

A nighttime photograph of a cityscape, likely Stockholm, featuring a large bridge with traffic light trails. The sky is dark blue, and the city lights are visible. A prominent church spire is visible in the background. The bridge has multiple lanes of traffic, and the light trails from cars and streetlights create a sense of motion. A large green diagonal shape is overlaid on the right side of the image.

Interim Report

January–September 2019

STOCKHOLM 23 OCTOBER 2019

Interim Report January–September 2019

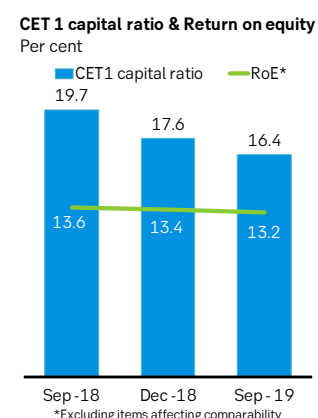
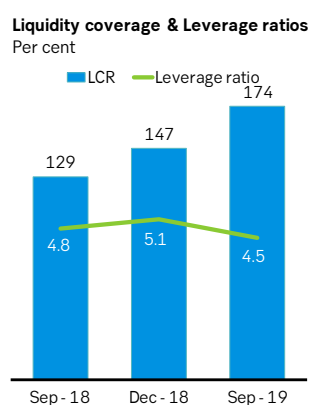
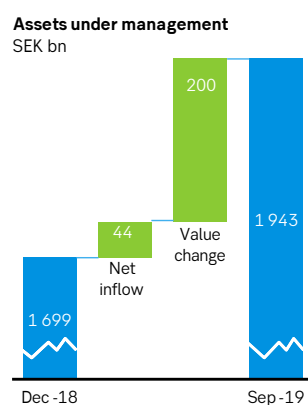
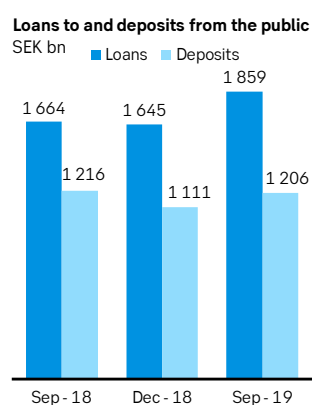
The quarter in brief

- Solid financial performance despite seasonal slowdown and softer macroeconomic environment
- Broad-based demand for advisory services, lending and capital market financing
- Swedish mortgage net sales in line with SEB's market share

Summary

SEK m	Q3			Q2		Q3		Jan–Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018		
Total operating income	11 942	12 197	-2	11 433	4	36 045	34 123	6	45 868		
Total operating expenses	-5 589	-5 708	-2	-5 421	3	-16 918	-16 379	3	-21 940		
Net expected credit losses	- 489	- 386	27	- 424	15	-1 297	- 753	72	-1 166		
Operating profit before items affecting comparability	5 864	6 103	-4	5 587	5	17 831	17 011	5	22 779		
Operating profit	5 864	6 103	-4	5 587	5	17 831	21 517	-17	27 285		
NET PROFIT	4 772	4 892	-2	4 539	5	14 346	18 558	-23	23 134		
Return on equity, %	13.2	13.9		12.7		13.1	17.7		16.3		
Return on equity excluding items affecting comparability, %	13.2	13.9		13.1		13.2	13.6		13.4		
Basic earnings per share, SEK	2.21	2.26		2.10		6.64	8.57		10.69		

Volumes and key ratios



President's comment

In the third quarter, leading economic indicators pointed to further slowdown in global economic growth. With inflation at low levels, central banks responded to downside growth risks by lowering interest rates and continued quantitative easing.

The Federal Reserve cut rates twice, to 2.0 per cent, in 2019. In the third quarter the European Central Bank cut the deposit rate by 10 basis points to negative 0.50 per cent and resumed its asset purchase programme, driving the 10-year German government bond yield to a record-low level. As interest rates have fallen, the amount of negative-yielding debt soared to around USD 17 trillion, corresponding to nearly 30 per cent of all bonds outstanding. This negative-yield environment is a challenge for the financial industry, particularly for life and pension insurance companies, as pension liabilities increase as discount rates fall. In contrast, the accommodative monetary policy actions gave continued support to equity and other asset prices during the quarter. The Swedish krona depreciated by 1.6 and 5.8 percentage points, respectively versus the euro and US dollar, during the quarter.

Solid financial performance in an uncertain market

Despite a softening macroeconomic environment and a seasonal slowdown, clients remained active in the third quarter and we continued to execute on our strategic focus areas: advisory leadership, operational excellence and extended presence.

In the division Large Corporates & Financial Institutions, income generated from advisory services as well as bank and capital markets financing resulted in a year-on-year increase in operating income of 7 per cent. SEB's custody business experienced strong inflows of assets – SEK 563bn in the third quarter – which was particularly rewarding as this has been one of the top investment areas for SEB over the last years. In the short term, the pipeline for lending and investment banking activity continues to look promising. However, SEB recognises that the macroeconomic outlook has continued to weaken.

The division Corporate & Private Customers experienced another quarter with strong financial performance and SEB's ranking in external customer satisfaction surveys improved. Lending growth remained strong and SEB continued to grow its market share within corporate and mortgage lending, while margins on new sales remained stable. Assets under management increased by SEK 11bn in the third quarter.

Within the Life division, margin pressure on insurance and pension services continued. Thus, cross-selling and process automation remain key for profitability and economies of scale to be maintained. In the Investment Management division, financial performance was primarily driven by higher market values, while net inflows of assets under management were muted. In the Baltics, demand for financial services remained high, but SEB maintained its balanced growth path in line with strategy.



To sum up, our diversified business model remains 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 0.08 per cent. SEB reported a capital buffer of 170 basis points above regulatory requirements. The buffer remains in line with our target, aiming to ensure that we have the financial strength needed to support our customers going forward.

Responding to changing customer behaviour

The long-term trend of our customers going more digital continues, with the mobile app being the preferred channel in SEB. Today, mobile interactions represent more than 80 per cent of all customer interactions in SEB in Sweden and we continue to see increasing activity in both the private and corporate segments. As a response to our customers' behaviour, we continue to execute on our transformation agenda, focusing on connectivity, automation and analytics in order to enhance efficiency, reduce risk and improve customer experience. Innovation is also an important part of our transformation agenda and during the third quarter, SEBx – which is our independent innovation venture – entered into a partnership with the fintech company, Thought Machine, to use its cloud-based core banking engine as part of its technology platform.

Similar to digitalisation, sustainability continues to grow as a theme among customers, investors and regulators. Sustainability has been an integrated part of SEB's business for many years and we continue to develop sustainable products and services. We recognise that climate change is a global challenge in need of international collaboration. In the third quarter, SEB was therefore one of 131 banks globally to sign the UNEP FI Principles for Responsible Banking. By committing to these principles, SEB is contributing to the establishment of an industry-wide strategic framework aiming to increase banks' positive impact on environment and society.

A handwritten signature in blue ink that reads "Johan Torgler". The signature is fluid and cursive, written in a professional style.

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The first nine months

Operating profit before items affecting comparability increased by SEK 820m, 5 per cent, and amounted to SEK 17,831m (17,011). There were no items affecting comparability in the first nine months 2019, but in 2018 such items amounted to SEK 4,506m (see note 6). Net profit amounted to SEK 14,346m (18,558).

Operating income

Total operating income increased by SEK 1,922m, 6 per cent, compared with the first nine months 2018 and amounted to SEK 36,045m (34,123).

Net interest income amounted to SEK 17,020m, which represented an increase of 8 per cent year-on-year (15,807).

