		24
Impairment gains or losses - Stage 2	- 287	197			- 287	31		457
Impairment gains or losses - Stage 3	- 705	-1 189	-41		- 705	- 428	65	-2 777
Impairment gains or losses	-1 468	- 967	52		-1 468	- 444		-2 296
Write-offs and recoveries								
Total write-offs	- 226	- 288	-21		- 226	- 227	0	-1 113
Reversals of allowance for write-offs	154	195	-21		154	169	-9	845
Write-offs not previously provided for	- 72	- 92	-22		- 72	- 57	26	- 269
Recovered from previous write-offs	46	63	-26		46	79	-41	271
Net write-offs	- 25	- 30	-15		- 25	22		2
Net expected credit losses	-1 494	- 997	50		-1 494	- 422		-2 294
Net ECL level, %	0.25	0.18			0.25	0.08		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 9-11.

Note 6 Pledged assets and obligations

SEK m	31 Mar 2020	31 Dec 2019
Pledged assets for own liabilities ¹⁾	536 544	496 406
Pledged assets for liabilities to insurance policyholders	305 707	344 121
Other pledged assets ²⁾	129 294	91 477
Pledged assets	971 545	932 004
Contingent liabilities ³⁾	145 150	139 462
Commitments	637 328	638 348
Obligations	782 477	777 810

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

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

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

Note 7 Financial assets and liabilities

SEK m	31 Mar 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans ¹⁾	2 335 950	2 350 242	2 033 280	2 033 650
Debt securities	317 935	317 766	238 578	238 878
Equity instruments	62 028	62 028	78 482	78 482
Financial assets for which the customers bear the investment risk	277 416	277 416	316 776	316 776
Derivatives	225 482	225 482	139 427	139 427
Other	32 797	32 797	16 584	16 584
Financial assets	3 251 608	3 265 731	2 823 127	2 823 797
Deposits	1 540 096	1 539 096	1 249 526	1 248 839
Financial liabilities for which the customers bear the investment risk	278 974	278 974	317 574	317 574
Debt securities issued ²⁾	951 086	956 243	902 812	896 194
Short positions	33 202	33 202	27 343	27 343
Derivatives	187 964	187 964	122 192	122 192
Other	83 611	83 613	18 449	18 451
Financial liabilities	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 8 Assets and liabilities measured at fair value

SEK m	31 Mar 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		208 937		208 937		190 090		190 090
Debt securities	131 127	172 081		303 208	110 101	113 884	5	223 990
Equity instruments	45 779	1 977	14 272	62 028	59 029	6 403	13 050	78 482
Financial assets for which the customer bear the investment risk	271 280	5 514	622	277 416	308 909	7 236	631	316 776
Derivatives	2 452	222 439	591	225 482	1 006	137 943	478	139 427
Investment in associates ¹⁾	75		376	450	85		381	466
Total	450 713	610 947	15 861	1 077 520	479 130	455 557	14 544	949 231
Liabilities								
Deposits		39 950		39 950		15 103		15 103
Financial liabilities for which the customer bear the investment risk	272 922	5 440	612	278 974	309 772	7 178	625	317 574
Liabilities to policyholders - insurance	25 489	1 244		26 733	25 399	1 147		26 547
Debt securities issued		12 399		12 399		20 207		20 207
Short positions	26 072	7 129		33 202	25 634	1 669	41	27 343
Derivatives	1 533	185 999	433	187 964	1 554	120 296	342	122 192
Other financial liabilities at fair value	64	1 914		1 978	44	2 405		2 449
Total	326 079	254 076	1 045	581 200	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 counterparties 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 8, 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	Gain/loss in	Purchases	Sales	Settle- ments	Transfers	Transfers	Exchange	Closing balance
	1 Jan		Income	Other				into	out of	rate	
	2020		statement ¹⁾	compre- hensive income				Level 3	Level 3	differences	2020
Assets											
Debt securities	5					-5				1	0
Equity instruments	13 050		298		1 181	-396				139	14 272
Financial assets for which the customer bear the investment risk	631		19		3	-9			-54	32	622
Derivatives	478		12		96		5				591
Investment in associates	381		-26		21						376
Total	14 544		303		1 301	-410	5		-54	172	15 861
Liabilities											
Financial liabilities for which the customer bear the investment risk	625		19			-8			-54	30	612
Short positions	41		-31		-9					-1	
Derivatives	342		-36			96	30			1	433
Total	1 008		-48		-9	88	30		-54	30	1 045

