

The background of the cover is a photograph of a construction site. In the foreground, a tall yellow tower crane is positioned diagonally, extending from the bottom right towards the top left. The crane's lattice structure is clearly visible against a clear blue sky. In the upper portion of the image, the skeletal framework of a modern building is visible, featuring a complex network of white steel beams and blue-tinted glass panels. The overall scene conveys a sense of active construction and modern architecture.

Interim Report

January–June 2019

STOCKHOLM 12 JULY 2019

SEB

Interim report – the second quarter 2019

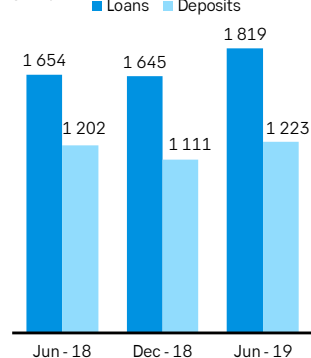
In brief

- High client activity with broad-based demand for lending and capital market financing
- Increased net new volumes of Swedish household mortgages
- Equity markets and seasonally higher payment and card activity raised commission income
- Lower contribution from SEB's Markets business due to the flattened yield curves

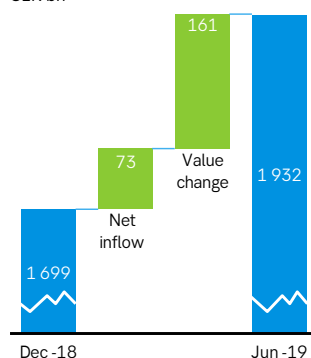
SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Total operating income	12 197	11 907	2	11 903	2	24 103	22 690	6	45 868	
Total operating expenses	-5 708	-5 622	2	-5 527	3	-11 329	-10 957	3	-21 940	
Net expected credit losses	- 386	- 422	-9	- 221	74	- 808	- 330	145	-1 166	
Operating profit before items affecting comparability	6 103	5 864	4	6 167	-1	11 967	11 424	5	22 779	
Operating profit	6 103	5 864	4	10 674	-43	11 967	15 930	-25	27 285	
NET PROFIT	4 892	4 681	4	10 024	-51	9 573	14 019	-32	23 134	
Return on equity, %	13.9	12.7		29.7		13.2	20.4		16.3	
Return on equity excluding items affecting comparability, %	13.9	12.8		16.4		13.2	13.8		13.4	
Basic earnings per share, SEK	2.26	2.16		4.63		4.43	6.48		10.69	

Volumes and key ratios

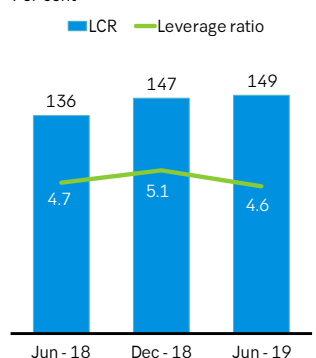
Loans to and deposits from the public
SEK bn



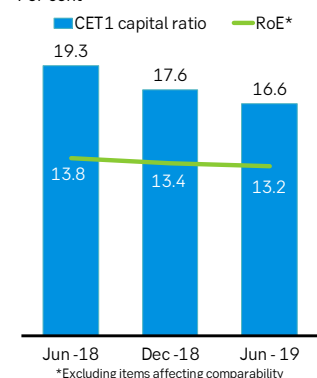
Assets under management
SEK bn



Liquidity coverage & Leverage ratios
Per cent



CET 1 capital ratio & Return on equity
Per cent



President's comment

Trade and political uncertainties remained high on the agenda of investors and businesses during the first half of the year, while market sentiment and economic data continued to diverge. German government bond yields reached record low levels and the US yield curve inverted, while equity markets recovered following signals from central banks of continued expansionary financial conditions. Markets currently expect the US to cut its policy rate before year-end, while the Swedish central bank recently left the repo rate and its projections unchanged.

High corporate and private customer activity in the first six months of the year

The financial performance in our division Large Corporates & Financial Institutions was driven by high corporate activity, which resulted in demand for advisory services and capital markets financing. We continue to see business opportunities in the ongoing structural transformation of the energy sector as well as the development of new digital business models. SEB's Markets business had an exceptionally strong first quarter, while financial performance in the second quarter was normalised due to the flattening yield curves. Going forward, the pipeline for lending and investment banking activity continues to look promising. However, in the longer term we consider visibility to be somewhat reduced due to the uncertain macroeconomic environment.

The division Corporate & Private Customers experienced another quarter with strong financial performance combined with record-high levels of customer satisfaction. Demand for lending remained solid among our corporate customers and SEB continued to grow its market share. For the first time in many years, we also increased our market share in household mortgages in the second quarter. Competition remains intense but margins on new sales have stabilised since the sharp decline that followed the decision by the Swedish central bank in December to hike the repo rate. Net inflows of assets under management in Private Banking were positive, while net inflows from private and corporate customers remained subdued.

Focused initiatives to meet fierce competition

The Swedish insurance market continued to grow during the first half of the year, but with competition and margin pressure intensifying. SEB's Life division recorded increasing new sales, however below the market growth rate. In order for us to grow this business in line with our ambition, we will continue to leverage the bancassurance model to further strengthen our advisory and cross-selling capabilities.

In the Investment Management division, financial performance was driven by higher market values, which mitigated the re-allocation from actively to passively managed funds with lower margins. We continuously develop our offering in line with customer demand and as part of this work we enhanced the sustainability profile of our funds. Currently, 34 per cent of assets under management in our SEB-labelled funds are managed with sustainability criteria.

Sound business momentum in the Baltics

Private and corporate customer activity remained high in our Baltic division throughout the first half of the year, thus contributing to growth in lending volumes as well as increasing margins. The development of digital products and services continued, and is being appreciated by our customers. The number of advisory meetings with screen sharing increased significantly and we see continuous growth in digital sales.

To sum up, SEB's diversified business model remained favourable. The operating profit before items affecting comparability increased by 5 per cent compared with the same period last year, while return on equity reached 13.2 per cent. Asset quality was high with net expected credit losses at 0.07 per cent. Our strong capital position, combined with high liquidity, continue to provide the financial strength needed to support our customers going forward.

Fundamental to our financial strength is the trust from our customers and stakeholders. Therefore, we continuously invest to maintain the highest standards of corporate governance, compliance and risk management. Our call for new collaborative initiatives to fight financial crime earlier this year was well received and the Swedish Bankers' Association is now driving this initiative forward on behalf of its members. Together with a number of Nordic banks, we have also taken an initiative to establish a common platform to improve and simplify the know-your-customer processes. I am convinced that closer collaboration between banks, regulators and law enforcement authorities is essential for society, to safeguard trust in the financial system.



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The first six months

Operating profit before items affecting comparability increased by SEK 543m, 5 per cent, and amounted to SEK 11,967m (11,424). There were no *items affecting comparability* in the first six months 2019, but in 2018 such items amounted to SEK 4,506m (note 6). *Net profit* amounted to SEK 9,573m (14,019).

Operating income

Total operating income increased by SEK 1,413m, 6 per cent, compared with the first six months 2018 and amounted to SEK 24,103m (22,690).

Net interest income amounted to SEK 11,037m, which represented an increase of 5 per cent year-on-year (10,488).

SEK m	Jan-Jun		Change %
	2019	2018	
Customer-driven NII	12 604	11 273	12
NII from other activities	-1 567	-785	100
Total	11 037	10 488	5

Customer-driven net interest income includes the net interest income derived from loans to and deposits from the public and in addition reflects an internal funding element. Customer-driven net interest income increased by SEK 1,331m year-on-year. There was a positive lending volume effect, which however was offset by negative lending margins. The Swedish repo rate increased in the beginning of the year and the compensation for deposits from treasury was higher. This led to a positive deposit margin effect.

Net interest income from other activities (including for instance funding and other treasury activities, trading and regulatory fees) was SEK 782m lower year-on-year. The main reason was treasury's compensation for deposits. Applying IFRS 16, the new accounting rules for leases, increased interest expense by SEK 45m. Regulatory fees, including both resolution fund and deposit guarantee fees, were SEK 219m lower year-on-year and amounted to SEK 1,026m (1,245). In 2019, the resolution fund fee was reduced to 0.09 per cent from 0.125 for 2018 (see page 10).

Net fee and commission income was slightly higher than the first six months 2018 and amounted to SEK 9,026m (9,005). The high activity level in mergers and acquisitions among corporate customers in the fourth quarter 2018 continued into the first half of 2019. Compared with the first half-year 2018, gross fees from the issuance of securities and advisory services increased by SEK 82m. Gross fee income from

custody and mutual funds, excluding performance fees, decreased by SEK 242m year-on-year (see note 3). The equity and fixed income markets gradually recovered from the sharp decline in the fourth quarter 2018 and volumes increased. However, the income was impacted by the product mix and lower margin income on primarily assets under management. Performance fees increased by SEK 39m compared with the first half-year 2018. Net payment and card fees increased by 6 per cent year-on-year to SEK 1,997m (1,883). Gross lending fees increased by SEK 135m year-on-year as loan volumes increased. The net life insurance commissions related to the unit-linked insurance business decreased by SEK 78m compared with the first half of 2018. The decrease was mainly due to the divestment of SEB Pension in the 2018 (see note 6, Items affecting comparability).

Net financial income increased by 18 per cent to SEK 3,600m (3,062). Both companies and financial institutions were active in managing their risks and investment portfolios especially in the earlier part of the year when market volatility was higher. There were also positive market valuation effects while the effect in the fair value credit adjustment¹⁾ was negative. This adjustment amounted to SEK -108m (-53). Other life insurance income, net, decreased by SEK 320m to SEK 353m year-on-year. The decrease of 48 per cent compared with the first half of 2018 is mainly due to the divestment of SEB Pension (see note 6).

Net other income increased to SEK 440m (136). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item.

Operating expenses

Total operating expenses increased by 3 per cent to 11,329m (10,957).

Staff costs increased by 3 per cent due to the strategic initiatives, salary inflation and accruals for variable long-term remuneration. The average number of full-time equivalents increased to 14,852 (14,751 for the full-year 2018). IFRS 16 effects decreased other expenses and increased depreciation costs. Ordinary supervisory fees amounted to SEK 81m (76).

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.

Comparative numbers (in parenthesis throughout the report):

The result for the first six months 2019 are compared with the first six months 2018.

The result for the second quarter 2019 is compared with the first quarter 2019.

Business segments comparisons year-to-date 2019 are made to year-to-date 2018.

Business volumes are compared with year-end 2018, unless otherwise stated.

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.

Net expected credit losses

Net expected credit losses remained low and amounted to SEK 808m (330). Asset quality remained high and the net expected credit loss level was continued low at 7 basis points.

Items affecting comparability

There were no *items affecting comparability* in the first half of 2019. In the corresponding period 2018, items affecting comparability amounted to SEK 4,506m (see note 6).

Income tax expense

Income tax expense amounted to SEK 2,394m (1,911) with an effective tax rate of 20 per cent (12). As per 1 January 2019, the Swedish corporate tax rate decreased from 22 to 21.4 per cent, which had a small effect on SEB's effective tax rate.

Return on equity

Return on equity for the first half of 2019 was 13.2 per cent (20.4). Excluding items affecting comparability return on equity for the first six months 2018 was 13.8 per cent.

Other comprehensive income

Other comprehensive income amounted to SEK -689m (39).

The value of SEB's pension plan assets exceeded the defined benefit obligations to the employees. The discount rate used for the pension obligation in Sweden was 1.2 per cent (2.0 at year-end 2018) and the pension obligation increased. The net value of the defined benefit pension plan assets and liabilities decreased which affected other comprehensive income by SEK -861m (-445).

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 263m (384).

The second quarter

Operating profit increased by SEK 240m, 4 per cent, and amounted to SEK 6,103m (5,864). *Net profit* amounted to SEK 4,892m (4,681). Compared with the second quarter 2018, the *operating profit before items affecting comparability* decreased by 1 per cent and *operating profit* decreased by 43 per cent. *Items affecting comparability* amounting to SEK 4,506m were included in the 2018 result.