SEK m	Jan-Sep		Change %
	2019	2018	
Customer-driven NII	18 902	17 314	9
NII from other activities	-1 882	-1 507	25
Total	17 020	15 807	8

Customer-driven net interest income includes the net interest income derived from loans to and deposits from the public and also reflects an internal funding pricing element. Customer-driven net interest income increased by SEK 1,588m year-on-year. There was a positive lending volume effect, which however was offset by the negative lending margin development. The Swedish repo rate increased in the beginning of the year and the compensation to the divisions for deposits from treasury was higher. In all, 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 375m lower year-on-year. One explanatory factor was treasury's internal compensation for deposits. Applying IFRS 16, the new accounting rules for leases, increased interest expense by SEK 70m. Regulatory fees, for both resolution funds and deposit guarantees, were SEK 264m lower year-on-year and amounted to SEK 1,607m (1,871). 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 nine months 2018 and amounted to SEK 13,719m (13,517).

The mergers and acquisitions activities were fairly high throughout the year. Compared with the first nine months 2018, gross fees from the issuance of securities and advisory services increased by SEK 240m. Gross fee income from

custody and mutual funds, excluding performance fees, decreased by SEK 299m year-on-year (see note 3). Customers' new investments were primarily made in products with lower margins. Performance fees increased by SEK 37m compared with the first nine months of 2018. Net payment and card fees increased by 5 per cent year-on-year to SEK 3,016m (2,880). Gross lending fees increased by SEK 245m year-on-year as loan volumes increased. The net life insurance commissions related to the unit-linked insurance business decreased by SEK 99m year-on-year. The decrease was partly due to the divestment of SEB Pension in 2018 (see note 6).

Net financial income increased by 5 per cent to SEK 4,795m (4,567).

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. The effect in the fair value credit adjustment¹⁾ was negative and amounted to SEK -268m (38). Other life insurance income, net, decreased by SEK 364m to SEK 503m year-on-year, primarily due to the divestment of SEB Pension (see note 6). There was also a decrease in income from traditional insurance due to lower long-term interest rates.

Net other income increased to SEK 510m (233). 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 16,918m (16,379).

Staff costs increased by 2 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 14,909 (14,751 for the full-year 2018). IFRS 16 effects decreased other expenses and increased depreciation costs. Ordinary supervisory fees amounted to SEK 114m (118).

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.

Net expected credit losses

Net expected credit losses remained low and amounted to SEK 1,297m (753). Asset quality was high and the net expected credit loss level was continued low at 8 basis points (5).

Items affecting comparability

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

Comparative numbers (in parenthesis throughout the report):

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

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

Income tax expense

Income tax expense amounted to SEK 3,486m (2,959) with an effective tax rate of 20 per cent (14).

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. The effective tax rate was also affected by certain small tax-exempt income.

Return on equity

Return on equity for the first nine months of 2019 was 13.1 per cent (17.7). Excluding items affecting comparability return on equity for the first nine months 2019 was 13.2 per cent (13.6).

Other comprehensive income

Other comprehensive income amounted to SEK -2,200m (1,407).

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 0.75 per cent (2.0 at year-end 2018) which increased the pension obligation substantially. The value of the pension assets increased but the *net value* of the defined benefit pension plan decreased which affected other comprehensive income by SEK -2,334m (1,252).

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 184m (72).

The third quarter

Operating profit was seasonally lower in the third quarter and decreased by SEK 239m, 4 per cent, to SEK 5,864m (6,103). *Net profit* amounted to SEK 4,772m (4,892). Compared with the third quarter 2018, the *operating profit* improved by 5 per cent.

Operating income

Total operating income decreased by SEK 255m, 2 per cent, compared with the second quarter 2019 and amounted to SEK 11,942m (12,197). Operating income increased by 4 per cent compared with the third quarter 2018.

Net interest income amounted to SEK 5,983m, which represented an increase of 5 per cent compared with the second quarter (5,692) and an increase by 12 per cent year-on-year.

	Q3	Q2	Q3
SEK m	2019	2019	2018
Customer-driven NII	6 298	6 238	6 041
NII from other activities	-315	-546	-722
Total	5 983	5 692	5 319

Customer-driven net interest income increased by SEK 60m compared with the second quarter 2019. A positive lending volume effect was partially offset by a negative lending margin development. Deposit margins decreased, primarily driven by lower compensation for deposits from treasury in the third quarter.

There was an opposite effect in net interest income from other activities, i.e. treasury. Other short-term effects, related to Markets operations, contributed positively to net interest income. Regulatory fees, including both resolution fund and deposit guarantee fees, were SEK 38m higher than the second quarter and amounted to SEK 581m (542). Both fee types were affected by risk adjustments. In total, net interest income from other activities improved by SEK 231m compared with the second quarter 2019.

Net fee and commission income decreased by 1 per cent from the second quarter and amounted to SEK 4,693m (4,735). Year-on-year, net fee and commission income increased by 4 per cent.

Gross fees from the issuance of securities and advisory services increased by SEK 42m in the third quarter and almost doubled year-on-year. Gross fee income from custody and mutual funds, excluding performance fees, increased by SEK 47m in the third quarter, driven by improved equity markets. Performance fees decreased by SEK 45m in the third quarter, however, due to seasonality. Net payment and card fees decreased by 4 per cent in the third quarter when customer activity was seasonally lower. Gross lending fees decreased by SEK 50m in the third quarter but increased by SEK 110m year-on-year. The net life insurance commissions related to the unit-linked insurance business increased by 2 per cent compared with the second quarter 2019.

Net financial income decreased by 19 per cent to SEK 1,196m (1,482) and decreased by 21 per cent year-on-year.

The fair value credit adjustment¹⁾ amounted to SEK -160m versus -102m in the second quarter. Other life insurance income, net, dropped by 25 per cent quarter on quarter, to SEK 150m and by 22 per cent compared with the third quarter 2018. Traditional insurance was challenged in the current interest rate environment.

Net other income decreased by 76 per cent to SEK 70m (287). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item.

Operating expenses

Total operating expenses decreased by 2 per cent to SEK 5,589m (5,708). Compared with the third quarter 2018, operating expenses increased by 3 per cent.

Staff costs levelled out and remained on the same level as the second quarter. Other expenses decreased by 4 per cent mainly due to seasonal effects. Ordinary supervisory fees amounted to SEK 33m (41).

Net expected credit losses

Net expected credit losses remained low and amounted to SEK 489m (386). Asset quality was high and the net expected credit loss level was continued low at 9 basis points (7).

Items affecting comparability

There were no *items affecting comparability* in the third quarter 2019.

Income tax expense

Income tax expense amounted to SEK 1,092m (1,211) with an effective tax rate of 19 per cent (20).

Return on equity

Return on equity for the third quarter 2019 decreased to 13.2 per cent (13.9).

Other comprehensive income

Other comprehensive income amounted to SEK -1,511m (-237).

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 0.75 per cent (1.2 at 30 June) 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 -1,473m (-265).

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 -80m (101).

Business volumes

Total assets at 30 September 2019 amounted to SEK 3,046bn, representing an increase of SEK 478bn since year-end (2,568).

Loans

SEK bn	30 Sep	31 Dec	30 Sep
	2019	2018	2018
General governments	17	19	24
Financial corporations	79	68	76
Non-financial corporations	882	806	808
Households	622	598	592
Collateral margin	58	56	48
Reverse repos	201	98	116
Loans to the public	1 859	1 645	1 664

Loans to the public increased by SEK 214bn since year-end 2018 and amounted to SEK 1,859bn (1,645). Loans to non-financial corporations increased by SEK 76bn and household lending increased by SEK 24bn. While reverse repos (contractual agreements to buy and subsequently sell back securities) 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 about the credit portfolio is available on page 8.

