

Call pre silent period Q3 2024

Good afternoon and welcome to SEB's Q3 2024 pre-close call. My name is Per Andersson and I am part of the Investor Relations Team at SEB. Joining me from the IR team are also, Amelie Blecher and Philippa Allard.

We would like to start by informing you that this call is being recorded, and the script used for this call will be published on the Investor Relations website after the call.

During this call we will address the macro environment, the P&L lines, risk exposure amount and capital. Following this there will be a Q&A session. We will only answer questions related to already disclosed information as well as publicly available data, and questions relevant for the third quarter.

Given that we conduct this call via Teams, please be aware that if you want to ask questions, you must log on via the Teams app or your browser and raise a hand.

Starting off with the macro environment, the Swedish central bank lowered the policy rate from 3.75% to 3.5% with effect from August 21, and as announced yesterday by another 25bps to 3.25%. Following the August cut, SEB changed some of the bank's lending and deposit rates in Sweden. Some changes came before the announcement, and some came afterwards. The majority of our rates are available on seb.se. I would encourage you to use this website continuously, as we show most of our offering there, and that is where the most up-to-date information is located.

The European central bank cut deposit facility rate by 25bps to 3.50% with effect from September 18. This mostly affects our Baltic operations, and mostly the deposit side. You can find the relevant deposit rates, and changes, on the domestic SEB websites for each Baltic country.

Regarding the sensitivity to policy rate changes in our balance sheet components, I would still guide you to slide 29 in our Q1 2024 Investor presentation, available at sebgroup.com. With this disclosure, together with the disclosure in our Factbook relating to the deposits breakdown especially for the C&PC and Baltic division, and the rate changes available on our websites, I believe there is plenty of data to capture the interest rate sensitivity for SEB. I know that some of you have done this already, I would encourage all of you to do this.

Before turning to the P&L, I have just a couple of general remarks.

First, the third quarter has 1 more day compared to the second quarter. For information, as earlier communicated, we estimate that one calendar day amounts to roughly SEK 100m of net interest income.

Secondly, both the P&L and the balance sheet are affected by FX movements. The P&L is affected by the average FX rate during the quarter. All else equal, a weaker SEK leads to higher income and higher costs. The opposite applies for a stronger average SEK.

The balance sheet is affected by ultimo FX rates where a weaker SEK increases assets and the risk exposure amount. As our equity is SEK-denominated and is not hedged, a weaker SEK affects the Common Equity Tier 1 ratio negatively. The opposite applies for a stronger SEK.

In the Q2 2024 Investor presentation that you can find on sebgroup.com, slide 43, the currency split of risk exposure amount was 43% in SEK, 36% in EUR and 9% in USD. A +/-5% change in SEK vs. other currencies affects the CET1 ratio by around 50bps.

We have not guided for any restatements affecting the Q3 2024 reporting period, nor have we flagged any non-recurring items.

Regarding the AirPlus acquisition, as you might have seen it has now closed, and has been part of the SEB group since 1 August 2024, so it affects the third quarter with two months.

A couple of things worth highlighting again. On capital, we wrote that the transaction is expected to affect the CET1-ratio negatively by 45-50 basis points. In connection to the call that was held on the 21 of June 2023, when we announced the transaction, we said that when it comes to the capital impact, it's roughly a 50% / 50% split between goodwill and increased risk exposure amount. The revenues in the first half of 2024 amounted to SEK 1.2 billion and cost amounted to SEK 1.5 billion. Almost the entire income is booked on net fee and commission income.

I will now turn to the profit and loss lines.

Net interest income

Regarding lending and deposit volumes, the July and August statistics are currently available from Statistics Sweden, the August statistics were released today. We have several times stated that the Statistics Sweden numbers do not define data in the same way as they are reported for the SEB Group, and I will hence not go into more details on the Statistics Sweden data. One relevant point to make is to look at both lending and deposit volumes, we know that some of you do this already, but not all of you do it, so it is a friendly reminder.

On migration, in connection to the Q2 report we stated that the flow to higher-yielding accounts flattened out both in Sweden and the Baltics. We will not comment more on deposit migration than this.