Operating income

Total operating income increased by SEK 290m, 2 per cent, compared with the first quarter 2019 and amounted to SEK 12,197m (11,907). *Operating income* increased by 2 per cent also compared with the second quarter 2018.

Net interest income amounted to SEK 5,692m, which represented an increase of 6 per cent compared with the first quarter (5,345) and an increase of 3 per cent year-on-year.

	Q2	Q1	Q2
SEK m	2019	2019	2018
Customer-driven NII	6 238	6 366	5 805
NII from other activities	-546	-1 021	-305
Total	5 692	5 345	5 500

Customer-driven net interest income decreased by SEK 128m compared with the first quarter 2019. A positive lending volume effect was partially offset by negative lending margins. Deposit margins decreased, primarily driven by lower compensation for deposits from treasury in the second quarter. There was an opposite effect in net interest income from other activities, i.e. treasury, which improved by SEK 475m. Regulatory fees, including both resolution fund and deposit guarantee fees, were SEK 59m higher than the first quarter and amounted to SEK 542m (484). The main reason for the increase was that the National Debt Office charged a higher than anticipated amount due to a risk adjustment to the resolution fund fee.

Net fee and commission income increased by 10 per cent from the first quarter and amounted to SEK 4,735m (4,292). Year-on-year, net fee and commission income decreased by 2 per cent. The high activity level in mergers and acquisitions in the first quarter continued in the second quarter and gross fees from the issuance of securities and advisory services increased by SEK 52m. Gross fee income from custody and mutual funds, excluding performance fees, increased by SEK 137m, driven by higher equity markets. Performance fees increased by SEK 44m. Net payment and card fees increased by 13 per cent in the second quarter when customer activity was seasonally high. Gross lending fees increased by SEK 54m as loan volumes increased. Compared with the exceptionally strong second quarter 2018, gross lending fees were down by SEK 47m. The net life insurance commissions related to the unit-linked insurance business increased by 8 per cent compared with the first quarter 2019. The decrease of 13 per cent year-on-year is mainly due to the divestment of SEB Pension (see note 6).

Net financial income decreased by 30 per cent to SEK 1,482m (2,118) and decreased by 8 per cent year-on-year. In the first quarter 2019, both corporate and institutional customer activity levels and market valuations were unusually favourable, which normalised in the second quarter. The fair

value credit adjustment¹⁾ amounted to SEK -102m versus -6m in the first quarter. On the other hand, other life insurance income, net, improved by 31 per cent quarter on quarter, to SEK 200m. The decrease of 57 per cent compared with the second quarter 2018 is mainly due to the divestment of SEB Pension (see note 6).

Net other income increased by 88 per cent to SEK 287m (153). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item.

Operating expenses

Total operating expenses increased by 2 per cent to SEK 5,708m (5,622). Compared with the second quarter 2018, operating expenses increased by 3 per cent.

Staff costs levelled out and were virtually unchanged from the first quarter. Other expenses increased by 6 per cent partially due to higher IT-related costs. Ordinary supervisory fees amounted to SEK 41m (40).

Net expected credit losses

Net expected credit losses remained low and amounted to SEK 386m (422). Asset quality remained high and the net expected credit loss level was continued low at 7 basis points.

Items affecting comparability

There were no *items affecting comparability* in the second quarter 2019. See note 6 for information on items affecting comparability from prior periods.

Income tax expense

Income tax expense amounted to SEK 1,211m (1,182) with an effective tax rate of 20 per cent (20).

Return on equity

Return on equity for the second quarter 2019 improved to 13.9 per cent (12.7).

Other comprehensive income

Other comprehensive income amounted to SEK -237m (-452).

The value of SEB's pension plan assets exceeded the defined benefit obligations to the employees. The discount rate used for the pension obligation in Sweden was 1.2 per cent (2.0 at year-end 2018) and the pension obligation increased. The net value of the defined benefit pension plan assets and liabilities decreased which affected other comprehensive income by SEK -265m (-595).

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 101m (162).

Business volumes

Total assets at 30 June 2019 amounted to SEK 2,912bn, representing an increase of SEK 345bn since year-end (2,568).

Loans

SEK bn	30 Jun	31 Dec	30 Jun
	2019	2018	2018
General governments	18	19	25
Financial corporations	77	68	80
Non-financial corporations	862	806	812
Households	614	598	591
Collateral margin	65	56	50
Reverse repos	182	98	96
Loans to the public	1 819	1 645	1 654

Loans to the public increased by SEK 174bn since year-end 2018 (1,645) and amounted to SEK 1,819bn. Loans to non-financial corporations increased by SEK 56bn while household lending increased by SEK 16bn. While reverse repos increased significantly, these volumes are generally short-term in nature.

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

Deposits and borrowings

SEK bn	30 Jun	31 Dec	30 Jun
	2019	2018	2018
General governments	32	27	40
Financial corporations	252	226	297
Non-financial corporations	483	461	438
Households	342	323	318
Collateral margin	53	49	53
Repos	46	3	31
Registered bonds	15	21	26
Deposits and borrowings from the public	1 223	1 111	1 202

Deposits and borrowings from the public increased by SEK 112bn to SEK 1,223bn (1,111). Deposits from non-financial corporations and households increased by SEK 41bn in 2019, from an unusually low level at year-end. Deposits from financial corporations as well as repos, both generally short-term in nature, increased by SEK 69bn in 2019.

Assets under management and custody

Total assets under management amounted to SEK 1,932bn (1,699). The market value increased by SEK 161bn when the stock markets recovered after the strong downturn in the fourth quarter 2018. The net inflow of assets since year-end amounted to SEK 73bn.

Assets under custody increased compared with year-end and amounted to SEK 8,704bn (7,734). The increase was mainly driven by the stock market appreciation.

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.

Business development

A number of transformative actions and initiatives are underway within each of the focus areas in SEB's business plan.

Advisory leadership

Customers increasingly demand products with a sustainability profile and sustainability is an integral part of SEB's strategy. SEB enhanced the profile of its largest mutual fund where the investments of SEK 4.1bn will conform to SEB's sustainability criteria. The fund will also search for investments in companies that work to decrease the climate impact. SEB launched, in cooperation with the asset manager Lyxor, a fund investing in companies aiming to solve global challenges. Customers have so far invested around USD 100m in the fund that focuses on selected UN sustainable development goals. Further, SEB now offers green car leasing where customers in Sweden take advantage of better terms when leasing a biogas or electric car.

Other improvements within SEB's customer-related services include an upgrade of SEB Private Banking's philanthropy and foundation offering. The new holistic offering includes strategic advice, assistance in finding suitable projects and follow-up to ensure that the customers' engagement is as meaningful as possible.

Operational excellence

SEB, together with other Nordic banks, established a joint venture company to develop a Nordic platform with standardised processes for handling KYC (know-your-customer) data. The European Commission approved the set-up from an EU merger control perspective. The goal is to improve the corporate customer experience through more efficient KYC processes while strengthening financial crime prevention – such as money laundering and terrorist financing – in the Nordic countries.

A step forward was taken in another joint initiative between major Nordic banks, the P27 Nordic Payments Platform, when Mastercard entered as a partner. The ambition is to build a common infrastructure and payments platform for Nordic currencies in order to offer a cost efficient real-time payment solution. This will simplify cross-border payments and promote trade among the Nordic countries.

Extended presence

SEB's business plan includes providing products and services directly in customers' digital ecosystems. SEB is participating as the only bank in the EU-sponsored research project Productive 4.0, which aims to optimise industrial processes. SEB is testing how bank services can be a part of industrial processes in the future. For instance, can the same infrastructure that registers that a product has landed at a factory send micro-payments or micro-invoices via the bank?

SEB's partnership with the enterprise resource planning system provider PE Accounting was further developed. For instance, in August corporate customers' cash management and financial information will improve significantly when an option is launched to obtain transaction information every 15 minutes rather than the previous standard, once per day.

Risk, capital and uncertainties

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 2018 (see page 44-49 and notes 41 and 42), in the Capital Adequacy and Risk Management Report for 2018 as well as the quarterly additional Pillar 3 disclosures and the Fact Book.

Credit risk

SEK bn	30 Jun	31 Dec	30 Jun
	2019	2018	2018
Banks	114	93	109
Corporates	1 223	1 146	1 135
Commercial real estate management	190	186	190
Residential real estate management	121	110	109
Housing co-operative associations Sweden	63	63	62
Public administration	63	55	63
Household mortgage	580	552	550
Household other	89	87	90
Total credit portfolio	2 443	2 292	2 309

Certain balances in the credit portfolio disclosure were reclassified during the first quarter 2019 to better reflect the portfolio characteristics. Historic information has been restated. The geographic split of the credit portfolio as presented in the Fact Book is now based on SEB's operations which matches where profits are reported. Furthermore, collateral margin is reflected based on an exposure-at-default amount rather than a nominal amount and repos are now included, also based on an exposure-at-default value.

SEB's credit portfolio, which includes loans, contingencies and derivatives, increased by SEK 151bn to SEK 2,443bn (2,292). The corporate credit portfolio increased by SEK 77bn, or 7 per cent. The FX-adjusted corporate growth was 4 per cent. The household credit portfolio increased by SEK 30bn and commercial and residential real estate management increased by SEK 15bn.

Credit-impaired loans, gross (stage 3) increased since year-end by SEK 2,780m to SEK 10,938m. The gross credit-impaired loans were 0.64 per cent of total loans.

Market risk

SEB's business model is mainly driven by customer demand. Value-at-Risk (VaR) in the trading book increased and average ten-day VaR in the second quarter was SEK 114m versus SEK 93m in the first quarter. 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.

The increase in VaR in the quarter was mainly driven by higher exposures in both interest rates and currencies.

Liquidity and long-term funding

Short-term funding, in the form of commercial paper and certificates of deposit, increased by SEK 146bn since year-end 2018.

SEK 79bn of long-term funding matured during the first half of 2019 (of which SEK 52bn covered bonds and SEK 28bn senior debt). New issuance during the first six months amounted to SEK 67bn (of which SEK 46bn was covered bonds and SEK 20bn senior preferred debt).

The liquid assets defined according to the EU delegated act with regard to liquidity coverage requirements amounted to SEK 464bn at 30 June 2019 (403). The Liquidity Coverage Ratio (LCR) must be at least 100 per cent. At the end of the quarter, the LCR was 149 per cent (147).

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 107 per cent (110).

Rating

Moody's rates SEB's long-term senior unsecured debt at Aa2 with a stable outlook reflecting SEB's asset quality and solid capitalisation underpinned by strong earnings generation capacity and good profitability.

Fitch rates SEB's long-term senior unsecured debt at AA- with a stable outlook. The rating is based on SEB's strong capital and leverage ratios, sound asset quality and healthy liquidity profile.

S&P rates SEB's long-term senior unsecured debt at A+ with a stable outlook. The rating is based on the bank's leading corporate franchise, strong capitalisation underpinned by stable earnings and sound asset quality.

Capital position

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

	30 Jun	31 Dec	30 Jun
Own funds requirement, Basel III	2019	2018	2018
Risk exposure amount, SEK bn	764	716	637
Common Equity Tier 1 capital ratio, %	16.6	17.6	19.3
Tier 1 capital ratio, %	18.7	19.7	21.7
Total capital ratio, %	21.1	22.2	24.7
Leverage ratio, %	4.6	5.1	4.7

SEB's Common Equity Tier 1 (CET1) capital ratio was 16.6 per cent (17.6). The implementation of IFRS 16 (in the first quarter) lowered the CET 1 ratio by 15 basis points, all else equal.

SEB's estimate of the full Pillar 1 and 2 CET1 capital requirements – where the Pillar 2 requirements were calculated according to the methods set by the Swedish Financial Supervisory Authority (SFSA) – was 14.7 per cent per the end of the period (14.9). The bank aims to have a buffer of around 150 basis points above the capital requirement. The buffer shall cover sensitivity to currency fluctuations, sensitivity in the surplus of the Swedish pension plan as well as general macroeconomic uncertainties. Currently, the buffer is 190 basis points.