Deposits and borrowings

SEK bn	30 Sep	31 Dec	30 Sep
	2019	2018	2018
General governments	40	27	27
Financial corporations	226	226	334
Non-financial corporations	503	461	447
Households	344	323	318
Collateral margin	55	49	53
Repos	28	3	14
Registered bonds	10	21	24
Deposits and borrowings from the public	1 206	1 111	1 216

Deposits and borrowings from the public increased by SEK 95bn to SEK 1,206bn (1,111). Deposits from non-financial corporations and households increased by SEK 63bn in 2019, from a low level at year-end. Repos, which are generally short-term in nature, increased by SEK 25bn in 2019.

Assets under management and custody

Total assets under management amounted to SEK 1,943bn (1,699). The market value increased by SEK 200bn of which SEK 16bn was an FX-effect. The net inflow of assets since year-end amounted to SEK 44bn. In the third quarter standalone, the market value increased by SEK 39bn while there was a net outflow of SEK 29bn. The net outflow was caused by low-fee business volumes that were held for customers, but not proactively managed. Other assets under management flows developed positively.

Assets under custody increased compared with year-end and amounted to SEK 9,267bn (7,734). The increase was mainly driven by the stock market appreciation and a number of large new custody mandates.

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

In Sweden, SEB was named Business Bank of the Year for 2019 by Finansbarometern – an acknowledgement of the bank's strategic direction. Furthermore, the result of the Swedish Quality Index survey showed that SEB's customer satisfaction improved more than the industry average both among private and corporate customers.

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

Advisory leadership

SEB's private banking services are continuously under improvement. In the third quarter, private banking customers were provided access to a comprehensive overview of their investments including historical development and asset allocations. This significant improvement provides a better basis for advice and investment decisions.

SEB signed the UNEP Principles for Responsible Banking that are in line with the UN Development Goals and the Paris climate agreement. The bank is committed to continue to adapt the business strategy accordingly and has undertaken to measure and follow up its positive and negative climate impact. SEB also joined the non-profit association the Swedish National Advisory Board for Impact Investing. The purpose is to promote and mobilise private, institutional and non-governmental funding of solutions to challenges in society. Impact investments combine social, environmental and financial goals for a common good.

Operational excellence

SEB Campus, a key component in the business plan, was launched. This digital learning platform provides a wide choice of education. All co-workers have been challenged to spend twenty hours during the remainder of the year to drive their own development.

Increasing efficiency and customer value through improved ways of working is constantly underway in various parts of the bank. Examples include an automated application process for new mortgage loans, improved information and services to customers nearing pension, reallocating certain insurance administration to the Baltic service center, automating controls of regulatory reporting and automatic monitoring of payment transactions to prevent financial crime and ensure regulatory compliance.

Extended presence

SEBx – SEB's independent innovation venture – entered into a partnership with the fintech company, Thought Machine, to use its cloud-based core banking engine as part of its technology platform.

SEB's mobile bank app is taking advantage of the open banking opportunities. In the third quarter, private individuals were provided the possibility to have an aggregated overview of their accounts, savings and loans in other banks, not just SEB.

In addition to free bank services, the student offering was enhanced to include six months of home insurance for free via the mobile bank app. This is in co-operation with the insurance company Hedvig.

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. Further information is available in the Fact Book that is published quarterly.

Credit risk

SEK bn	30 Sep	31 Dec	30 Sep
	2019	2018	2018
Banks	98	93	100
Corporates	1 293	1 146	1 133
Commercial real estate management	191	186	186
Residential real estate management	126	110	108
Housing co-operative associations Sweden	63	63	63
Public administration	61	55	65
Household mortgage	588	552	552
Household other	88	87	87
Total credit portfolio	2 510	2 292	2 294

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, contingent liabilities and derivatives, increased by SEK 218bn to SEK 2,510bn (2,292). The corporate credit portfolio increased by SEK 147bn, or 13 per cent. The FX-adjusted corporate growth was 6 per cent. The household credit portfolio increased by SEK 38bn and commercial and residential real estate management increased by SEK 21bn.

Credit-impaired loans, gross (stage 3) increased since year-end by SEK 3,083m to SEK 11,242m. The gross credit-impaired loans (stage 3) were 0.65 per cent of total loans.

Market risk

SEB's business model is mainly driven by customer demand. 10-day Value-at-Risk (VaR) in the trading book increased during the first nine months and averaged SEK 102m compared with SEK 90m for the year 2018. 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.

VaR decreased to SEK 99m in the third quarter (114 for the second quarter) mainly due to lower interest rate risk.

Liquidity and long-term funding

Short-term funding, in the form of commercial paper and certificates of deposit, increased by SEK 200bn since year-end 2018. The reason for the increase was mainly the fulfilment of regulatory requirements on liquidity coverage in key currencies.

SEK 98bn of long-term funding matured during the first nine months of 2019 (of which SEK 52bn covered bonds and SEK 46bn senior debt). New issuance since year-end amounted to SEK 86bn (of which SEK 65bn was covered bonds and SEK 22bn senior preferred debt).

The liquid assets defined according to the EU delegated act with regard to liquidity coverage requirements amounted to SEK 567bn at 30 September 2019 (403). The Liquidity

Coverage Ratio (LCR) must be at least 100 per cent. At the end of the quarter, the LCR was 174 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 108 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 Sep	31 Dec	30 Sep
Own funds requirement, Basel III	2019	2018	2018
Risk exposure amount, SEK bn	777	716	632
Common Equity Tier 1 capital ratio, %	16.4	17.6	19.7
Tier 1 capital ratio, %	18.5	19.7	22.1
Total capital ratio, %	20.9	22.2	25
Leverage ratio, %	4.5	5.1	4.8

SEB's Common Equity Tier 1 (CET1) capital ratio was 16.4 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. Otherwise, the main reason for the decrease in the CET1 capital ratio was the increase by SEK 61bn in REA (see table).

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 at year-end). The Swedish countercyclical buffer increased by 0.3 percentage units in the third quarter, but was offset by lower Pillar 2 requirements for pension risk and interest rate risk in the banking book. The bank aims to have a buffer of around 150 basis points above the capital requirement. The buffer shall cover sensitivity to currency fluctuations, changes in net value of the Swedish defined benefit pension plan as well as general macroeconomic uncertainties. Currently the buffer is 170 basis points.

Risk exposure amount

SEK bn	Jan-Sep 2019
Balance 31 Dec 2018	716
Asset size	22
Asset quality	1
Foreign exchange movements	20
Model updates, methodology & policy, other	8
Underlying market and operational risk changes	9
- where of market risk	8
- where of operational risk	0
- where of CVA risk	1
Balance 30 Sep 2019	777

Total REA increased by SEK 61bn to SEK 777bn since year-end 2018. Foreign exchange movements and increasing credit volumes, primarily corporate, contributed to higher credit risk REA. Market risk REA increased in the second quarter but reverted somewhat in the third quarter. Model updates increased REA by SEK 8bn, primarily due to the implementation of IFRS 16 and updated credit risk models in the Baltic division.

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 September 2019, the internally assessed capital requirement, including insurance risk, amounted to SEK 70bn (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 67bn (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 second quarter 2019, operating income would have been SEK 6m lower with unchanged currency exchange rates while operating expenses would have been SEK 5m lower for the same period.

Compared with the first nine months 2018, operating income would have been SEK 417m lower with unchanged currency exchange rates while operating expenses would have been SEK 193m lower for the same period.

Compared with year-end the positive currency effect on loans to and deposits from the public was SEK 37bn and 33bn, respectively. Total REA reflects a SEK 20bn positive currency effect while total assets were SEK 70bn higher.