One comment on the Baltics, remember that in Q2 we had a one-off effect that was offset in Treasury. So, the effect was neutral on the Group, but could be good to keep in mind when you update your models.

Net fee and commission income

A large part of the net fee and commission income derives from assets under management and assets under custody and is hence correlated to the general stock market development. Looking at the OMXN40 and the OMXS30 equity indices, which is a quite simplistic approach, both indices are flattish on average compared to the average level during Q2 2024 and should hence, with this simplistic approach, have a minor impact on net asset values quarter-on-quarter.

In connection to the Q2 report we said that we saw improved business momentum. Including positive net flows in asset management across divisions, an increase in investment banking activity and signs of improving credit demand. We will not comment further on the underlying activity than this.

Looking at historical results, net fees and commission income, quarter-on-quarter, in total, usually has a negative seasonal effect in a third quarter.

Net financial income

We have earlier said that a good guidance for this line item is the average outcome we have achieved over the last 16 quarters. That average was about SEK 2.4 billion per quarter as per Q2 2024.

Net other income

For those of you who model the net other income on a year-on-year basis. Please remember that in Q3 2023 we repurchased a covered bond during the quarter which gave an upfront gain of SEK 512m.

Total expenses

We have a full year target for costs at or below SEK 29bn, assuming 2023 average fx-rates. Remember that we have stated, in connection to the AirPlus closing, that we will give you an updated 2024 cost target for the SEB Group that takes the Airplus-related running and implementation costs into account, at the latest in combination with the publication of the interim report for the third quarter 2024.

The SEB share price impacts the cost base, where a higher share price increases costs all else equal. The SEB share price, compared to the Q2 closing, has so far developed flattish, hence there should not be any large delta this quarter stemming from share price movements, as of today.

The number of FTEs of course affect the cost base. The FTE growth has decelerated the past quarters compared to 2022. As we said in connection to the Q2 report, there was an increase of about 200 FTEs in Q2, of which a large part was related to summer interns.

Net expected credit losses

We wrote in our Q2 interim report that asset quality remained robust and that negative risk migration slowed.

We also said that, if the positive development of the macro forecasts made by our economists stands, a more favorable period would be rolled into our models. This would mean a continued gradual reduction of the portfolio overlays. However, we said that it's difficult to say the timing and magnitude of those potential releases. In the latest Nordic Outlook, released August 27, the trend of an improved macro-outlook for 2025 compared to 2024 remained, especially for Sweden.

Imposed levies

Repeating what we said in our Q2 results call, we expect imposed levies to be just below 2 billion SEK in total for the second half of 2024. This can be compared to SEK 2.2bn in the first half of 2024.

Tax

In Q2 we reported a tax level of 20.5%, in line with the normal level of around 20%.

Capital and Risk exposure amount

SEB's current share-buyback program, amounting to SEK 2.5bn, is expected to be concluded no later than October 22, as stated in the press release on July 15, 2024.

Please note that in connection with the Q2 report, SEK 5bn was deducted for a new permission from the Swedish FSA to buy back own shares. This since the full amount that the Swedish FSA approves is deducted from the Common Equity Tier 1 capital. The Board of Directors then decides on execution of these programs on a quarterly basis.

Risk exposure amount is affected by, among other things, FX movements. You also need to think about the lending volume component and market risk. We have no seasonal patterns to flag for these two lines this quarter.

Lastly, as you have seen, we have announced organizational changes that will come into effect from the 1st of January 2025, so this means that the first time you will see these numbers will be in connection to the Q1 2025 report. Also, our Chief Financial Officer Masih Yazdi has decided to leave his position at SEB. Masih Yazdi will remain in the bank until March 2025 and the process to find his replacement has been initiated. We will not comment more on these announcements.

This concludes our initial comments in this pre-close call. Please monitor how the FX rates and the SEB share price closes at the end of the quarter for the most up to date data. Before we move on to the Q&A session, I would like to highlight that we enter our silent period on October 1 and that our Q3 2024 interim report will be published on October 24.