Risk exposure amount

SEK bn	YTD
Balance 31 Dec 2018	716
Asset size	15
Asset quality	1
Foreign exchange movements	12
Model updates, methodology & policy, other	5
Underlying market and operational risk changes	14
- where of market risk	14
- where of operational risk	1
- where of CVA risk	-1
Balance 30 Jun 2019	764

Total REA increased by SEK 47bn to SEK 764bn since year-end 2018. Foreign exchange movements and increased credit volumes contributed to higher credit risk REA. Credit risk REA also increased by SEK 5bn primarily due to the implementation of IFRS16 Leases (model updates, methodology & policy, other). Market risk REA increased in the second quarter mainly as a consequence of the development in the interest rate markets.

In accordance with SFSA 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 95bn at the end of the period (92 at year-end).

Internally assessed capital requirement

As per 30 June 2019, the internally assessed capital requirement, including insurance risk, amounted to SEK 69bn (67). 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 66bn (62).

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 FX-rates. The pace of investments will be dependent on progress and will be gradually ramped up over the coming three years. The strategic initiatives are expected to lead to both improved revenue growth and cost efficiencies, improving return on equity over time.

Resolution fund fee requirement change

Swedish authorities decided that the resolution fund fee for 2019 shall be reduced from 0.125 to 0.09 per cent applied to the adjusted 2017 balance sheet volumes. The fee will be reduced to 0.05 per cent from 2020 up until the resolution fund target is met. The fund target level, proposed to represent 3 per cent of guaranteed deposits in Sweden, is expected to be reached by the year 2021.

Currency effects

Compared with the first quarter 2019, operating income would have been SEK 87m lower with unchanged currency exchange rates while operating expenses would have been SEK 41m lower for the same period.

Compared with the first six months 2018, operating income would have been SEK 325m lower with unchanged currency exchange rates while operating expenses would have been SEK 148m lower for the same period.

Compared with year-end the positive currency effect on loans to and deposits from the public was SEK 22bn and 18bn, respectively. Total REA reflects a SEK 12bn positive currency effect while total assets were SEK 39bn higher.

Uncertainties

Global growth turned less positive in the first half of 2019. The large global economic imbalances and geopolitical as well as trade uncertainties remain. The potential reduction of liquidity support to financial markets from central banks worldwide may create direct and indirect effects that are difficult to assess. Based on signals from the Swedish Central Bank, SEB does not currently forecast any change in the Swedish repo rate this year. There has been a gradual stabilisation in the Swedish residential real estate market. However, there is an oversupply of unsold newly constructed apartments in the main cities that may put pressure on prices.

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.

Financial statements – SEB Group

Income statement, condensed

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Net interest income ¹⁾	5 692	5 345	6	5 500	3	11 037	10 488	5	21 022	
Net fee and commission income	4 735	4 292	10	4 814	-2	9 026	9 005	0	18 364	
Net financial income	1 482	2 118	-30	1 606	-8	3 600	3 062	18	6 079	
Net other income	287	153	88	-18		440	136		402	
Total operating income	12 197	11 907	2	11 903	2	24 103	22 690	6	45 868	
Staff costs	-3 618	-3 633	0	-3 547	2	-7 250	-7 064	3	-14 004	
Other expenses ¹⁾	-1 680	-1 590	6	-1 797	-7	-3 270	-3 529	-7	-7 201	
Depreciation, amortisation and impairment of tangible and intangible assets ¹⁾	-410	-399	3	-183	124	-809	-364	122	-735	
Total operating expenses	-5 708	-5 622	2	-5 527	3	-11 329	-10 957	3	-21 940	
Profit before credit losses	6 489	6 285	3	6 376	2	12 774	11 733	9	23 928	
Gains less losses from tangible and intangible assets	0	0	-83	13	-99	1	21	-97	18	
Net expected credit losses	-386	-422	-9	-221	74	-808	-330	145	-1 166	
Operating profit before items affecting comparability	6 103	5 864	4	6 167	-1	11 967	11 424	5	22 779	
Items affecting comparability				4 506	-100		4 506	-100	4 506	
Operating profit	6 103	5 864	4	10 674	-43	11 967	15 930	-25	27 285	
Income tax expense	-1 211	-1 182	2	-649	87	-2 394	-1 911	25	-4 152	
NET PROFIT	4 892	4 681	4	10 024	-51	9 573	14 019	-32	23 134	
Attributable to shareholders	4 892	4 681	4	10 024	-51	9 573	14 019	-32	23 134	
1) IFRS 16 Leases is applied from 1 January 2019. The group has decided to apply the modified retrospective approach (no restatement made). Interest expense on lease liabilities and depreciation of right-of-use assets are replacing nearly all lease costs for premises from 2019.										
Basic earnings per share, SEK	2.26	2.16		4.63		4.43	6.48		10.69	
Diluted earnings per share, SEK	2.25	2.15		4.61		4.40	6.44		10.63	

Statement of comprehensive income

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
NET PROFIT	4 892	4 681	4	10 024	-51	9 573	14 019	-32	23 134	
Cash flow hedges	- 156	- 173	-10	- 300	-48	- 329	- 559	-41	- 880	
Translation of foreign operations	257	335	-23	103	149	592	943	-37	582	
Items that may subsequently be reclassified to the income statement:	101	162	-37	-197	-151	263	384	-31	- 298	
Own credit risk adjustment (OCA) ¹⁾	- 73	- 18		88	-183	- 92	100		221	
Defined benefit plans	- 265	- 595	-55	- 739	-64	- 861	- 445	93	- 846	
Items that will not be reclassified to the income statement:	- 339	- 614	-45	- 651	-48	- 952	- 345	176	- 625	
OTHER COMPREHENSIVE INCOME	- 237	- 452	-47	- 848	-72	- 689	39		- 923	
TOTAL COMPREHENSIVE INCOME	4 655	4 230	10	9 176	-49	8 884	14 058	-37	22 211	
Attributable to shareholders	4 655	4 230	10	9 176	-49	8 884	14 058	-37	22 211	

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

Balance sheet, condensed

	30 Jun	1 Jan ³⁾	31 Dec	30 Jun
SEK m	2019	2019	2018	2018
Cash and cash balances at central banks	157 967	209 115	209 115	302 064
Loans to central banks	6 936	33 294	33 294	13 089
Loans to credit institutions ²⁾	73 557	44 287	44 287	59 250
Loans to the public	1 819 010	1 644 825	1 644 825	1 654 460
Debt securities	279 639	156 128	156 128	234 176
Equity instruments	75 480	50 434	50 434	59 487
Financial assets for which the customers bear the investment risk	299 956	269 613	269 613	295 762
Derivatives	129 485	115 463	115 463	142 568
Other assets ³⁾	70 329	50 296	44 357	57 888
TOTAL ASSETS	2 912 358	2 573 455	2 567 516	2 818 746
Deposits from central banks and credit institutions	125 417	135 719	135 719	145 519
Deposits and borrowings from the public ¹⁾	1 222 671	1 111 390	1 111 390	1 202 453
Financial liabilities for which the customers bear the investment risk	300 765	270 556	270 556	296 697
Liabilities to policyholders	24 876	21 846	21 846	20 889
Debt securities issued	818 388	680 670	680 670	745 371
Short positions	57 423	23 144	23 144	41 681
Derivatives	105 184	96 872	96 872	119 139
Other financial liabilities	3 866	3 613	3 613	4 398
Other liabilities ³⁾	110 961	81 099	74 916	102 142
Total liabilities	2 769 551	2 424 910	2 418 727	2 678 290
Equity	142 807	148 545	148 789	140 456
TOTAL LIABILITIES AND EQUITY	2 912 358	2 573 455	2 567 516	2 818 746

1) Deposits covered by deposit guarantees 307 011 292 238 292 238 284 401

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

3) IFRS 16 Leases is applied from 1 January 2019. The group has decided to apply the modified retrospective approach (i.e. no restatement made). Right-of-use assets are included in Other assets and lease liabilities are included in Other liabilities from 2019. Increase in Other assets at 1 January 2019 stems from an increase in Right-of-use assets SEK 5,747m, Deferred tax assets SEK 51m and Other assets SEK 141m. Increase in Other liabilities at 1 January is a result of an increase in Lease liabilities SEK 6,337m offset by decreases in Provisions SEK 122m and Other liabilities SEK 32m.

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

Statement of changes in equity

SEK m	Available-for-sale financial assets		Other reserves ¹⁾			Retained earnings	Equity	
	Share capital		OCA ²⁾	Cash flow hedges	Translation of foreign operations			Defined benefit plans
Jan-Jun 2019								
Opening balance	21 942		-286	313	-315	2 533	124 604	148 789
Effect of applying IFRS 16 ³⁾							-244	-244
Restated balance at 1 January 2019	21 942		-286	313	-315	2 533	124 360	148 545
Net profit							9 573	9 573
Other comprehensive income (net of tax)			-92	-329	592	-861		-689
Total comprehensive income			-92	-329	592	-861	9 573	8 884
Dividend to shareholders							-14 069	-14 069
Equity-based programmes ⁵⁾							-523	-523
Change in holdings of own shares							-30	-30
Closing balance	21 942		-378	-16	277	1 672	119 310	142 807
Jan-Dec 2018								
Opening balance	21 942	729		1 192	-897	3 379	114 893	141 237
Effect of applying IFRS 9 ⁴⁾		-729	-507				-1 160	-2 396
Restated balance at 1 January 2018	21 942		-507	1 192	-897	3 379	113 732	138 841
Net profit							23 134	23 134
Other comprehensive income (net of tax)			221	-880	582	-846		-923
Total comprehensive income			221	-880	582	-846	23 134	22 211
Dividend to shareholders							-12 459	-12 459
Equity-based programmes ⁵⁾							-111	-111
Change in holdings of own shares							307	307
Closing balance	21 942		-286	313	-315	2 533	124 604	148 789
Jan-Jun 2018								
Opening balance	21 942	729		1 192	-897	3 379	114 893	141 237
Effect of applying IFRS 9 ⁴⁾		-729	-507				-1 160	-2 396
Restated balance at 1 January 2018	21 942		-507	1 192	-897	3 379	113 732	138 841
Net profit							14 019	14 019
Other comprehensive income (net of tax)			100	-559	943	-445		39
Total comprehensive income			100	-559	943	-445	14 019	14 058
Dividend to shareholders							-12 459	-12 459
Equity-based programmes ⁵⁾							-199	-199
Change in holdings of own shares							215	215
Closing balance	21 942		-407	633	46	2 934	115 308	140 456

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) IFRS 9 Financial Instruments is applied from 1 January 2018. Opening balance 2018 has been restated in fourth quarter 2018 with a positive amount of SEK 884m.