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	31 Mar 2020				31 Dec 2019			
	Assets	Liabilities	Net	Sensitivity	Assets	Liabilities	Net	Sensitivity
Derivative instruments ¹⁾²⁾⁵⁾	591	-435	158	33	478	-342	136	36
Equity instruments ³⁾⁶⁾⁷⁾	3 073		3 073	615	3 187	-40	3 147	632
Insurance holdings - Financial instruments ⁴⁾⁵⁾⁷⁾⁸⁾	11 278		11 278	1 288	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) Sensitivity from a shift of SEK denominated Bermudan swaption Vega exposures grouped by option maturities.

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 (10), distressed debt and structured credits 15 are applied.

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 9 Exposure and expected credit loss (ECL) allowances by stage

SEK m	31 Mar 2020	31 Dec 2019
Stage 1 (12-month ECL)		
Debt securities	14 728	14 589
Loans ¹⁾	1 738 616	1 623 030
Financial guarantees and Loan commitments	638 327	636 447
Gross carrying amounts/Nominal amounts Stage 1	2 391 671	2 274 066
Debt securities	-1	-1
Loans ¹⁾	-1 035	-643
Financial guarantees and Loan commitments	-290	-189
ECL allowances Stage 1	-1 326	-832
Debt securities	14 727	14 588
Loans ¹⁾	1 737 581	1 622 387
Financial guarantees and Loan commitments	638 037	636 258
Carrying amounts/Net amounts Stage 1	2 390 345	2 273 234
Stage 2 (lifetime ECL)		
Loans ¹⁾²⁾	69 372	72 459
Financial guarantees and Loan commitments	16 256	13 900
Gross carrying amounts/Nominal amounts Stage 2	85 629	86 360
Loans ¹⁾²⁾	-1 288	-1 058
Financial guarantees and Loan commitments	-203	-127
ECL allowances Stage 2	-1 491	-1 185
Loans ¹⁾²⁾	68 085	71 401
Financial guarantees and Loan commitments	16 053	13 773
Carrying amounts/Net amounts Stage 2	84 138	85 174
Stage 3 (credit impaired/lifetime ECL)		
Loans ¹⁾³⁾	12 890	11 396
Financial guarantees and Loan commitments ³⁾	457	441
Gross carrying amounts/Nominal amounts Stage 3	13 347	11 836
Loans ¹⁾³⁾	-5 999	-5 211
Financial guarantees and Loan commitments ³⁾	-91	-138
ECL allowances Stage 3	-6 090	-5 349
Loans ¹⁾³⁾	6 891	6 184
Financial guarantees and Loan commitments ³⁾	366	303
Carrying amounts/Net amounts Stage 3	7 256	6 487

The note continues on the next page.

Note 9, continued. Exposure and expected credit loss (ECL) allowances by stage

SEK m	31 Mar 2020	31 Dec 2019
Total		
Debt securities	14 728	14 589
Loans ¹⁾²⁾³⁾	1 820 878	1 706 885
Financial guarantees and Loan commitments ³⁾	655 040	650 788
Gross carrying amounts/Nominal amounts	2 490 646	2 372 262
Debt securities	-1	-1
Loans ¹⁾²⁾³⁾	-8 321	-6 912
Financial guarantees and Loan commitments ³⁾	-584	-454
ECL allowances	-8 907	-7 367
Debt securities	14 727	14 588
Loans ¹⁾²⁾³⁾	1 812 556	1 699 972
Financial guarantees and Loan commitments ³⁾	654 456	650 335
Carrying amounts/Net amounts	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 1,316m (1,372) and ECL allowances SEK 2m (2) under Lifetime ECLs -simplified approach for trade receivables.