Uncertainties

Macroeconomic indicators are contributing to growing concerns around a noticeable slowdown in growth. 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. SEB does not currently forecast any change in the

Swedish repo rate, which is currently -0.25 per cent, until 2021.

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. Anti-money laundering (AML) reviews are ongoing in several jurisdictions, including the Nordic and the Baltic countries. In Latvia, as part of the regular supervisory activities, the local financial supervisory authority is conducting an AML review. It is expected to be resolved in the coming quarter and may lead to criticism and/or sanction.

Organisational changes

Masih Yazdi (Finance Director) has been appointed Group CFO. He will continue to report to the President & CEO and remain member of the GEC. Nina Korfu-Pedersen (Head of Group Finance) has been appointed Head of Business Support & Operations. She will continue to report to the President & CEO and remain member of the GEC. Petra Ålund (Head of Technology) has been appointed member of the GEC and will report to the President & CEO. Nicolas Moch (CIO) will report to Petra Ålund and will also be joining as member of the GEC. Martin Johansson has been appointed Senior Advisor to the President & CEO and will leave his current role as Head of Business Support & Chief of Staff. He will leave as member of the Group Executive Committee (GEC) and continue as one of its additional members. Javiera Ragnartz (Head of Investment Management) and Mark Luscombe (Country Head of UK) have been appointed additional members of the GEC. All changes are effective as of 1 January 2020.

Financial statements – SEB Group

Income statement, condensed

SEK m	Q3		Q2		Q3		Jan–Sep			Full year 2018
	2019	2019	%	2018	%	2019	2018	%		
Net interest income ¹⁾	5 983	5 692	5	5 319	12	17 020	15 807	8	21 022	
Net fee and commission income	4 693	4 735	-1	4 512	4	13 719	13 517	2	18 364	
Net financial income	1 196	1 482	-19	1 506	-21	4 795	4 567	5	6 079	
Net other income	70	287	-76	97	-28	510	233	119	402	
Total operating income	11 942	12 197	-2	11 433	4	36 045	34 123	6	45 868	
Staff costs	-3 603	-3 618	0	-3 559	1	-10 853	-10 622	2	-14 004	
Other expenses ¹⁾	-1 607	-1 680	-4	-1 681	-4	-4 877	-5 210	-6	-7 201	
Depreciation, amortisation and impairment of tangible and intangible assets ¹⁾	- 379	- 410	-8	- 182	108	-1 188	- 547	117	- 735	
Total operating expenses	-5 589	-5 708	-2	-5 421	3	-16 918	-16 379	3	-21 940	
Profit before credit losses	6 353	6 489	-2	6 012	6	19 127	17 745	8	23 928	
Gains less losses from tangible and intangible assets	1	0		- 1		1	20	-94	18	
Net expected credit losses	- 489	- 386	27	- 424	15	-1 297	- 753	72	-1 166	
Operating profit before items affecting comparability	5 864	6 103	-4	5 587	5	17 831	17 011	5	22 779	
Items affecting comparability							4 506	-100	4 506	
Operating profit	5 864	6 103	-4	5 587	5	17 831	21 517	-17	27 285	
Income tax expense	-1 092	-1 211	-10	-1 048	4	-3 486	-2 959	18	-4 152	
NET PROFIT	4 772	4 892	-2	4 539	5	14 346	18 558	-23	23 134	
Attributable to shareholders of Skandinaviska Enskilda Banken AB	4 772	4 892	-2	4 539	5	14 346	18 558	-23	23 134	
Basic earnings per share, SEK	2.21	2.26		2.10		6.64	8.57		10.69	
Diluted earnings per share, SEK	2.20	2.25		2.09		6.60	8.52		10.63	

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.

Statement of comprehensive income

SEK m	Q3		Q2		Q3		Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
NET PROFIT	4 772	4 892	-2	4 539	5	14 346	18 558	-23	23 134	
Cash flow hedges	- 28	- 156	-82	- 114	-76	- 356	- 673	-47	- 880	
Translation of foreign operations	- 52	257		- 198	-74	540	745	-28	582	
Items that may subsequently be reclassified to the income statement:	- 80	101	-178	- 312	-74	184	72	156	- 298	
Own credit risk adjustment (OCA) ¹⁾	41	- 73		- 17		- 50	83		221	
Defined benefit plans	-1 473	- 265		1 697		-2 334	1 252		- 846	
Items that will not be reclassified to the income statement:	-1 432	- 339		1 680	-185	-2 384	1 335		- 625	
OTHER COMPREHENSIVE INCOME	- 1 511	- 237		1 368		- 2 200	1 407		- 923	
TOTAL COMPREHENSIVE INCOME	3 261	4 655	-30	5 906	-45	12 145	19 964	-39	22 211	
Attributable to shareholders of Skandinaviska Enskilda Banken AB	3 261	4 655	-30	5 906	-45	12 145	19 964	-39	22 211	

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

Balance sheet, condensed

SEK m	30 Sep 2019	1 Jan ³⁾ 2019	31 Dec 2018	30 Sep 2018
Cash and cash balances at central banks	257 099	209 115	209 115	263 494
Loans to central banks	3 647	33 294	33 294	17 481
Loans to credit institutions ²⁾	52 589	44 287	44 287	73 249
Loans to the public	1 858 967	1 644 825	1 644 825	1 664 468
Debt securities	259 661	156 128	156 128	216 908
Equity instruments	74 113	50 434	50 434	57 617
Financial assets for which the customers bear the investment risk	306 827	269 613	269 613	299 905
Derivatives	170 033	115 463	115 463	123 163
Other assets ³⁾	63 260	50 296	44 357	61 979
TOTAL ASSETS	3 046 196	2 573 455	2 567 516	2 778 264
Deposits from central banks and credit institutions	174 068	135 719	135 719	124 805
Deposits and borrowings from the public ¹⁾	1 206 463	1 111 390	1 111 390	1 216 470
Financial liabilities for which the customers bear the investment risk	307 605	270 556	270 556	300 842
Liabilities to policyholders	25 834	21 846	21 846	21 638
Debt securities issued	894 170	680 670	680 670	714 503
Short positions	57 233	23 144	23 144	53 565
Derivatives	133 830	96 872	96 872	104 422
Other financial liabilities	3 725	3 613	3 613	4 417
Other liabilities ³⁾	97 180	81 099	74 916	91 353
Total liabilities	2 900 109	2 424 910	2 418 727	2 632 016
Equity	146 088	148 545	148 789	146 248
TOTAL LIABILITIES AND EQUITY	3 046 196	2 573 455	2 567 516	2 778 264

1) Deposits covered by deposit guarantees 308 681 292 238 292 238 285 134

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	Other reserves ¹⁾							Equity
	Share capital	Available-for-sale financial assets	OCA ²⁾	Cash flow hedges	Translation of foreign operations	Defined benefit plans	Retained earnings	
Jan-Sep 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							14 346	14 346
Other comprehensive income (net of tax)			-50	-356	540	-2 334		-2 200
Total comprehensive income			-50	-356	540	-2 334	14 346	12 145
Dividend to shareholders							-14 069	-14 069
Equity-based programmes ⁵⁾							-403	-403
Change in holdings of own shares							-131	-131
Closing balance	21 942		-337	-44	225	199	124 102	146 088
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-Sep 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	0	-507	1 192	-897	3 379	113 732	138 841
Net profit							18 558	18 558
Other comprehensive income (net of tax)			83	-673	745	1 252		1 407
Total comprehensive income			83	-673	745	1 252	18 558	19 964
Dividend to shareholders							-12 459	-12 459
Equity-based programmes ⁵⁾							-245	-245
Change in holdings of own shares							146	146
Closing balance	21 942	0	-424	519	-152	4 630	119 731	146 248