5) Number of shares owned by SEB:

	Jan-Jun 2019	Jan-Dec 2018	Jan-Jun 2018
Number of shares owned by SEB, million			
Opening balance	30.3	27.1	27.1
Repurchased shares for equity-based programmes	8.7	6.9	6.6
Sold/distributed shares	-5.1	-3.8	-2.7
Closing balance	33.9	30.3	31.0
Market value of shares owned by SEB, SEK m	2 911	2 607	2 642

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

Cash flow statement, condensed

SEK m	Jan–Jun			Full year
	2019	2018	%	2018
Cash flow from operating activities	- 35 112	117 446	- 130	28 259
Cash flow from investment activities	- 6 074	7 344	- 183	7 014
Cash flow from financing activities	- 14 069	- 12 459	13	- 12 459
Net increase in cash and cash equivalents	- 55 255	112 331	- 149	22 814
Cash and cash equivalents at the beginning of year	219 579	184 429	19	184 429
Exchange rate differences on cash and cash equivalents	7 015	13 884	- 49	12 336
Net increase in cash and cash equivalents	- 55 255	112 331	- 149	22 814
Cash and cash equivalents at the end of period¹⁾	171 339	310 644	- 45	219 579

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

Key figures

	Q2	Q1	Q2	Jan–Jun		Full year
	2019	2019	2018	2019	2018	2018
Return on equity, %	13.9	12.7	29.7	13.2	20.4	16.3
Return on equity excluding items affecting comparability ¹⁾ , %	13.9	12.8	16.4	13.2	13.8	13.4
Return on total assets, %	0.7	0.7	1.4	0.7	1.0	0.8
Return on risk exposure amount, %	2.6	2.6	6.4	2.6	4.5	3.7
Cost/income ratio	0.47	0.47	0.46	0.47	0.48	0.48
Basic earnings per share, SEK	2.26	2.16	4.63	4.43	6.48	10.69
Weighted average number of shares ²⁾ , millions	2 161	2 163	2 164	2 162	2 165	2 164
Diluted earnings per share, SEK	2.25	2.15	4.61	4.40	6.44	10.63
Weighted average number of diluted shares ³⁾ , millions	2 172	2 175	2 176	2 174	2 177	2 177
Net worth per share, SEK	72.78	70.54	72.37	72.78	72.37	74.74
Equity per share, SEK	66.11	64.00	64.93	66.11	64.93	68.76
Average shareholders' equity, SEK, billion	141.2	147.7	135.2	145.3	137.6	141.6
Net ECL level, %	0.07	0.08	0.04	0.07	0.03	0.06
Stage 3 Loans / Total Loans, gross, %	0.64	0.56	0.51	0.64	0.51	0.50
Stage 3 Loans / Total Loans, net, %	0.41	0.35	0.31	0.41	0.31	0.30
Liquidity Coverage Ratio (LCR) ⁴⁾ , %	149	160	136	149	136	147
<u>Own funds requirement, Basel III</u>						
Risk exposure amount, SEK m	763 519	739 047	637 037	763 519	637 037	716 498
Expressed as own funds requirement, SEK m	61 082	59 124	50 963	61 082	50 963	57 320
Common Equity Tier 1 capital ratio, %	16.6	17.1	19.3	16.6	19.3	17.6
Tier 1 capital ratio, %	18.7	19.2	21.7	18.7	21.7	19.7
Total capital ratio, %	21.1	21.7	24.7	21.1	24.7	22.2
Leverage ratio, %	4.6	4.6	4.7	4.6	4.7	5.1
Number of full time equivalents ⁵⁾	14 988	14 804	14 695	14 852	14 818	14 751
Assets under custody, SEK bn	8 704	8 475	8 169	8 704	8 169	7 734
Assets under management, SEK bn	1 932	1 790	1 838	1 932	1 838	1 699

1) Sale of SEB Pension and UC AB in Q2 2018.

2) The number of issued shares was 2,194,171,802. SEB owned 30,276,332 Class A shares for the equity based programmes at year-end 2018. During 2019 SEB has purchased 8,657,889 shares and 5,057,888 shares have been sold. Thus, at 30 June 2019 SEB owned 33,876,333 Class A-shares with a market value of SEK 2,911m.

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

4) In accordance with the EU delegated act.

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

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

Income statement on a quarterly basis

SEK m	Q2	Q1	Q4	Q3	Q2
	2019	2019	2018	2018	2018
Net interest income ¹⁾	5 692	5 345	5 215	5 319	5 500
Net fee and commission income	4 735	4 292	4 848	4 512	4 814
Net financial income	1 482	2 118	1 512	1 506	1 606
Net other income	287	153	169	97	-18
Total operating income	12 197	11 907	11 744	11 433	11 903
Staff costs	-3 618	-3 633	-3 382	-3 559	-3 547
Other expenses ¹⁾	-1 680	-1 590	-1 991	-1 681	-1 797
Depreciation, amortisation and impairment of tangible and intangible assets ¹⁾	-410	-399	-188	-182	-183
Total operating expenses	-5 708	-5 622	-5 561	-5 421	-5 527
Profit before credit losses	6 489	6 285	6 183	6 012	6 376
Gains less losses from tangible and intangible assets	0	0	-2	-1	13
Net expected credit losses	-386	-422	-413	-424	-221
Operating profit before items affecting comparability	6 103	5 864	5 768	5 587	6 167
Items affecting comparability					4 506
Operating profit	6 103	5 864	5 768	5 587	10 674
Income tax expense	-1 211	-1 182	-1 192	-1 048	-649
NET PROFIT	4 892	4 681	4 576	4 539	10 024
Attributable to shareholders	4 892	4 681	4 576	4 539	10 024
1) IFRS 16 Leases is applied from 1 January 2019. The group has decided to apply the modified retrospective approach (no restatement made). Interest expense on lease liabilities and depreciation of right-of-use assets are replacing nearly all lease costs for premises from 2019.					
Basic earnings per share, SEK	2.26	2.16	2.12	2.10	4.63
Diluted earnings per share, SEK	2.25	2.15	2.10	2.09	4.61

Operating segments

Income statement by segment

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

1) Investment Management & Group functions consists of Investment Management, business support, treasury, staff units and German run-off operations. As previously communicated, on 1 January 2019 SEB reorganised its operations by splitting the division Life & Investment Management into two separate divisions. The Life division is presented on a stand-alone basis. The Investment Management division is combined and reported with group functions as one segment. Earlier periods have been restated in the segment information.

Large Corporates & Financial Institutions

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

Income statement

SEK m	Q2			Q1			Q2			Jan–Jun			Full year 2018
	2019	2019	%	2018	%	2019	2018	%	2019	2018	%		
Net interest income	2 201	2 278	-3	2 283	-4	4 479	4 021	11	8 211				
Net fee and commission income	1 644	1 478	11	1 814	-9	3 122	3 187	-2	6 433				
Net financial income	921	1 355	-32	766	20	2 275	1 710	33	3 384				
Net other income	237	11		34		248	80		309				
Total operating income	5 003	5 121	-2	4 897	2	10 124	8 997	13	18 337				
Staff costs	-1 056	-1 033	2	-898	18	-2 089	-1 812	15	-3 858				
Other expenses	-1 304	-1 284	2	-1 282	2	-2 588	-2 554	1	-4 990				
Depreciation, amortisation and impairment of tangible and intangible assets	-17	-17	-1	-13	31	-34	-26	33	-55				
Total operating expenses	-2 377	-2 334	2	-2 193	8	-4 711	-4 392	7	-8 903				
Profit before credit losses	2 626	2 787	-6	2 703	-3	5 413	4 605	18	9 434				
Gains less losses from tangible and intangible assets	0	0	-87	0	-91	0	0	194	1				
Net expected credit losses	-261	-322	-19	-110	138	-583	-156		-702				
Operating profit before items affecting comparability	2 365	2 465	-4	2 594	-9	4 830	4 449	9	8 733				
Items affecting comparability													
Operating profit	2 365	2 465	-4	2 594	-9	4 830	4 449	9	8 733				
Cost/Income ratio	0.48	0.46		0.45		0.47	0.49		0.49				
Business equity, SEK bn	67.6	63.8		63.8		65.7	63.4		63.8				
Return on business equity, %	10.7	11.8		12.2		11.2	10.5		10.3				
Number of full time equivalents ¹⁾	2 056	2 045		1 993		2 040	1 975		1 986				

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

- Large corporate customers were active throughout the period
- Increased interest in sustainable products and services
- Operating profit amounted to SEK 4,830m and return on business equity was 11.2 per cent

Comments on the first six months

The *Large Corporate segment* experienced high client demand for services across segments and products in the first six months. The corporate credit portfolio increased partly due to event-driven financing on the back of the active market for mergers and acquisitions. SEB supported bond issuers in taking advantage of attractive funding opportunities in the low interest rate environment. For the financial sponsor segment, the market continued to be active in the infrastructure and renewable energy areas, both of which are focus areas in SEB.

Financial Institutions' activity levels slowed down, from the high level at the start of the year, as a result of lower interest rate expectations, in combination with concern for trade wars and global recession. The yield curves flattened which limited clients' manoeuvrability and pushed them out in duration and risk classes to find yield. Uncertainty in how to manage the increased risk resulted in low volatility and demand for traditional asset classes such as Rates, FX and Equities. However, demand for Private Equity and alternative investments increased. In addition, clients hold a large share of liquidity in order to be ready for future opportunities in the market. In light of EU's upcoming classification system for

sustainable undertakings, investors showed increased interest in sustainable investments. Assets under custody increased to SEK 8,704bn (7,734) as an effect of the stock market recovery.

Operating income increased compared with the previous year to SEK 10,124m. Net interest income improved to SEK 4,479m mainly related to increased volumes for both lending and deposits. Other factors were the reduced resolution fund fee and internal pricing on deposits. Net fee and commission income decreased slightly to SEK 3,122m, explained by the exceptionally strong event-driven income in the second quarter 2018. Net financial income increased to SEK 2,275m due to higher volatility, especially in the first quarter, compared with the historically low levels in the previous year. The fair value credit adjustment amounted to SEK -101m (-55)¹⁾. Operating expenses increased primarily due to an increased number of employees. Net expected credit losses amounted to SEK 583m with a net expected credit loss level of 10 basis points.

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	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Net interest income	2 673	2 772	-4	2 363	13	5 445	4 649	17	9 473	
Net fee and commission income	1 408	1 284	10	1 445	-3	2 692	2 771	-3	5 470	
Net financial income	122	147	-17	111	10	269	209	29	429	
Net other income	4	7	-35	29	-85	11	36	-69	47	
Total operating income	4 208	4 210	0	3 948	7	8 417	7 665	10	15 418	
Staff costs	-822	-872	-6	-822	0	-1 693	-1 661	2	-3 353	
Other expenses	-974	-961	1	-931	5	-1 934	-1 827	6	-3 735	
Depreciation, amortisation and impairment of tangible and intangible assets	-16	-14	19	-14	12	-30	-29	4	-58	
Total operating expenses	-1 811	-1 846	-2	-1 767	3	-3 657	-3 517	4	-7 146	
Profit before credit losses	2 396	2 364	1	2 181	10	4 760	4 148	15	8 272	
Gains less losses from tangible and intangible assets	0			0	-31	0	0	-16		
Net expected credit losses	-101	-71	43	-128	-21	-172	-215	-20	-427	
Operating profit before items affecting comparability	2 295	2 293	0	2 053	12	4 588	3 933	17	7 845	
Items affecting comparability										
Operating profit	2 295	2 293	0	2 053	12	4 588	3 933	17	7 845	
Cost/Income ratio	0.43	0.44		0.45		0.43	0.46		0.46	
Business equity, SEK bn	44.6	45.0		42.0		44.8	41.5		42.4	
Return on business equity, %	15.7	15.6		14.7		15.7	14.2		13.9	
Number of full time equivalents ¹⁾	3 601	3 578		3 606		3 593	3 575		3 596	

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

- Improved market share on mortgage net new sales
- Strong development in asset under management for Private Banking
- Operating profit amounted to SEK 4,588m and return on business equity was 15.7 per cent

Comments on the first six months

Customer interaction remained high throughout the first six months, especially in the digital channel where new functionalities were launched. The Net Promoter Score, which measures customer satisfaction regarding advisory services, once again reached an all-time high for small and medium-sized companies while satisfaction among Personal Banking customers was stable at previous record levels.

Operating profit increased by 17 per cent year-on-year. Net interest income increased by 17 per cent or SEK 796m, driven by the less negative interest rate environment following the repo rate hike in the beginning of the year, internal deposit pricing, and volume growth. Net fee and commission income decreased by 3 per cent compared with the previous period. Payment commissions from both private and corporate card usage increased while there was a decrease mainly due to MiFID II-related effects. Total operating expenses increased by 4 per cent, partly driven by increased IT development. Net expected credit losses were low at SEK 172m with a net expected credit loss level of 4 basis points.

Corporate customers were active and there was a steady inflow of new full-service customers. Corporate net interest income increased compared with last year, driven by lending volumes which increased by SEK 9bn, and amounted to SEK 251bn (242).

SEB's focus on the household mortgage loan business resulted in strong market share growth in net new sales throughout the second quarter. Household mortgage volumes grew by SEK 12bn and amounted to SEK 494bn. In total, lending volumes grew steadily, increasing by SEK 23bn to SEK 804bn. Private Banking experienced yet another strong period where assets under management increased. The deposit volumes grew by SEK 31bn due to continued inflows. Total deposits amounted to SEK 452bn (421).