3) Whereof gross carrying amounts SEK 2,509m (2,309) and ECL allowances SEK 1,222m (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, %	0.71	0.67
Stage 3 loans / Total loans, net, %	0.38	0.36
ECL coverage ratio Stage 1, %	0.06	0.04
ECL coverage ratio Stage 2, %	1.74	1.37
ECL coverage ratio Stage 3, %	45.63	45.19
ECL coverage ratio, %	0.36	0.31

The increase in ECL allowances seen in Stage 1 and 2 reflects the model overlay made in light of macroeconomic uncertainties and a low oil price.

The increase in Stage 1 exposure was driven by new lending volumes and currency effects, while there was a decrease in exposures in Stage 2 because of a migration to Stage 3 due to credit quality deterioration in a few large arrangements. Stage 3 exposures and ECL allowances were higher primarily from changes in credit risk and currency effects.

The SFSA considers exemptions from amortisation requirements for mortgages and payment reliefs for small and mid-sized firms to be measures that can be viewed as general moratoria which do not trigger increased allowances under EBA's guidelines. As of 14 April 2020, the SFSA allows banks to grant exemptions to the amortisation requirements for both new and existing mortgages in Sweden to promote greater financial flexibility in the current uncertain times.

Note 10 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	94	-126	230	197
Changes due to change in credit risk	290	330	525	1 145
Changes due to modifications		10	0	10
Changes due to methodology change	-4	-1	0	-5
Decreases in ECL allowances due to write-offs			-154	-154
Exchange rate differences	13	16	187	216
ECL allowance as of 31 March 2020	1 036	1 288	5 999	8 323
Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2019	189	127	138	454
New and derecognised financial assets, net	15	-4	-6	6
Changes due to change in credit risk	82	78	-44	115
Changes due to modifications				
Changes due to methodology change	0			0
Decreases in ECL allowances due to write-offs				
Exchange rate differences	5	2	3	10
ECL allowance as of 31 March 2020	290	203	91	584
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	109	-130	224	203
Changes due to change in credit risk	372	408	481	1 260
Changes due to modifications		10	0	10
Changes due to methodology change	-4	-1	0	-5
Decreases in ECL allowances due to write-offs			-154	-154
Exchange rate differences	17	18	190	225
ECL allowance as of 31 March 2020	1 326	1 491	6 090	8 907

Note 11 Loans and expected credit loss (ECL) allowances by industry

SEK m	Gross carrying amounts				ECL allowances				Net carrying amount
	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)	Total	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)	Total	Total
31 Mar 2020									
Banks	110 586	1 571	3	112 159	-5	-2	0	-7	112 152
Finance and insurance	130 808	715	48	131 572	-45	-9	-6	-59	131 512
Wholesale and retail	80 516	2 852	1 034	84 403	-94	-60	-709	-863	83 539
Transportation	37 131	574	66	37 771	-32	-17	-12	-62	37 709
Shipping	59 123	1 795	2 033	62 952	-27	-17	-777	-821	62 131
Business and household services	150 074	7 338	1 992	159 404	-232	-215	-994	-1 441	157 963
Construction	14 096	984	224	15 304	-21	-22	-76	-119	15 185
Manufacturing	96 526	3 474	2 736	102 736	-88	-52	-1 298	-1 438	101 298
Agriculture, forestry and fishing	20 370	1 402	170	21 943	-13	-9	-41	-63	21 880
Mining, oil and gas extraction	25 950	6 303	1 452	33 705	-37	-391	-714	-1 142	32 564
Electricity, gas and water supply	46 703	759	222	47 684	-26	-44	-84	-153	47 531
Other	40 201	3 534	91	43 826	-43	-37	-49	-129	43 697
Corporates	701 498	29 731	10 070	741 299	-659	-871	-4 760	-6 290	735 009
Commercial real estate management	158 638	2 204	363	161 205	-62	-22	-129	-213	160 992
Residential real estate management	120 150	1 543	41	121 735	-52	-2	-1	-55	121 679
Real Estate Management	278 789	3 748	404	282 940	-115	-24	-130	-269	282 671
Housing co-operative associations	53 363	7 465	7	60 834	0	0	-2	-3	60 832
Public Administration	20 407	199	55	20 661	-1	-3	-3	-6	20 655
Household mortgages	534 475	22 497	1 146	558 117	-58	-138	-367	-564	557 554
Other	39 498	4 162	1 206	44 866	-196	-250	-736	-1 182	43 684
Households	573 973	26 659	2 352	602 984	-254	-388	-1 104	-1 746	601 238
TOTAL	1 738 616	69 372	12 890	1 820 878	-1 035	-1 288	-5 999	-8 321	1 812 556
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 12 Capital adequacy analysis