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-Sep 2019	Jan-Dec 2018	Jan-Sep 2018
Number of shares owned by SEB, million	2019	2018	2018
Opening balance	30.3	27.1	27.1
Repurchased shares for equity-based programmes	8.7	6.9	7.0
Sold/distributed shares	-5.7	-3.8	-3.2
Closing balance	33.2	30.3	30.9
Market value of shares owned by SEB, SEK m	3 006	2 607	3 067

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-Sep			Full year
	2019	2018	%	2018
Cash flow from operating activities	48 202	81 078	- 41	28 259
Cash flow from investment activities	- 875	7 127		7 014
Cash flow from financing activities	- 14 069	- 12 459	13	- 12 459
Net increase in cash and cash equivalents	33 258	75 746	- 56	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	14 599	12 641	15	12 336
Net increase in cash and cash equivalents	33 258	75 746	- 56	22 814
Cash and cash equivalents at the end of period¹⁾	267 436	272 816	- 2	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

	Q3	Q2	Q3	Jan–Sep		Full year
	2019	2019	2018	2019	2018	2018
Return on equity, %	13.2	13.9	12.7	13.1	17.7	16.3
Return on equity excluding items affecting comparability ¹⁾ , %	13.2	13.9	13.1	13.2	13.6	13.4
Return on total assets, %	0.6	0.7	0.7	0.7	0.9	0.8
Return on risk exposure amount, %	2.5	2.6	2.9	2.5	4.0	3.7
Cost/income ratio	0.47	0.47	0.47	0.47	0.48	0.48
Basic earnings per share, SEK	2.21	2.26	2.10	6.64	8.57	10.69
Weighted average number of shares ²⁾ , millions	2 161	2 161	2 163	2 161	2 165	2 164
Diluted earnings per share, SEK	2.20	2.25	2.09	6.60	8.52	10.63
Weighted average number of diluted shares ³⁾ , millions	2 173	2 172	2 177	2 174	2 177	2 177
Net worth per share, SEK	74.32	72.78	75.07	74.32	75.07	74.74
Equity per share, SEK	67.60	66.11	67.60	67.60	67.60	68.76
Average shareholders' equity, SEK, billion	145.1	141.2	143.4	145.5	139.6	141.6
Net ECL level, %	0.09	0.07	0.08	0.08	0.05	0.06
Stage 3 Loans / Total Loans, gross, %	0.65	0.64	0.48	0.65	0.50	0.50
Stage 3 Loans / Total Loans, net, %	0.40	0.41	0.28	0.40	0.30	0.30
Liquidity Coverage Ratio (LCR) ⁴⁾ , %	174	149	129	174	129	147
<u>Own funds requirement, Basel III</u>						
Risk exposure amount, SEK m	777 243	763 519	631 958	777 243	631 958	716 498
Expressed as own funds requirement, SEK m	62 179	61 082	50 557	62 179	50 557	57 320
Common Equity Tier 1 capital ratio, %	16.4	16.6	19.7	16.4	19.7	17.6
Tier 1 capital ratio, %	18.5	18.7	22.1	18.5	22.1	19.7
Total capital ratio, %	20.9	21.1	25.0	20.9	25.0	22.2
Leverage ratio, %	4.5	4.6	4.8	4.5	4.8	5.1
Number of full time equivalents ⁵⁾	14 887	14 988	14 531	14 909	14 769	14 751
Assets under custody, SEK bn	9 267	8 704	8 335	9 267	8 335	7 734
Assets under management, SEK bn	1 943	1 932	1 871	1 943	1 871	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 5,712,234 shares have been sold. Thus, at 30 September 2019 SEB owned 33,221,987 Class A-shares with a market value of SEK 3,006m.

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	Q3	Q2	Q1	Q4	Q3
	2019	2019	2019	2018	2018
Net interest income ¹⁾	5 983	5 692	5 345	5 215	5 319
Net fee and commission income	4 693	4 735	4 292	4 848	4 512
Net financial income	1 196	1 482	2 118	1 512	1 506
Net other income	70	287	153	169	97
Total operating income	11 942	12 197	11 907	11 744	11 433
Staff costs	-3 603	-3 618	-3 633	-3 382	-3 559
Other expenses ¹⁾	-1 607	-1 680	-1 590	-1 991	-1 681
Depreciation, amortisation and impairment of tangible and intangible assets ¹⁾	- 379	- 410	- 399	- 188	- 182
Total operating expenses	-5 589	-5 708	-5 622	-5 561	-5 421
Profit before credit losses	6 353	6 489	6 285	6 183	6 012
Gains less losses from tangible and intangible assets	1	0	0	- 2	- 1
Net expected credit losses	- 489	- 386	- 422	- 413	- 424
Operating profit before items affecting comparability	5 864	6 103	5 864	5 768	5 587
Items affecting comparability					
Operating profit	5 864	6 103	5 864	5 768	5 587
Income tax expense	-1 092	-1 211	-1 182	-1 192	-1 048
NET PROFIT	4 772	4 892	4 681	4 576	4 539
Attributable to shareholders of Skandinaviska Enskilda Banken AB	4 772	4 892	4 681	4 576	4 539
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	2.21	2.26	2.16	2.12	2.10
Diluted earnings per share, SEK	2.20	2.25	2.15	2.10	2.09

Operating segments

Income statement by segment

Jan-Sep 2019, SEK m	Large Corporates & Financial Institutions	Corporate & Private Customers	Baltic	Life ¹⁾	Investment Management & Group functions ¹⁾	Eliminations	SEB Group
Net interest income	6 921	8 051	2 387	- 11	- 367	39	17 020
Net fee and commission income	4 735	4 093	1 212	1 882	1 733	65	13 719
Net financial income	3 028	385	209	505	670	- 1	4 795
Net other income	198	17	- 4	62	246	- 9	510
Total operating income	14 883	12 545	3 805	2 438	2 281	93	36 045
Staff costs	-3 123	-2 529	- 635	- 639	-3 939	11	-10 853
Other expenses	-3 823	-2 866	- 813	- 523	3 253	- 105	-4 877
Depreciation, amortisation and impairment of tangible and intangible assets	- 51	- 51	- 22	- 16	-1 048		-1 188
Total operating expenses	-6 997	-5 446	-1 470	-1 178	-1 734	- 93	-16 918
Profit before credit losses	7 886	7 099	2 334	1 260	547	0	19 127
Gains less losses from tangible and intangible assets	0	0	1		0		1
Net expected credit losses	- 933	- 301	- 41	- 1	- 13	- 7	-1 297
Operating profit before items affecting comparability	6 953	6 797	2 294	1 259	535	- 7	17 831
Items affecting comparability							
Operating profit	6 953	6 797	2 294	1 259	535	- 7	17 831

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 in the interim Report and in addition presented separately in the Fact Book. 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	Q3		Q2		Q3		Jan–Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Net interest income	2 443	2 201	11	2 181	12	6 921	6 201	12	8 211	
Net fee and commission income	1 613	1 644	-2	1 445	12	4 735	4 632	2	6 433	
Net financial income	753	921	-18	772	-3	3 028	2 482	22	3 384	
Net other income	-50	237		30		198	109	81	309	
Total operating income	4 759	5 003	-5	4 427	7	14 883	13 424	11	18 337	
Staff costs	-1 034	-1 056	-2	-1 016	2	-3 123	-2 828	10	-3 858	
Other expenses	-1 235	-1 304	-5	-1 205	2	-3 823	-3 759	2	-4 990	
Depreciation, amortisation and impairment of tangible and intangible assets	-17	-17	1	-14	21	-51	-40	29	-55	
Total operating expenses	-2 286	-2 377	-4	-2 235	2	-6 997	-6 628	6	-8 903	
Profit before credit losses	2 473	2 626	-6	2 192	13	7 886	6 797	16	9 434	
Gains less losses from tangible and intangible assets	0	0		0		0	0	73	1	
Net expected credit losses	-349	-261	34	-287	22	-933	-443	111	-702	
Operating profit before items affecting comparability	2 124	2 365	-10	1 905	11	6 953	6 354	9	8 733	
Items affecting comparability										
Operating profit	2 124	2 365	-10	1 905	11	6 953	6 354	9	8 733	
Cost/Income ratio	0.48	0.48		0.50		0.47	0.49		0.49	
Business equity, SEK bn	70.8	67.6		64.4		67.4	63.8		63.8	
Return on business equity, %	9.2	10.7		8.9		10.5	10.0		10.3	
Number of full time equivalents ¹⁾	2 058	2 056		1 990		2 050	1 982		1 986	