Baltic

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

Income statement

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Net interest income	802	762	5	706	14	1 564	1 353	16	2 837	
Net fee and commission income	424	376	13	369	15	799	696	15	1 449	
Net financial income	69	70	-2	73	-5	140	126	11	257	
Net other income	-2	-1	67	-14	-85	-3	-15	-79	-21	
Total operating income	1 293	1 207	7	1 135	14	2 500	2 159	16	4 522	
Staff costs	-209	-203	3	-208	0	-412	-387	6	-811	
Other expenses	-271	-262	3	-261	3	-533	-515	4	-1 021	
Depreciation, amortisation and impairment of tangible and intangible assets	-7	-8	-4	-13	-47	-15	-26	-44	-53	
Total operating expenses	-487	-473	3	-483	1	-960	-928	3	-1 885	
Profit before credit losses	806	734	10	651	24	1 540	1 231	25	2 637	
Gains less losses from tangible and intangible assets	0	0		13		0	21	-99	19	
Net expected credit losses	-33	-20	63	17		-53	34		-55	
Operating profit before items affecting comparability	773	715	8	681	14	1 488	1 286	16	2 600	
Items affecting comparability										
Operating profit	773	715	8	681	14	1 488	1 286	16	2 600	
Cost/Income ratio	0.38	0.39		0.43		0.38	0.43		0.42	
Business equity, SEK bn	10.6	10.5		9.8		10.5	9.2		9.6	
Return on business equity, %	25.0	23.3		23.1		24.1	23.2		22.4	
Number of full time equivalents ¹⁾	2 366	2 306		2 417		2 326	2 388		2 377	

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

- Economic growth remained robust, supported by private consumption
- Stable growth in both loan and deposit volumes
- Operating profit amounted to SEK 1,488m and return on business equity was 24.1 per cent

Comments on the first six months

Economic growth remained robust in the Baltic countries during the first half of 2019. Growth was in particular supported by private consumption, in turn driven by continued high growth in real wages, low unemployment and historically high levels of consumer confidence. Baltic manufacturers and exporters were somewhat concerned regarding the economic development in Western Europe, which may affect industrial production levels going forward.

In the private segment, SEB continued to see stable growth in mortgage and consumer lending with increasing lending margins. Private customers were more active in areas such as payments and cards. Customer usage of digital services continued to increase, with a growing share of customer meetings held remotely via video. There is continuous growth in digital sales. Income growth continued in the corporate segment driven by an increase in the loan portfolio and positive margin development. Total lending

volumes grew by 3 per cent in local currency in the first six months and amounted to SEK 156bn (148). There was steady growth in deposits in both private and corporate segments. Total deposit volumes grew by 3 per cent in local currency and amounted to SEK 146bn (138).

Operating profit increased by 12 per cent in local currency, or by SEK 202m, to SEK 1,488m. Higher income was partially offset by normalised credit losses. Net interest income increased by 12 per cent in local currency mainly due to higher lending volumes, but also due to expanded margins. Net fee and commission income was 11 per cent higher in local currency, mainly from increased customer activity and more card transactions. Operating expenses remained flat in local currency despite salary inflation across the region. Net expected credit losses amounted to SEK 53m with a net expected credit loss level of 6 basis points.

Life

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

Income statement

SEK m	Q2			Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018		
Net interest income	-3	-3	-1	-7	-56	-6	-14	-55	-28		
Net fee and commission income	635	600	6	705	-10	1 235	1 358	-9	2 655		
Net financial income	199	154	29	328	-39	352	641	-45	953		
Net other income	-2	51	-104	-1	119	49	11		-8		
Total operating income	829	801	3	1 025	-19	1 630	1 995	-18	3 572		
Staff costs	-206	-218	-6	-271	-24	-424	-588	-28	-1 017		
Other expenses	-178	-172	4	-152	18	-351	-290	21	-615		
Depreciation, amortisation and impairment of tangible and intangible assets	-5	-5	1	-6	-10	-10	-12	-16	-20		
Total operating expenses	-390	-395	-1	-428	-9	-785	-890	-12	-1 653		
Profit before credit losses	439	406	8	597	-26	845	1 105	-24	1 920		
Gains less losses from tangible and intangible assets											
Net expected credit losses	-1	0		-1	61	-1	-1	-23	-2		
Operating profit before items affecting comparability	438	406	8	596	-26	844	1 104	-24	1 917		
Items affecting comparability											
Operating profit	438	406	8	596	-26	844	1 104	-24	1 917		
Cost/Income ratio	0.47	0.49		0.42		0.48	0.45		0.46		
Business equity, SEK bn	5.4	5.4		6.2		5.4	6.2		5.8		
Return on business equity, %	30.2	27.8		34.1		29.0	31.9		29.4		
Number of full time equivalents ¹⁾	1 037	1 050		1 042		1 048	1 254		1 146		

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

- Strong investment return in the traditional portfolios
- Sales increase in second quarter
- Operating profit amounted to SEK 844m and return on business equity was 29.0 per cent

Comments on the first six months

The life insurance market in Sweden continued to grow and per the first quarter 2019 the growth rate was 4 per cent. However, the competition and price pressure increased even further. As a result, SEB grew at a slower pace than the market. Customers' demand for life insurance products, primarily in occupational pension and traditional life insurance, increased throughout the first six months. During the second quarter, sales increased compared with the first quarter, primarily in occupational pension. Customers investing in unit-linked insurance continued to shift to index funds.

The financial markets were strong during the year and the downturn in market values seen at the end of 2018 was recovered. Customers in the Swedish traditional portfolio operations benefitted from strong investment performance

return at 7.4 per cent for occupational pension and 6.6 per cent for other insurance.

Operating profit decreased by 24 per cent to SEK 844m year-on-year. The decrease in both operating income and expenses is largely explained by the sale of SEB Pension Denmark in 2018. Excluding SEB Pension Denmark, the six-month profit decreased by 6 per cent or SEK 52m year-on-year. Compared with the first quarter, net commission income increased due to higher values in the unit-linked funds. Net financial income improved primarily due to increasing asset values from lower long-term interest rates.

Total assets in the unit-linked insurance business increased by SEK 30bn from year-end to SEK 300bn. The increase is due to higher asset values in the financial markets.

Investment Management & Group functions

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

Income statement

SEK m	Q2		Q1	Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018
Net interest income	-85	-373	-77	256	-133	-458	688	-167	509
Net fee and commission income	617	528	17	531	16	1 145	1 054	9	2 393
Net financial income	169	393	-57	315	-46	563	344	64	1 026
Net other income	45	94	-52	-64	-171	139	27		91
Total operating income	747	641	16	1 038	-28	1 388	2 113	-34	4 018
Staff costs	-1 328	-1 312	1	-1 352	-2	-2 640	-2 623	1	-4 982
Other expenses	1 167	1 020	14	694	68	2 187	1 424	54	3 178
Depreciation, amortisation and impairment of tangible and intangible assets	-365	-356	3	-136	168	-720	-271	165	-549
Total operating expenses	-526	-647	-19	-795	-34	-1 173	-1 470	-20	-2 353
Profit before credit losses	222	-6		243	-9	216	643	-66	1 665
Gains less losses from tangible and intangible assets	0	0		0	58	0	0	68	-2
Net expected credit losses	11	-2		34	-68	9	19	-55	25
Operating profit before items affecting comparability	233	-8		277	-16	225	662	-66	1 689
Items affecting comparability				4 506	-100		4 506	-100	4 506
Operating profit	233	-8		4 783	-95	225	5 168	-96	6 195
Cost/Income ratio	0.70	1.01		0.77		0.84	0.70		0.59
Number of full time equivalents ¹⁾	5 928	5 825		5 638		5 846	5 627		5 647
SEB labelled mutual funds, SEK bn	703	688		663		703	663		622
Net sales, SEK bn	3	-8		3		-5	11		15

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

- SEB's largest mutual fund will be managed using sustainability criteria
- Asset values for SEB labelled mutual funds increased to SEK 703bn
- Operating profit amounted to SEK 225m

Comments on the first six months

Investment Management: The division manages SEB funds and mandates for customers channelled via the bank's other divisions.

After the positive market development in the beginning of the year and a volatile second quarter, asset values increased compared with the corresponding period 2018. SEB labelled mutual funds amounted to SEK 703bn in total, of which SEK 239bn is managed according to SEB's sustainability criteria. The investment profile of SEB's largest mutual fund, SEB Världen (SEB World), was changed to conform with the group's sustainability criteria, and the fund name changed to SEB Hållbarhetsfond Världen (SEB Sustainability Fund World).

Operating income increased by 7 per cent year-on-year. Base commissions were flat year-on-year while there was an increase in performance fees. Customer inflows continue to shift from high to lower margin products with a move from actively to passively managed funds.

Operating profit increased compared with the same period last year to SEK 645m (606) and operating expenses increased year-on-year.

Group treasury: Net interest income decreased compared with the first half of 2018 since the compensation paid to the business divisions for deposits increased. Net financial income was lower due to the mark-to-market valuation effect on own issued securities in the German run-off operations. In the same unit, net other income was higher, explained by the effect of a repurchase of own issued securities in the second quarter 2018.

Business support supports the divisions with IT operations and development as well as back office services. All relevant costs are charged to be reflected in the result of the respective division.

Other consists of Group staff, risk and compliance functions and other various small units. This reporting period valuation effects increased net financial income.

Notes to the financial statements - the SEB Group

Note 1 Accounting policies

This Interim 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 1 January 2019, the group adopted IFRS 16 Leases, which replaces IAS 17 and related interpretations. For more information about the new accounting policies and the transitional effects from adopting IFRS 16, see note 54 in the

Annual Report 2018. There are also some smaller changes to other IFRS standards. IFRIC 23 Uncertainty over Income Tax Treatments has been issued and specifies how to reflect the effects of uncertainty in accounting for income taxes. IAS 28 Interests in Associates and Joint Ventures has been amended so companies should apply IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Amendments have been made to IFRS 9 Financial Instruments regarding prepayment features with negative compensation. IAS 19 Employee Benefits was amended in regards to plan amendment, curtailment or settlement that arises during the reporting period. IAS 23 Borrowing Costs, IAS 12 Income Taxes, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements have been amended within the Annual improvement cycle 2015–2017. 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 2018 Annual Report.

Note 2 Net interest income

SEK m	Q2		Q1	Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018
Interest income ¹⁾	10 540	9 949	6	10 074	5	20 489	19 357	6	39 299
Interest expense	-4 848	-4 604	5	-4 574	6	-9 452	-8 869	7	-18 277
Net interest income	5 692	5 345	6	5 500	3	11 037	10 488	5	21 022
1) Of which interest income calculated using the effective interest method	9 179	8 592	7	8 217	12	17 501	15 845	10	32 907

Note 3 Net fee and commission income

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Issue of securities and advisory services	284	232	23	298	-5	516	434	19	1 050	
Secondary market and derivatives	549	523	5	594	-7	1 073	1 108	-3	2 179	
Custody and mutual funds	1 975	1 794	10	2 049	-4	3 769	3 972	-5	8 082	
<i>Whereof performance fees</i>	56	12		5		68	29	132	227	
Payments, cards, lending, deposits, guarantees and other	2 877	2 705	6	2 847	1	5 582	5 475	2	10 858	
<i>Whereof payments and card fees</i>	1 613	1 483	9	1 509	7	3 096	2 919	6	5 955	
<i>Whereof lending</i>	737	683	8	784	-6	1 420	1 285	11	2 527	
Life insurance commissions	447	435	3	487	-8	882	972	-9	1 848	
Fee and commission income	6 133	5 690	8	6 274	-2	11 823	11 961	-1	24 018	
Fee and commission expense	-1 398	-1 398	0	-1 460	-4	-2 797	-2 956	-5	-5 654	
Net fee and commission income	4 735	4 292	10	4 814	-2	9 026	9 005	0	18 364	
<i>Whereof Net securities commissions</i>	2 106	1 764	19	2 116	0	3 870	4 036	-4	8 220	
<i>Whereof Net payment and card fees</i>	1 057	939	13	988	7	1 997	1 883	6	3 851	
<i>Whereof Net life insurance commissions</i>	305	282	8	349	-13	587	665	-12	1 283	

Fee and commission income by segment

SEK m	Large Corporates & Financial Institutions		Corporate & Private Customers	Baltic	Life ¹⁾	Investment Management & Group functions ¹⁾	Eliminations	SEB Group
	Jan–Jun 2019							
Issue of securities and advisory	493	13	9	0	1			516
Secondary market and derivatives	839	227	10	0	-4	0		1 073
Custody and mutual funds	1 638	762	93	81	2 939	-1 744		3 769
Payments, cards, lending, deposits, guarantees and other	2 331	2 565	996	111	231	-652		5 582
Life insurance commissions				1 613		-731		882
Fee and commission income	5 302	3 568	1 108	1 805	3 167	-3 127		11 823
Jan–Jun 2018								
Issue of securities and advisory	412	14	8	0	0			434
Secondary market and derivatives	845	249	16	0	-2	0		1 108
Custody and mutual funds	1 765	893	92	82	2 960	-1 821		3 972
Payments, cards, lending, deposits, guarantees and other	2 528	2 472	884	110	197	-717		5 475
Life insurance commissions				1 737		-765		972
Fee and commission income	5 550	3 628	1 001	1 930	3 155	-3 303		11 961

1) Investment Management & Group functions consists of Investment Management, business support, treasury, staff units and German run-off operations. As previously communicated, on 1 January 2019 SEB reorganised its operations by splitting the division Life & Investment Management into two separate divisions. The Life division is presented on a stand-alone basis. The Investment Management division is combined and reported with group functions as one segment. Earlier periods have been restated in the segment information.