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

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

Note 13 Own funds

SEK m	31 Mar 2020	31 Dec 2019
Shareholders equity according to balance sheet ¹⁾	157 174	155 700
Deductions related to the consolidated situation and other foreseeable charges	-15 913	-14 075
Common Equity Tier 1 capital before regulatory adjustments ²⁾	141 261	141 626
Additional value adjustments	-1 915	-1 033
Intangible assets	-6 674	-6 688
Deferred tax assets that rely on future profitability	-6	
Fair value reserves related to gains or losses on cash flow hedges	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	-474	19
Defined-benefit pension fund assets	-748	-1 761
Direct and indirect holdings of own CET1 instruments	-134	-176
Total regulatory adjustments to Common Equity Tier 1	-9 915	-10 471
Common Equity Tier 1 capital	131 346	131 155
Additional Tier 1 instruments ³⁾	15 043	24 243
Tier 1 capital	146 388	155 398
Tier 2 instruments	20 341	19 326
Net provisioning amount for IRB-reported exposures	472	309
Holdings of Tier 2 instruments in financial sector entities	-1 650	-1 650
Tier 2 capital	19 164	17 985
Total own funds	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⁾ 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).

³⁾ 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.

Note 14 Risk exposure amount

SEK m	31 Mar 2020		31 Dec 2019	
	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	13 942	1 115	12 283	983
Exposures to institutions	58 414	4 673	54 421	4 354
Exposures to corporates	390 814	31 265	369 055	29 524
Retail exposures	66 683	5 335	67 255	5 380
of which secured by immovable property	40 930	3 274	39 616	3 169
of which retail SME	5 867	469	7 094	567
of which other retail exposures	19 885	1 591	20 546	1 644
Securitisation positions	2 217	177	1 195	96
Total IRB approach	532 071	42 566	504 210	40 337
Credit risk standardised approach				
Exposures to central governments or central banks	259	21	1 361	109
Exposures to institutions	902	72	1 057	85
Exposures to corporates	6 576	526	6 505	520
Retail exposures	13 804	1 104	13 691	1 095
Exposures secured by mortgages on immovable property	2 092	167	2 278	182
Exposures in default	80	6	82	7
Exposures associated with particularly high risk	963	77	933	75
Exposures in the form of collective investment undertakings (CIU)	54	4	58	5
Equity exposures	4 038	323	3 589	287
Other items	10 105	808	10 735	859
Total standardised approach	38 873	3 110	40 290	3 223
Market risk				
Trading book exposures where internal models are applied	24 573	1 966	21 195	1 696
Trading book exposures applying standardised approaches	11 255	900	6 913	553
Total market risk	35 827	2 866	28 107	2 249
Other own funds requirements				
Operational risk advanced measurement approach	47 227	3 778	47 444	3 796
Settlement risk	40	3	0	0
Credit value adjustment	9 486	759	7 932	635
Investment in insurance business	16 633	1 331	16 633	1 331
Other exposures	3 981	318	4 870	390
Additional risk exposure amount ²⁾	97 550	7 804	96 151	7 692
Total other own funds requirements	174 916	13 993	173 030	13 842
Total	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 15 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	31 Mar 2020	31 Dec 2019
Exposures to central governments or central banks	2.6%	3.7%
Exposures to institutions	23.7%	24.9%
Exposures to corporates	30.4%	30.2%
Retail exposures	10.1%	10.3%
of which secured by immovable property	7.0%	6.9%
of which retail SME	53.1%	57.3%
of which other retail exposures	31.9%	31.8%
Securitisation positions	18.1%	9.6%