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

- Large corporate customers continued to be very active
- Investments with sustainability criteria continued to grow rapidly among institutional investors
- Operating profit amounted to SEK 6,953m and return on business equity was 10.5 per cent

Comments on the first nine months

There was high customer activity across all product areas in the *Large Corporate* segment. After a cautious period, cash rich companies started to invest excess liquidity. Demand for cash management services was high. The lending portfolio increased, partly due to event-driven financing on the back of corporate finance activity. The low interest rates were favourable for new bond issues. Within the financial sponsor segment, customer activity decreased somewhat as a result of lower merger and acquisition volumes. The private equity market continued to be highly liquid with high asset prices.

Customers in the *Financial Institutions* segment became less active during the year as global macroeconomic concerns pushed the expected rate hikes into the future. Customers handled the uncertainty with cautiousness when hedging and allocating investments. While volatility and demand for traditional asset classes were low, the interest in illiquid investments, private equity and hedge funds increased.

Investments with sustainability criteria continued to grow, mainly driven by new regulatory requirements. Assets under custody increased to SEK 9,267bn (7,734), a proof of SEB's attractive custody offering with several new mandates.

Operating income for the first nine months increased to SEK 14,883m. Net interest income improved to SEK 6,921m mainly due to increased lending and deposit volumes. Other factors were the reduced resolution fund fee and internal pricing on deposits. Net fee and commission income increased slightly to SEK 4,735m driven by bond issues and mergers and acquisitions. Net financial income increased to SEK 3,028m mainly related to higher market activity in the beginning of the year. Additional employees contributed to increased operating expenses. Asset quality was high, however net expected credit losses increased to SEK 933m with a net expected credit loss level of 11 basis points.

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	Q3		Q2		Q3		Jan–Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Net interest income	2 606	2 673	-2	2 453	6	8 051	7 102	13	9 473	
Net fee and commission income	1 401	1 408	-1	1 387	1	4 093	4 158	-2	5 470	
Net financial income	116	122	-5	101	15	385	310	24	429	
Net other income	6	4	31	5	20	17	41	-59	47	
Total operating income	4 128	4 208	-2	3 946	5	12 545	11 611	8	15 418	
Staff costs	-836	-822	2	-838	0	-2 529	-2 499	1	-3 353	
Other expenses	-932	-974	-4	-911	2	-2 866	-2 738	5	-3 735	
Depreciation, amortisation and impairment of tangible and intangible assets	-21	-16	31	-14	48	-51	-43	19	-58	
Total operating expenses	-1 789	-1 811	-1	-1 764	1	-5 446	-5 281	3	-7 146	
Profit before credit losses	2 339	2 396	-2	2 182	7	7 099	6 331	12	8 272	
Gains less losses from tangible and intangible assets	0	0		0	131	0	0	-12		
Net expected credit losses	-129	-101	28	-97	34	-301	-312	-3	-427	
Operating profit before items affecting comparability	2 209	2 295	-4	2 086	6	6 797	6 018	13	7 845	
Items affecting comparability										
Operating profit	2 209	2 295	-4	2 086	6	6 797	6 018	13	7 845	
Cost/Income ratio	0.43	0.43		0.45		0.43	0.45		0.46	
Business equity, SEK bn	45.4	44.6		43.1		45.0	42.1		42.4	
Return on business equity, %	14.9	15.7		14.5		15.4	14.3		13.9	
Number of full time equivalents ¹⁾	3 507	3 601		3 583		3 591	3 601		3 596	

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

- Steady corporate lending growth
- High market share on new household mortgage sales during the second and third quarter
- Operating profit amounted to SEK 6,797m and return on business equity was 15.4 per cent

Comments on the first nine months

During the first nine months customer inflow and interaction were strong. New and appreciated functionalities were launched in the digital channels and customer satisfaction regarding advisory services remained high, especially among small- and medium sized companies and private customers, where satisfaction reached record levels during 2019.

Operating profit increased by 13 per cent. Net interest income increased by 13 per cent or SEK 949m, 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 2 per cent compared to previous year, mainly due to MiFID II related effects, although SEB Kort experienced strong growth in the corporate segment. Total operating expenses increased by 3 per cent, partly driven by increased IT development and regulatory demands. Net expected credit losses were low at SEK 301m with a net expected credit loss level of 4 basis points.

Corporate lending grew above overall market growth, driven by the small- and medium-sized segment. New full-service customers and customer activity resulted in increasing deposits and lending volumes adding up to higher corporate net interest income compared to last year. Corporate lending volumes grew by SEK 15bn since year-end and amounted to SEK 257bn.

Among private customers SEB had a strong focus on the household mortgage business, which resulted in a high new sales market share during the second and third quarter. Mortgage volumes grew by SEK 19bn since year-end and amounted to SEK 501bn. Private Banking experienced yet another quarter with strong growth in underlying business.

In total, lending volumes experienced steady growth, increasing by SEK 36bn to SEK 817bn. The inflow of total deposits continued and volumes grew by SEK 35bn to SEK 456bn (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	Q3			Q2			Q3			Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2019	2018	%	2018	
Net interest income	823	802	3	735	12	2 387	2 088	14	2 837			2 837	
Net fee and commission income	413	424	-2	375	10	1 212	1 072	13	1 449			1 449	
Net financial income	70	69	1	75	-8	209	201	4	257			257	
Net other income	0	-2	-76	0		-4	-15	-76	-21			-21	
Total operating income	1 305	1 293	1	1 186	10	3 805	3 345	14	4 522			4 522	
Staff costs	-223	-209	7	-206	8	-635	-594	7	-811			-811	
Other expenses	-280	-271	4	-258	8	-813	-773	5	-1 021			-1 021	
Depreciation, amortisation and impairment of tangible and intangible assets	-8	-7	6	-14	-45	-22	-40	-44	-53			-53	
Total operating expenses	-511	-487	5	-479	7	-1 470	-1 407	5	-1 885			-1 885	
Profit before credit losses	794	806	-1	707	12	2 334	1 938	20	2 637			2 637	
Gains less losses from tangible and intangible assets	1	0		-1		1	20	-96	19			19	
Net expected credit losses	11	-33		-44		-41	-10		-55			-55	
Operating profit before items affecting comparability	806	773	4	662	22	2 294	1 948	18	2 600			2 600	
Items affecting comparability													
Operating profit	806	773	4	662	22	2 294	1 948	18	2 600			2 600	
Cost/Income ratio	0.39	0.38		0.40		0.39	0.42		0.42			0.42	
Business equity, SEK bn	10.9	10.6		10.1		10.7	9.5		9.6			9.6	
Return on business equity, %	25.2	25.0		21.8		24.5	22.7		22.4			22.4	
Number of full time equivalents ¹⁾	2 362	2 366		2 350		2 346	2 389		2 377			2 377	

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

- Signs of economic slowdown
- Continued growth in loan and deposit volumes
- Operating profit amounted to SEK 2,294m and return on business equity was 24.5 per cent

Comments on the first nine months

The Baltic economies appeared to expand at a slower pace in the third quarter due to weaker industrial production, mainly linked to the deteriorating economic outlook in Western Europe. Private consumption has so far remained resilient, supported by rapid growth in real wages, low unemployment and healthy consumer confidence levels. Looking forward, potential weakening of the global economic outlook is the main concern for domestic businesses in the short term.