Fee and commission income is disaggregated in major types of service tied to primary geographical markets and operating segments.

Revenues from Issue of securities and advisory, Secondary market and derivatives, Payments, cards, lending and deposits are mainly recognised at a point in time. Revenues from Custody and mutual funds and Life insurance commissions are mainly recognised over time.

Note 4 Net financial income

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Equity instruments and related derivatives	449	838	-46	372	21	1 287	345		637	
Debt instruments and related derivatives	- 153	- 59	159	- 343	-55	- 213	53		636	
Currency and related derivatives	941	1 097	-14	1 044	-10	2 037	1 775	15	3 580	
Other life insurance income, net	200	152	31	463	-57	353	673	-48	984	
Other	46	89	-49	70	-35	135	215	-37	242	
Net financial income	1 482	2 118	-30	1 606	-8	3 600	3 062	18	6 079	
<i>Whereof unrealized valuation changes from counterparty risk and own credit standing in derivatives</i>	-102	-6		-55	85	-108	-53	104	-119	

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

For the second quarter the effect from structured products offered to the public was approximately SEK 220m (Q1 2019: 420) in Equity related derivatives and a corresponding effect in Debt related derivatives SEK -10m (Q1 2019: -280).

Note 5 Net expected credit losses

SEK m	Q2		Q1		Q2		Jan–Jun			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Impairment gains or losses - Stage 1	50	- 47		- 22		3	- 97		- 117	
Impairment gains or losses - Stage 2	198	31		- 220		229	- 96		- 134	
Impairment gains or losses - Stage 3	- 655	- 428	53	93		-1 083	- 23		- 613	
Impairment gains or losses	- 408	- 444	-8	- 150	172	- 852	- 217		- 864	
Write-offs and recoveries										
Total write-offs	- 413	- 227	82	- 232	78	- 639	- 931	-31	-1 768	
Reversals of allowance for write-offs	351	169	107	105		520	711	-27	1 267	
Write-offs not previously provided for	- 62	- 57	8	- 127	-51	- 119	- 220	-46	- 501	
Recovered from previous write-offs	84	79	6	55	51	163	107	52	199	
Net write-offs	22	22	-1	- 72		44	- 113		- 302	
Net expected credit losses	- 386	- 422	-9	- 221	74	- 808	- 330	145	- 1 166	
Net ECL level, %	0.07	0.08		0.04		0.07	0.03		0.06	

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

Note 6 Items affecting comparability

SEK m	Q2		Q1		Q2		Jan–Jun		Full year
	2019	2019	%	2018	%	2019	2018	%	2018
Other income				4 506	-100		4 506	-100	4 506
Total operating income				4 506	-100		4 506	-100	4 506
Items affecting comparability				4 506	-100		4 506	-100	4 506
Income tax on IAC				22	-100		22	-100	22
Items affecting comparability after tax				4 528	-100		4 528	-100	4 528

The table shows the rows in which the Items affecting comparability would have been reported if not reclassified.

Items affecting comparability 2018

The total income in the income statement from Items affecting comparability was SEK 4,506m before tax and SEK 4,528m after tax.

SEB Pension (2018 Q2)

SEB completed the sale of SEB Pension in Denmark following the approval by the Danish Competition Council, Konkurrencerådet, on 30 May 2018. SEB divested all shares in SEB Pensionsforsikring A/S and SEB Administration A/S (SEB Pension) to Danica Pension Livsforsikringsaktieselskab (Danica), a subsidiary to Danske Bank. The entire business, including employees, customer contracts and systems, transferred from SEB to Danica on 7 June 2018. The in principle tax-exempt capital gain from the transaction amounted to SEK 3,565m.

UC (2018 Q2)

On 29 June 2018, the acquisition by the listed Finnish credit information company Asiakastieto Group Plc (Asiakastieto) of UC AB (UC) was finalised. SEB received shares in Asiakastieto, equivalent to 10.2 per cent of the company, and SEK 0.3bn in cash. The transaction resulted in a tax-exempt capital gain of SEK 941m.

Note 7 Pledged assets and obligations

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Pledged assets for own liabilities ¹⁾	512 028	510 424	433 807
Pledged assets for liabilities to insurance policyholders	325 641	292 402	317 586
Other pledged assets ²⁾	104 031	97 713	176 558
Pledged assets	941 700	900 539	927 952
Contingent liabilities ³⁾	133 326	136 435	129 151
Commitments	653 746	589 032	609 757
Obligations	787 072	725 467	738 909

1) Of which collateralised for own issued covered bonds SEK 339,963m (349,800/338,385).

2) Of which securities lending SEK 9,059m (15,641/83,515) and pledged but unencumbered bonds SEK 70,687m (58,652/65,415).

3) Of which financial guarantees SEK 9,356m (19,932/24,261).

Note 8 Financial assets and liabilities

SEK m	30 Jun 2019		31 Dec 2018		30 Jun 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans ¹⁾	2 055 311	2 066 754	1 929 272	1 930 470	2 026 896	2 031 282
Debt securities	279 639	279 417	156 128	156 129	234 176	234 177
Equity instruments	75 480	75 480	50 434	50 434	58 604	58 604
Financial assets for which the customers bear the investment risk	299 956	299 956	269 613	269 613	295 762	295 762
Derivatives	129 485	129 485	115 463	115 463	142 568	142 568
Other	30 779	30 779	17 194	17 194	28 440	28 440
Financial assets	2 870 650	2 881 871	2 538 104	2 539 303	2 786 446	2 790 833
Deposits	1 348 089	1 345 255	1 247 109	1 245 958	1 347 973	1 349 009
Financial liabilities for which the customers bear the investment risk	300 765	300 765	270 556	270 556	296 697	296 697
Debt securities issued ²⁾	854 339	847 534	715 192	713 983	780 030	775 144
Short positions	57 423	57 423	23 144	23 144	41 681	41 681
Derivatives	105 184	105 184	96 872	96 872	119 139	119 139
Other	31 829	31 829	14 722	14 722	53 956	53 956
Financial liabilities	2 697 630	2 687 991	2 367 595	2 365 235	2 639 476	2 635 626

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 38 in the Annual Report 2018.

Note 9 Assets and liabilities measured at fair value

SEK m	30 Jun 2019				31 Dec 2018			
	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		196 236		196 236		100 037		100 037
Debt securities	100 751	161 598	5	262 354	62 812	76 976	4	139 792
Equity instruments	57 883	7 961	9 636	75 480	38 697	3 835	7 902	50 434
Financial assets for which the customer bear the investment risk	290 816	8 604	536	299 956	261 056	7 943	614	269 613
Derivatives	976	128 015	494	129 485	1 327	113 626	510	115 463
Investment in associates ¹⁾	469		374	843	256		501	758
Total	450 895	502 413	11 045	964 353	364 148	302 417	9 531	676 096
Liabilities								
Deposits		63 835		63 835		12 497		12 497
Financial liabilities for which the customer bear the investment risk	291 693	8 546	526	300 765	262 029	7 924	603	270 556
Liabilities to policyholders - insurance	23 732	1 144		24 876	21 752	95		21 847
Debt securities issued		20 451		20 451		18 518		18 518
Short positions	42 524	14 832	67	57 423	18 710	4 371	63	23 144
Derivatives	1 016	103 632	536	105 184	2 616	93 783	473	96 872
Other financial liabilities at fair value	248	3 618		3 866	18	3 595		3 613
Total	359 213	216 057	1 129	576 399	305 125	140 783	1 139	447 047

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 9, continued. Assets and liabilities measured at fair value

Level 3: Valuation techniques with significant unobservable inputs

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

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

Significant transfers and reclassifications between levels

Transfers between levels may occur when there are indications that market conditions have changed, e.g. a change in liquidity. The Valuation/Pricing committee of each relevant division decides on material shifts between levels. There have been no significant transfers in 2019.

Changes in level 3, SEK m	Closing balance	Reclassification	Gain/loss in	Gain/loss in	Purchases	Sales	Settle-ments	Transfers into Level 3	Transfers out of Level 3	Exchange rate differences	Closing balance
	31 Dec 2018		Income statement ¹⁾	Other comprehensive income							30 Jun 2019
Assets											
Debt securities	4									1	5
Equity instruments	7 902		985		1 016	-339				72	9 636
Financial assets for which the customer bear the investment risk	614		4		4	-196		93		17	536
Derivatives	510		-29			-3	15			1	494
Investment in associates	501		-29		24	-123				1	374
Total	9 531		931		1 044	-661	15	93		92	11 045
Liabilities											
Financial liabilities for which the customer bear the investment risk	603		7			-194		93		17	526
Short positions	63		2							2	67
Derivatives	473		-5				69			-1	536
Total	1 139		4			-194	69	93		18	1 129

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

Sensitivity of Level 3 assets and liabilities to unobservable inputs

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

SEK m	30 Jun 2019				31 Dec 2018			
	Assets	Liabilities	Net	Sensitivity	Assets	Liabilities	Net	Sensitivity
Derivative instruments ¹⁾²⁾⁴⁾	494	-536	-42	38	510	-473	37	45
Equity instruments ³⁾⁶⁾	2 889	-65	2 824	567	2 584	-63	2 521	505
Insurance holdings - Financial instruments ⁴⁾⁵⁾⁷⁾	6 845		6 845	875	5 576		5 576	697

1) Sensitivity from a shift of inflation linked swap spreads by 16 basis points (16) and implied volatilities by 5 percentage points (5).

2) Sensitivity from a shift of swap spreads by 5 basis points (5).

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

4) Shift in implied volatility by 10 percentage points (10).

5) Sensitivity analysis is based on a shift in private equity of 20 per cent (20), structured credits 10 per cent (10) and derivative market values of 10 per cent (10).

6) Sensitivity from a shift of investment properties/real estate funds/infrastructure/infrastructure funds market values of 10 per cent (10).