Skandinaviska Enskilda Banken AB (publ) – parent company

Income statement

In accordance with FSA regulations SEK m	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
Interest income	8 806	8 744	1	8 806	8 337	6	8 806	8 337	6	34 826
Leasing income	1 390	1 459	-5	1 390	1 424	-2	1 390	1 424	-2	5 792
Interest expense	-3 909	-4 213	-7	-3 909	-4 248	-8	-3 909	-4 248	-8	-17 217
Dividends	2	748		2	2 698		2	2 698		5 168
Fee and commission income	3 590	3 585	0	3 590	3 161	14	3 590	3 161	14	13 544
Fee and commission expense	-884	-750	18	-884	-799	11	-884	-799	11	-3 083
Net financial income	-351	2 182		-351	1 580		-351	1 580		5 838
Other income	218	540	-60	218	400	-45	218	400	-45	1 762
Total operating income	8 863	12 296	-28	8 863	12 552	-29	8 863	12 552	-29	46 631
Administrative expenses	-4 024	-4 345	-7	-4 024	-4 042	0	-4 024	-4 042	0	-16 345
Depreciation, amortisation and impairment of tangible and intangible assets	-1 438	-1 464	-2	-1 438	-1 409	2	-1 438	-1 409	2	-5 749
Total operating expenses	-5 462	-5 809	-6	-5 462	-5 451	0	-5 462	-5 451	0	-22 094
Profit before credit losses	3 401	6 487	-48	3 401	7 101	-52	3 401	7 101	-52	24 537
Net expected credit losses	-1 402	-901	56	-1 402	-357		-1 402	-357		-2 044
Impairment of financial assets	-220			-220	-315	-30	-220	-315	-30	-741
Operating profit	1 779	5 586	-68	1 779	6 429	-72	1 779	6 429	-72	21 752
Appropriations	238	1 520	-84	238	320	-26	238	320	-26	2 694
Income tax expense	-242	-1 657	-85	-242	-866	-72	-242	-866	-72	-4 189
Other taxes	115	52	119	115	0		115	0		48
NET PROFIT	1 890	5 501	-66	1 890	5 883	-68	1 890	5 883	-68	20 305

Statement of comprehensive income

SEK m	Q1			Q4			Jan–Mar			Full year
	2020	2019	%	2020	2019	%	2020	2019	%	2019
NET PROFIT	1 890	5 501	-66	1 890	5 883	-68	1 890	5 883	-68	20 305
Cash flow hedges	-51	58		-51	-173	-71	-51	-173	-71	-298
Translation of foreign operations	-53	-9		-53	29		-53	29		33
Items that may subsequently be reclassified to the income statement:	-104	50		-104	-144	-28	-104	-144	-28	-265
OTHER COMPREHENSIVE INCOME	-104	50		-104	-144	-28	-104	-144	-28	-265
TOTAL COMPREHENSIVE INCOME	1 786	5 550	-68	1 786	5 739	-69	1 786	5 739	-69	20 040

Balance sheet, condensed

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

Pledged assets and obligations

SEK m	31 Mar 2020	31 Dec 2019
Pledged assets for own liabilities	528 954	486 823
Other pledged assets	125 626	86 088
Pledged assets	654 580	572 911
Contingent liabilities	151 372	146 166
Commitments	579 183	578 619
Obligations	730 555	724 786

Capital adequacy

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

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

Signature of the President

The President declares that this financial report for the period 1 January 2020 through 31 March 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, 29 April 2020

Johan Torgeby
President and Chief Executive Officer

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 31 March 2020 and for the three-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, 29 April 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 29 April 2020 at a conference call which can be accessed by telephone at +44 (0)203 0095710. Please quote conference id: 1577074 and call in at least 10 minutes in advance.

All communication events are virtual this time.

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. The conference can be followed live on sebgroupp.com/ir where a replay will also be available afterwards.

Financial information calendar 2020

29 June 2020	Annual General Meeting
15 July 2020	Quarterly Report January-June 2020
22 October 2020	Quarterly Report January-September 2020

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

Further information is available from:

Masih Yazdi, Chief Financial Officer
Tel: +46 771 621 000
Christoffer Geijer, Head of Investor Relations
Tel: +46 70 762 10 06
Frank Hojem, Head of Corporate Communication
Tel: +46 70 763 99 47

Skandinaviska Enskilda Banken AB (publ.)

SE-106 40 Stockholm, Sweden
Tel: +46 771 621 000
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/ir.

Notice will be distributed at least four weeks ahead
The silent period starts on 1 July 2020
The silent period starts on 1 October 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.