In the private segment, the stable growth in lending continued, led by mortgage loans where the margin on new lending remained above the average of the portfolio. Private customers were also more active using cards and payments products. Customers' use of SEB's digital service offerings increased, with an increasing number of video meetings and a higher share of sales transacted digitally. Income growth continued in the corporate segment driven mainly by an increase in the

loan portfolio. Total lending volumes grew by 4 per cent in local currency in the first nine months and amounted to SEK 160bn (148). There was steady growth in deposits in both private and corporate segments. Total deposit volumes grew by 5 per cent in local currency and amounted to SEK 151bn (138).

Operating profit increased by 14 per cent in local currency, or by SEK 346m, to SEK 2,294m. Net interest income increased by 11 per cent in local currency mainly due to higher lending volumes, but also due to expanded margins. Net fee and commission income was 10 per cent higher in local currency, mainly from increased customer activity and more card transactions. Operating expenses were 1 per cent higher in local currency, reflecting mainly the salary inflation prevalent across the region. Net expected credit losses were low at SEK 41m with a net expected credit loss level of 3 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	Q3			Q2		Q3		Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018		
Net interest income	-5	-3	42	-7	-34	-11	-21	-48	-28		
Net fee and commission income	647	635	2	690	-6	1 882	2 048	-8	2 655		
Net financial income	152	199	-24	195	-22	505	835	-40	953		
Net other income	14	-2		-11		62	0		-8		
Total operating income	808	829	-3	866	-7	2 438	2 862	-15	3 572		
Staff costs	-215	-206	5	-219	-2	-639	-807	-21	-1 017		
Other expenses	-172	-178	-3	-148	16	-523	-438	19	-615		
Depreciation, amortisation and impairment of tangible and intangible assets	-5	-5	0	-4	42	-16	-16	-3	-20		
Total operating expenses	-393	-390	1	-371	6	-1 178	-1 261	-7	-1 653		
Profit before credit losses	415	439	-6	496	-16	1 260	1 601	-21	1 920		
Gains less losses from tangible and intangible assets											
Net expected credit losses	0	-1	-50	0	4	-1	-2	-16	-2		
Operating profit before items affecting comparability	415	438	-5	495	-16	1 259	1 599	-21	1 917		
Items affecting comparability											
Operating profit	415	438	-5	495	-16	1 259	1 599	-21	1 917		
Cost/Income ratio	0.49	0.47		0.43		0.48	0.44		0.46		
Business equity, SEK bn	5.4	5.4		5.4		5.4	5.9		5.8		
Return on business equity, %	28.5	30.2		32.5		28.8	32.1		29.4		
Number of full time equivalents ¹⁾	1 030	1 037		1 020		1 041	1 178		1 146		

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

- Continued positive inflow in traditional insurance in Sweden
- Asset values increased in strong financial markets
- Operating profit amounted to SEK 1,259m and return on business equity was 28.8 per cent

Comments on the first nine months

Customers' demand for life insurance products, primarily in occupational pension and traditional life insurance, increased throughout the year. The competition and price pressure continues and it affects our ability to both retain and attract premiums. The financial markets were strong during the year. Customers in the Swedish traditional portfolios continued to benefit from strong investment performance return (9.6 per cent for occupational pension and 8.4 per cent for other insurance).

Total assets in the division's unit-linked insurance business increased from the beginning of the year by SEK 37bn to SEK 307bn. The increase is due to higher asset values in the financial markets.

Operating profit decreased by 21 per cent to SEK 1,259m year-on-year. The decrease in both income and expenses compared with 2018 was partly explained by the divestment of SEB Pension Denmark in 2018. Excluding this divestment, the nine-month profit decreased by 10 per cent or SEK 133m year-on-year. Net fee and commission income decreased compared to last year due to the divestment effect and margin pressure. Net financial income decreased compared to last year due to lower result in Swedish risk insurance, negative effects in traditional insurance from lower long-term interest rates as well as the divestment. Excluding the divestment, expenses were stable during the year.

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	Q3		Q2		Q3		Jan–Sep		Full year
	2019	2019	%	2018	%	2019	2018	%	2018
Net interest income	91	-85		41	121	-367	729		509
Net fee and commission income	588	617	-5	594	-1	1 733	1 648	5	2 393
Net financial income	107	169	-37	363	-71	670	707	-5	1 026
Net other income	107	45	135	76	41	246	103	139	91
Total operating income	893	747	20	1 075	-17	2 281	3 188	-28	4 018
Staff costs	-1 299	-1 328	-2	-1 284	1	-3 939	-3 907	1	-4 982
Other expenses	1 066	1 167	-9	780	37	3 253	2 204	48	3 178
Depreciation, amortisation and impairment of tangible and intangible assets	-328	-365	-10	-136	141	-1 048	-408	157	-549
Total operating expenses	-561	-526	7	-640	-12	-1 734	-2 110	-18	-2 353
Profit before credit losses	332	222	50	435	-24	547	1 077	-49	1 665
Gains less losses from tangible and intangible assets	0	0	-86	0	-149	0	0		-2
Net expected credit losses	-22	11		6		-13	25		25
Operating profit before items affecting comparability	310	233	33	441	-30	535	1 103	-52	1 689
Items affecting comparability						4 506	-100		4 506
Operating profit	310	233	33	441	-30	535	5 609	-90	6 195
Cost/Income ratio	0,63	0,70		0,60		0,76	0,66		0,59
Number of full time equivalents ¹⁾	5 930	5 928		5 588		5 881	5 620		5 647
SEB labelled mutual funds, SEK bn	724	703		685		724	685		622
Net sales, SEK bn	5	3		3		0	14		15

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

- SEB's assets under management fulfilling SEB's sustainability criteria increased to SEK 250bn
- SEB labelled mutual funds' asset values increased, driven by inflows and positive markets
- Operating profit amounted to SEK 535m

Comments on the first nine months

Investment Management: Volatility in the market continued also in the third quarter. Assets under management increased compared to the corresponding period last year driven by net inflows and positive market development. SEB labelled mutual funds amounted to SEK 724bn in total (685) of which SEK 250bn is managed according to SEB's sustainability criteria.

Operating income increased by 4 per cent year-on-year. Base commissions decreased with 2 per cent in the same period despite increased asset values. As part of the market trend, customer inflows continued to be in lower margin products, with outflows in high margin products. Volumes continued to increase in passively managed funds and products with less exposure to the equity markets. Performance fees increased compared

to the same period last year. Operating profit increased slightly year-on-year.

Group Treasury: Net interest income decreased compared with the first nine months 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 especially in the second quarter 2018.

Business support provides IT operations and development as well as back office services to the divisions. All relevant costs are charged to the divisions to be reflected in their results.

Other consists of Group staff, risk and compliance functions and other various smaller units.