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

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

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Stage 1 (12-month ECL)			
Debt securities	17 285	16 337	14 516
Loans ¹⁾	1 618 344	1 552 954	1 566 623
Financial guarantees and Loan commitments	619 196	602 884	574 496
Gross carrying amounts/Nominal amounts Stage 1	2 254 826	2 172 175	2 155 636
Debt securities	-1	-1	-1
Loans ¹⁾	-660	-643	-638
Financial guarantees and Loan commitments	-194	-195	-193
ECL allowances Stage 1	-855	-838	-831
Debt securities	17 285	16 336	14 516
Loans ¹⁾	1 617 684	1 552 311	1 565 986
Financial guarantees and Loan commitments	619 003	602 689	574 304
Carrying amounts/Net amounts Stage 1	2 253 971	2 171 337	2 154 805
Stage 2 (lifetime ECL)			
Debt securities			3 574
Loans ¹⁾²⁾	75 624	70 125	70 846
Financial guarantees and Loan commitments	16 684	16 712	14 604
Gross carrying amounts/Nominal amounts Stage 2	92 308	86 837	89 024
Debt securities			0
Loans ¹⁾²⁾	-1 231	-1 364	-1 401
Financial guarantees and Loan commitments	-187	-240	-212
ECL allowances Stage 2	-1 418	-1 605	-1 613
Debt securities			3 574
Loans ¹⁾²⁾	74 392	68 761	69 445
Financial guarantees and Loan commitments	16 498	16 472	14 392
Carrying amounts/Net amounts Stage 2	90 890	85 233	87 411
Stage 3 (credit impaired/lifetime ECL)			
Loans ¹⁾³⁾	10 938	8 158	8 412
Financial guarantees and Loan commitments	693	242	314
Gross carrying amounts/Nominal amounts Stage 3	11 631	8 400	8 726
Loans ¹⁾³⁾	-3 906	-3 331	-3 386
Financial guarantees and Loan commitments	-106	-38	-73
ECL allowances Stage 3	-4 012	-3 370	-3 459
Loans ¹⁾³⁾	7 032	4 827	5 026
Financial guarantees and Loan commitments	587	203	241
Carrying amounts/Net amounts Stage 3	7 619	5 030	5 268

The note continues on the next page

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

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Total			
Debt securities	17 285	16 337	18 091
Loans ¹⁾²⁾³⁾	1 704 906	1 631 237	1 645 882
Financial guarantees and Loan commitments	636 574	619 838	589 415
Gross carrying amounts/Nominal amounts	2 358 766	2 267 412	2 253 387
Debt securities	-1	-1	-1
Loans ¹⁾²⁾³⁾	-5 797	-5 338	-5 425
Financial guarantees and Loan commitments	-487	-474	-477
ECL allowances	-6 285	-5 813	-5 903
Debt securities	17 285	16 336	18 090
Loans ¹⁾²⁾³⁾	1 699 109	1 625 899	1 640 457
Financial guarantees and Loan commitments	636 087	619 365	588 937
Carrying amounts/Net amounts	2 352 480	2 261 600	2 247 484
Stage 3 loans / Total loans, gross, %	0.64	0.50	0.51
Stage 3 loans / Total loans, net, %	0.41	0.30	0.31
ECL coverage ratio Stage 1, %	0.04	0.04	0.04
ECL coverage ratio Stage 2, %	1.54	1.85	1.81
ECL coverage ratio Stage 3, %	34.50	40.11	39.64
ECL coverage ratio, %	0.27	0.26	0.26

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

2) Whereof gross carrying amounts SEK 1,700m (1,169/1,355) and ECL allowances SEK 2m (2/1) under Lifetime ECLs - simplified approach for trade receivables.

3) Whereof gross carrying amounts SEK 1,614m (1,281/0) and ECL allowances SEK 736m (349/0) 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.

Note 11 Movements in allowances for expected credit losses

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 2018	643	1 364	3 331	5 339
New and derecognised financial assets, net	191	-10	-131	50
Changes due to change in credit risk	-182	-155	1 144	807
Changes due to modifications		6	0	6
Changes due to methodology change	-4	-6	2	-9
Decreases in ECL allowances due to write-offs			-520	-520
Exchange rate differences	14	32	80	125
ECL allowance as of 30 June 2019	661	1 231	3 906	5 798
Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2018	195	240	38	474
New and derecognised financial assets, net	30	-49	-14	-33
Changes due to change in credit risk	-37	-13	83	33
Changes due to modifications		0		0
Changes due to methodology change	0	-2	-1	-3
Decreases in ECL allowances due to write-offs				
Exchange rate differences	6	10	0	16
ECL allowance as of 30 June 2019	194	187	106	487
Total Loans, Debt securities, Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2018	838	1 605	3 370	5 813
New and derecognised financial assets, net	221	-59	-145	18
Changes due to change in credit risk	-219	-168	1 227	839
Changes due to modifications		6	0	6
Changes due to methodology change	-5	-8	1	-12
Decreases in ECL allowances due to write-offs			-520	-520
Exchange rate differences	20	42	80	141
ECL allowance as of 30 June 2019	855	1 418	4 012	6 285

Note 12 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)		Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)		Total
			lifetime ECL	Total			lifetime ECL	Total	
30 Jun 2019									
Banks	80 953	2 721	0	83 674	-4	-4	0	-8	83 667
Finance and insurance	120 776	813	61	121 650	-25	-12	-6	-44	121 607
Wholesale and retail	75 136	3 007	1 255	79 398	-47	-41	-427	-514	78 884
Transportation	37 805	1 325	97	39 228	-16	-17	-67	-100	39 128
Shipping	53 864	1 973	1 311	57 148	-19	-16	-591	-626	56 522
Business and household services	141 158	7 199	997	149 353	-149	-252	-390	-790	148 563
Construction	11 723	1 294	166	13 182	-7	-14	-48	-69	13 113
Manufacturing	101 260	4 854	1 822	107 936	-79	-89	-646	-814	107 121
Agriculture, forestry and fishing	23 978	1 474	142	25 595	-11	-8	-41	-60	25 535
Mining, oil and gas extraction	18 864	5 841	1 870	26 576	-37	-224	-322	-583	25 993
Electricity, gas and water supply	39 282	589	48	39 919	-15	-61	-39	-114	39 805
Other	41 359	3 294	179	44 831	-26	-92	-63	-181	44 651
Corporates	665 204	31 662	7 949	704 816	-432	-824	-2 639	-3 895	700 921
Commercial real estate management	149 446	3 473	479	153 398	-17	-19	-144	-180	153 217
Residential real estate management	103 926	1 386	56	105 368	-8	-1	-2	-11	105 357
Real Estate Management	253 372	4 858	536	258 766	-25	-20	-146	-191	258 575
Housing co-operative associations	51 072	7 993	2	59 066	0	0	-1	-2	59 065
Public Administration	16 133	307	3	16 442	-1	-3	-2	-6	16 436
Household mortgages	511 162	22 847	1 275	535 284	-47	-135	-390	-572	534 712
Other	40 449	5 236	1 174	46 859	-151	-245	-728	-1 124	45 735
Households	551 611	28 082	2 449	582 142	-199	-380	-1 118	-1 696	580 447
TOTAL	1 618 345	75 624	10 938	1 704 907	-660	-1 231	-3 906	-5 797	1 699 109
31 Dec 2018¹⁾									
Banks	97 795	900	0	98 695	-2	-2	0	-4	98 691
Finance and insurance	97 505	660	15	98 180	-17	-4	-11	-32	98 148
Wholesale and retail	77 427	3 120	550	81 097	-42	-82	-181	-306	80 792
Transportation	34 437	691	105	35 232	-14	-7	-77	-97	35 135
Shipping	50 121	963	1 694	52 779	-18	-5	-407	-430	52 349
Business and household services	140 094	7 035	862	147 991	-143	-227	-351	-721	147 271
Construction	9 981	1 281	223	11 486	-7	-14	-47	-68	11 418
Manufacturing	90 701	3 642	730	95 073	-82	-73	-529	-683	94 390
Agriculture, forestry and fishing	19 859	1 258	128	21 245	-8	-7	-40	-55	21 190
Mining, oil and gas extraction	14 615	6 046	530	21 191	-30	-421	-97	-548	20 644
Electricity, gas and water supply	38 990	761	2	39 752	-15	-44	0	-60	39 692
Other	44 385	2 857	115	47 357	-57	-72	-237	-366	46 991
Corporates	618 115	28 314	4 955	651 384	-433	-956	-1 977	-3 365	648 019
Commercial real estate management	142 857	2 750	561	146 169	-17	-19	-188	-224	145 945
Residential real estate management	90 985	824	87	91 897	-5	-1	-31	-37	91 860
Real Estate Management	233 843	3 574	648	238 065	-23	-19	-219	-261	237 805
Housing co-operative associations	54 807	8 695	0	63 502	-1	0	-2	-4	63 498
Public Administration	13 013	280	2	13 296	-1	-4	-2	-7	13 289
Household mortgages	497 351	23 132	1 374	521 856	-54	-148	-422	-623	521 233
Other	38 029	5 230	1 179	44 438	-129	-236	-710	-1 074	43 364
Households	535 381	28 362	2 552	566 295	-182	-383	-1 132	-1 698	564 597
TOTAL	1 552 954	70 125	8 158	1 631 237	-643	-1 364	-3 331	-5 338	1 625 899

1) Household mortgage lending to the customer segment sole proprietors has been reclassified. As a result the year-end 2018 reported household lending of SEK 528bn has been adjusted to SEK 565bn and the lending volumes in other segments have been reduced accordingly. In the second quarter 2019, the stage 3 allowances per 31 December 2018 at an amount of SEK 169m were reclassified from other to household mortgages.

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

SEB consolidated situation

Note 13 Capital adequacy analysis

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Own funds			
Common Equity Tier 1 capital	126 772	125 857	123 228
Tier 1 capital	142 537	141 108	138 483
Total own funds	160 924	159 331	157 126
Own funds requirement			
Risk exposure amount	763 519	716 498	637 037
Expressed as own funds requirement	61 082	57 320	50 963
Common Equity Tier 1 capital ratio	16.6%	17.6%	19.3%
Tier 1 capital ratio	18.7%	19.7%	21.7%
Total capital ratio	21.1%	22.2%	24.7%
Own funds in relation to own funds requirement	2.63	2.78	3.08
Regulatory Common Equity Tier 1 capital requirement including buffer	11.2%	11.2%	11.0%
of which capital conservation buffer requirement	2.5%	2.5%	2.5%
of which systemic risk buffer requirement	3.0%	3.0%	3.0%
of which countercyclical capital buffer requirement	1.2%	1.2%	1.0%
Common Equity Tier 1 capital available to meet buffer ¹⁾	12.1%	13.1%	14.8%
Leverage ratio			
Exposure measure for leverage ratio calculation	3 130 476	2 773 608	2 954 414
of which on balance sheet items	2 607 350	2 311 250	2 506 532
of which off balance sheet items	523 126	462 358	447 882
Leverage ratio	4.6%	5.1%	4.7%

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

Note 14 Own funds

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Shareholders equity according to balance sheet ¹⁾	142 807	148 789	139 573
Deductions related to the consolidated situation and other foreseeable charges	-7 145	-14 227	-6 651
Common Equity Tier 1 capital before regulatory adjustments ²⁾	135 662	134 562	132 922
Additional value adjustments	-1 248	-868	-774
Intangible assets	-6 542	-6 467	-6 405
Deferred tax assets that rely on future profitability			-18
Fair value reserves related to gains or losses on cash flow hedges	16	-313	-633
Negative amounts resulting from the calculation of expected loss amounts	-642	-78	-141
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	97	8	210
Defined-benefit pension fund assets	-398	-816	-1 764
Direct and indirect holdings of own CET1 instruments	-172	-172	-170
Total regulatory adjustments to Common Equity Tier 1	-8 889	-8 705	-9 694
Common Equity Tier 1 capital	126 772	125 857	123 228
Additional Tier 1 instruments	15 765	15 251	15 255
Tier 1 capital	142 537	141 108	138 483
Tier 2 instruments	19 534	18 987	19 332
Net provisioning amount for IRB-reported exposures	54	436	510
Holdings of Tier 2 instruments in financial sector entities	-1 200	-1 200	-1 200
Tier 2 capital	18 387	18 222	18 642
Total own funds	160 924	159 331	157 126

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 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).

Note 15 Risk exposure amount

SEK m	30 Jun 2019		31 Dec 2018		30 Jun 2018	
	Risk exposure amount	Own funds requirement ¹⁾	Risk exposure amount	Own funds requirement ¹⁾	Risk exposure amount	Own funds requirement ¹⁾
Credit risk IRB approach						
Exposures to central governments or central banks	11 044	884	11 602	928	11 389	911
Exposures to institutions	54 410	4 353	51 033	4 083	53 762	4 301
Exposures to corporates	361 063	28 885	342 713	27 417	341 258	27 301
Retail exposures	66 515	5 321	63 171	5 054	62 979	5 038
of which secured by immovable property	38 496	3 080	36 720	2 938	36 916	2 953
of which retail SME	7 333	587	7 027	562	7 103	568
of which other retail exposures	20 686	1 655	19 424	1 554	18 961	1 517
Securitisation positions	1 062	85	987	79	977	78
Total IRB approach	494 094	39 528	469 506	37 560	470 366	37 629
Credit risk standardised approach						
Exposures to central governments or central banks	208	17	2 241	179	1 924	154
Exposures to institutions	780	62	649	52	1 589	127
Exposures to corporates	15 324	1 226	14 539	1 163	14 694	1 176
Retail exposures	13 721	1 098	13 310	1 065	13 610	1 089
Exposures secured by mortgages on immovable property	2 280	182	2 184	175	2 732	219
Exposures in default	100	8	168	13	42	3
Exposures associated with particularly high risk	733	59	761	61	731	58
Exposures in the form of collective investment undertakings (CIU)	48	4	45	4	47	4
Equity exposures	3 460	277	4 045	324	3 031	242
Other items	12 002	960	5 885	471	8 508	681
Total standardised approach	48 655	3 892	43 827	3 506	46 909	3 753
Market risk						
Trading book exposures where internal models are applied	32 137	2 571	25 020	2 002	28 939	2 315
Trading book exposures applying standardised approaches	14 214	1 137	7 711	617	12 317	985
Foreign exchange rate risk	3 185	255	2 889	231	2 867	229
Total market risk	49 536	3 963	35 620	2 850	44 123	3 530
Other own funds requirements						
Operational risk advanced measurement approach	47 813	3 825	47 151	3 772	47 465	3 797
Settlement risk	0	0	9	1	1	0
Credit value adjustment	7 087	567	7 605	608	7 485	599
Investment in insurance business	16 633	1 331	16 633	1 331	16 633	1 331
Other exposures	4 884	391	4 556	365	4 056	325
Additional risk exposure amount ²⁾	94 816	7 585	91 591	7 327		
Total other own funds requirements	171 234	13 699	167 545	13 404	75 640	6 051
Total	763 519	61 082	716 498	57 320	637 037	50 963

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

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

Note 16 Average risk-weight

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

analysis, since they carry low risk-weights, and can vary considerably in volume, thus making numbers less comparable.

IRB reported credit exposures (less repos and securities lending)	30 Jun 2019	31 Dec 2018	30 Jun 2018
Average risk-weight			
Exposures to central governments or central banks	3.5%	3.0%	2.4%
Exposures to institutions	23.3%	25.4%	25.9%
Exposures to corporates	30.8%	31.0%	31.1%
Retail exposures	10.4%	10.2%	10.3%
of which secured by immovable property	6.8%	6.8%	6.9%
of which retail SME	58.2%	57.7%	57.4%
of which other retail exposures	31.6%	30.8%	30.1%
Securitisation positions	9.3%	9.3%	10.5%

Income statement

In accordance with FSA regulations	Q2			Q1			Q2			Jan–Jun			Full year
SEK m	2019	2019	%	2018	%	2019	2018	%	2019	2018	%	2018	
Interest income ¹⁾	8 753	8 337	5	8 221	6	17 090	15 827	8	32 548				
Leasing income	1 448	1 424	2	1 434	1	2 872	2 827	2	5 656				
Interest expense ¹⁾	-4 370	-4 248	3	-3 977	10	-8 618	-7 687	12	-16 344				
Dividends	1 195	2 698	-56	4 593	-74	3 893	7 610	-49	9 130				
Fee and commission income	3 416	3 161	8	3 561	-4	6 577	6 631	-1	13 281				
Fee and commission expense	- 791	- 799	-1	- 825	-4	-1 590	-1 666	-5	-3 218				
Net financial income	1 276	1 580	-19	845	51	2 856	1 997	43	4 574				
Other income	183	400	-54	1 344	-86	582	1 509	-61	1 770				
Total operating income	11 111	12 552	-11	15 196	-27	23 663	27 049	-13	47 398				
Administrative expenses	-4 040	-4 042	0	-3 806	6	-8 083	-7 575	7	-15 263				
Depreciation, amortisation and impairment of tangible and intangible assets	-1 430	-1 409	2	-1 395	3	-2 838	-2 751	3	-5 512				
Total operating expenses	-5 470	-5 451	0	-5 200	5	-10 921	-10 326	6	-20 775				
Profit before credit losses	5 641	7 101	-21	9 996	-44	12 742	16 723	-24	26 623				
Net expected credit losses	-328	-357	-8	-156	110	-685	-353	94	-1 020				
Impairment of financial assets		-315	-100	-78	-100	-315	-2 342	-87	-2 928				
Operating profit	5 314	6 429	-17	9 762	-46	11 742	14 028	-16	22 675				
Appropriations	445	320	39	306	45	765	585	31	2 716				
Income tax expense	-857	-866	-1	-701	22	-1 723	-1 313	31	-3 789				
Other taxes	1	0	101	-272		1	-42		118				
NET PROFIT	4 903	5 883	-17	9 096	-46	10 785	13 259	-19	21 720				

Statement of comprehensive income

	Q2			Q1			Q2			Jan–Jun			Full year
SEK m	2019	2019	%	2018	%	2019	2018	%	2019	2018	%	2018	
NET PROFIT	4 903	5 883	-17	9 096	-46	10 785	13 259	-19	21 720				
Cash flow hedges	-155	-173	-10	-300	-48	-328	-559	-41	-880				
Translation of foreign operations	7	29	-76	2		36	47	-23	-11				
Items that may subsequently be reclassified to the income statement:	-148	-144	3	-298	-50	-292	-512	-43	-891				
OTHER COMPREHENSIVE INCOME	-148	-144	3	-298	-50	-292	-512	-43	-891				
TOTAL COMPREHENSIVE INCOME	4 755	5 739	-17	8 798	-46	10 493	12 747	-18	20 829				

1) The presentation between Interest Income and Interest Expense of financing costs has been aligned with the group presentation. The movement amounted to SEK 1,341m in Q2 2018, SEK 2,139m for the period Jan-Jun 2018 and SEK 5,523m for the full year 2018.

Balance sheet, condensed

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Cash and cash balances with central banks	137 617	164 081	291 941
Loans to central banks	6 936	29 665	9 187
Loans to credit institutions	119 662	90 668	116 025
Loans to the public	1 577 201	1 410 687	1 408 869
Debt securities	248 996	119 227	195 972
Equity instruments	60 258	36 993	45 907
Derivatives	126 851	113 282	140 508
Other assets	133 452	113 672	124 248
TOTAL ASSETS	2 410 972	2 078 275	2 332 659
Deposits from central banks and credit institutions	179 781	160 022	197 250
Deposits and borrowings from the public ¹⁾	1 032 956	927 224	1 022 564
Debt securities issued	818 106	680 396	742 487
Short positions	57 423	23 144	41 681
Derivatives	103 608	95 269	117 652
Other financial liabilities	3 866	3 613	4 398
Other liabilities	85 794	55 059	81 371
Untaxed reserves	20 855	20 855	21 423
Equity	108 582	112 695	103 833
TOTAL LIABILITIES, UNTAXED RESERVES AND EQUITY	2 410 972	2 078 275	2 332 659
1) Private and SME deposits covered by deposit guarantee	212 268	202 823	199 491
Private and SME deposits not covered by deposit guarantee	173 830	154 785	145 182
All other deposits	646 858	569 616	677 890
Total deposits from the public	1 032 956	927 224	1 022 564

Pledged assets and obligations

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Pledged assets for own liabilities	497 894	489 784	406 473
Other pledged assets	94 971	82 072	158 341
Pledged assets	592 865	571 856	564 814
Contingent liabilities	142 393	134 317	134 530
Commitments	593 152	535 168	551 338
Obligations	735 546	669 486	685 868

Capital adequacy

SEK m	30 Jun 2019	31 Dec 2018	30 Jun 2018
Own funds			
Common Equity Tier 1 capital	111 667	108 336	107 444
Tier 1 capital	127 432	123 587	122 699
Total own funds	145 766	141 904	141 410
Own funds requirement			
Risk exposure amount	683 034	640 442	564 692
Expressed as own funds requirement	54 643	51 235	45 175
Common Equity Tier 1 capital ratio	16.3%	16.9%	19.0%
Tier 1 capital ratio	18.7%	19.3%	21.7%
Total capital ratio	21.3%	22.2%	25.0%
Own funds in relation to capital requirement	2.67	2.77	3.13
Regulatory Common Equity Tier 1 capital requirement including buffers	8.3%	8.3%	8.1%
of which capital conservation buffer requirement	2.5%	2.5%	2.5%
of which countercyclical capital buffer requirement	1.3%	1.3%	1.1%
Common Equity Tier 1 capital available to meet buffers ¹⁾	11.8%	12.4%	14.5%

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

Signatures of the President and the Board

Stockholm, 12 July 2019

The President and the Board of Directors declare that the Interim Report for the period 1 January 2019 through 30 June 2019 provides a fair overview of the parent company's and the group's operations, their financial position and results and describes material risks and uncertainties facing the parent company and the group.

Marcus Wallenberg
Chair

Sven Nyman
Vice chair

Jesper Ovesen
Vice chair

Johan H. Andresen
Director

Signhild Arnegård Hansen
Director

Anne-Catherine Berner
Director

Samir Brikho
Director

Winnie Fok
Director

Lars Ottersgård
Director

Helena Saxon
Director

Anna-Karin Glimström
*Director**

Håkan Westerberg
*Director**

Johan Torgeby
President and Chief Executive Officer
Director

**Appointed by the employees*

Auditor's review report

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

Introduction

We have reviewed the six-month interim financial statements for Skandinaviska Enskilda Banken AB (publ) as at 30 June 2019 and for the six-month period ending as at this date. The Board of Directors and the Chief Executive Officer are responsible for the preparation and presentation of these interim financial statements in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on these interim financial statements 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 the interim financial statements are 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, 12 July 2019

Ernst & Young AB

Hamish Mabon

Authorised Public Accountant

Contacts and calendar

Results presentation and webcasts

The presentation of the results will be held at 9.00, Swedish time, on 12 July 2019, at Kungsträdgårdsgatan 8 with the President and CEO Johan Torgeby and the Finance Director, Masih Yazdi (in English). It can also be followed live on sebgroupp.com/ir. A replay will be available afterwards.

Telephone conference

The telephone conference at 13.00, Swedish time, on 12 July 2019 with the President and CEO, Johan Torgeby, the Finance Director, Masih Yazdi, and the Head of Investor Relations, Christoffer Geijer, can be accessed by telephone, +44 (0)2071 928 000. Please quote conference id: 4839848 and call at least 10 minutes in advance. A replay of the conference call will be available on sebgroupp.com/ir.

Further information is available from:

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Christoffer Geijer, Head of Investor Relations
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Frank Hojem, Head of Media Relations
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sebgroupp.com
Corporate organisation number: 502032-9081

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

Financial information calendar 2019

23 October Interim Report January-September

The silent period starts 8 October

The financial information calendar for 2020 will be published in conjunction with the Interim Report for January-September 2019.

Definitions - 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 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.

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 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.*

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).

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

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.

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	2,300 large corporations, 700 financial institutions, 267,000 SME and 1.4 million private full-service customers bank with SEB.
Our strategic priorities	<p><i>Leading customer experience</i> – develop long-term relationships based on valuable advice, customers' trust in SEB as well as their appreciation of SEB's services.</p> <p><i>Resilience and flexibility</i> – maintain resilience and flexibility, based on capital and liquidity strength, to enable adaptation to prevailing market conditions.</p> <p><i>Growth in areas of strength</i> – focus on profitable organic growth in areas of strength.</p>
Business plan focus areas	<p><i>Advisory leadership</i> – Provide customers with proactive, customised and valuable advice, based on customer insight and data analysis, through human and digital interaction.</p> <p><i>Operational excellence</i> – Enhance customer value and increase process efficiency and speed by accelerating digitalisation and automation while extending the use of data.</p> <p><i>Extended presence</i> – Broaden the offering by supplying customers with external products and extend SEB's presence by providing products and services in customers' digital ecosystems.</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 sebgroupp.com/ir