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	Q3		%	Q3		Jan–Sep			Full year
	2019	2019		2018	%	2019	2018	%	
Interest income ¹⁾	10 785	10 540	2	10 068	7	31 274	29 424	6	39 299
Interest expense	-4 802	-4 848	-1	-4 749	1	-14 254	-13 618	5	-18 277
Net interest income	5 983	5 692	5	5 319	12	17 020	15 807	8	21 022
1) Of which interest income calculated using the effective interest method	8 940	8 909	0	8 455	6	26 441	24 300	9	32 907

Note 3 Net fee and commission income

SEK m	Q3			Q2		Q3		Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018		
Issue of securities and advisory services	326	284	15	168	94	843	603	40	1 050		
Secondary market and derivatives	455	549	-17	496	-8	1 528	1 604	-5	2 179		
Custody and mutual funds	1 977	1 975	0	2 036	-3	5 746	6 007	-4	8 082		
<i>Whereof performance fees</i>	11	56	-81	12	-12	79	42	89	227		
Payments, cards, lending, deposits, guarantees and other	2 843	2 877	-1	2 628	8	8 426	8 103	4	10 858		
<i>Whereof payments and card fees</i>	1 597	1 613	-1	1 498	7	4 692	4 417	6	5 955		
<i>Whereof lending</i>	687	737	-7	577	19	2 107	1 862	13	2 527		
Life insurance commissions	435	447	-3	449	-3	1 316	1 421	-7	1 848		
Fee and commission income	6 035	6 133	-2	5 777	4	17 858	17 737	1	24 018		
Fee and commission expense	-1 342	-1 398	-4	-1 265	6	-4 139	-4 221	-2	-5 654		
Net fee and commission income	4 693	4 735	-1	4 512	4	13 719	13 517	2	18 364		
<i>Whereof Net securities commissions</i>	2 026	2 106	-4	2 035	0	5 896	6 071	-3	8 220		
<i>Whereof Net payment and card fees</i>	1 019	1 057	-4	996	2	3 016	2 880	5	3 851		
<i>Whereof Net life insurance commissions</i>	310	305	2	330	-6	896	996	-10	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-Sep 2019							
Issue of securities and advisory	804	22	13	0	3			843
Secondary market and derivatives	1 195	321	15	0	-3	0		1 528
Custody and mutual funds	2 498	1 194	143	124	4 432	-2 644		5 746
Payments, cards, lending, deposits, guarantees and other	3 494	3 859	1 540	167	353	-987		8 426
Life insurance commissions				2 429		-1 113		1 316
Fee and commission income	7 991	5 396	1 711	2 720	4 784	-4 744		17 858
Jan-Sep 2018								
Issue of securities and advisory	565	24	12	0	1			603
Secondary market and derivatives	1 239	349	17	0	-1	0		1 604
Custody and mutual funds	2 657	1 338	145	126	4 486	-2 745		6 007
Payments, cards, lending, deposits, guarantees and other	3 591	3 710	1 373	160	293	-1 025		8 103
Life insurance commissions				2 584		-1 163		1 421
Fee and commission income	8 052	5 421	1 548	2 870	4 779	-4 933		17 737

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 in the interim Report and in addition presented separately in the Fact Book. 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	Q3		Q2		Q3		Jan–Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Equity instruments and related derivatives	586	449	31	449	31	1 874	794	136	637	
Debt instruments and related derivatives	- 407	- 153	165	240		- 619	294		636	
Currency and related derivatives	950	941	1	684	39	2 987	2 459	21	3 580	
Other life insurance income, net	150	200	-25	194	-22	503	867	-42	984	
Other	- 84	46		- 61	38	51	154	-67	242	
Net financial income	1 196	1 482	-19	1 506	-21	4 795	4 567	5	6 079	
<i>Whereof unrealized valuation changes from counterparty risk and own credit standing in derivatives</i>	-160	-102	57	90		-268	38		-119	

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

For the third quarter the effect from structured bonds offered to the public was approximately SEK 215m (Q2 2019: 220) in Equity related derivatives and a corresponding effect in Debt related derivatives SEK 65m (Q2 2019: -10).

Note 5 Net expected credit losses

SEK m	Q3		Q2		Q3		Jan–Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2018	
Impairment gains or losses - Stage 1	- 4	50		- 30	-87	- 1	- 127		- 117	
Impairment gains or losses - Stage 2	32	198	-84	- 178		261	- 274		- 134	
Impairment gains or losses - Stage 3	- 505	- 655	-23	- 157		- 1 588	- 180		- 613	
Impairment gains or losses	- 477	- 408	17	- 365	31	- 1 329	- 582	128	- 864	
Write-offs and recoveries										
Total write-offs	- 186	- 413	-55	- 218	-15	- 825	- 1 150	-28	- 1 768	
Reversals of allowance for write-offs	129	351	-63	113	14	649	825	-21	1 267	
Write-offs not previously provided for	- 57	- 62	-7	- 105	-46	- 176	- 325	-46	- 501	
Recovered from previous write-offs	45	84	-46	47	-3	208	153	36	199	
Net write-offs	- 12	22		- 59		32	- 172		- 302	
Net expected credit losses	- 489	- 386	27	- 424	15	- 1 297	- 753	72	- 1 166	
Net ECL level, %	0.09	0.07		0.08		0.08	0.05		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	Q3		Q2		Q3		Jan-Sep		Full year
	2019	2019	%	2018	%	2019	2018	%	2018
Other income							4 506	-100	4 506
Total operating income							4 506	-100	4 506
Items affecting comparability							4 506	-100	4 506
Income tax on IAC							22	-100	22
Items affecting comparability after tax							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 Sep 2019	31 Dec 2018	30 Sep 2018
Pledged assets for own liabilities ¹⁾	541 372	510 424	446 037
Pledged assets for liabilities to insurance policyholders	333 438	292 402	322 480
Other pledged assets ²⁾	100 245	97 713	185 285
Pledged assets	975 055	900 539	953 801
Contingent liabilities ³⁾	134 840	136 435	131 724
Commitments	660 111	589 032	605 767
Obligations	794 951	725 467	737 491

1) Of which collateralised for own issued covered bonds SEK 358,026m (349,800/347,688).

2) Of which securities lending SEK 6,918m (15,641/95,475) and pledged but unencumbered bonds SEK 64,032m (58,652/64,211).

3) Of which financial guarantees SEK 8,965m (19,932/28,192).

Note 8 Financial assets and liabilities

SEK m	30 Sep 2019		31 Dec 2018		30 Sep 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Loans ¹⁾	2 169 845	2 176 254	1 929 272	1 930 470	2 016 812	2 018 325
Debt securities	259 661	259 561	156 128	156 129	216 908	216 909
Equity instruments	74 113	74 113	50 434	50 434	56 733	56 733
Financial assets for which the customers bear the investment risk	306 827	306 827	269 613	269 613	299 905	299 905
Derivatives	170 033	170 033	115 463	115 463	123 163	123 163
Other	30 787	30 787	17 194	17 194	30 725	30 725
Financial assets	3 011 267	3 017 576	2 538 104	2 539 303	2 744 246	2 745 760
Deposits	1 380 532	1 378 806	1 247 109	1 245 958	1 341 275	1 340 592
Financial liabilities for which the customers bear the investment risk	307 605	307 605	270 556	270 556	300 842	300 842
Debt securities issued ²⁾	931 713	922 580	715 192	713 983	749 019	743 969
Short positions	57 233	57 233	23 144	23 144	53 565	53 565
Derivatives	133 830	133 830	96 872	96 872	104 422	104 422
Other	28 623	28 625	14 722	14 722	48 239	48 239
Financial liabilities	2 839 535	2 828 678	2 367 595	2 365 235	2 597 362	2 591 629

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 Sep 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		210 466		210 466		100 037		100 037
Debt securities	88 706	156 087	5	244 798	62 812	76 976	4	139 792
Equity instruments	54 239	6 617	13 257	74 113	38 697	3 835	7 902	50 434
Financial assets for which the customer bear the investment risk	298 350	7 913	564	306 827	261 056	7 943	614	269 613
Derivatives	877	168 669	487	170 033	1 327	113 626	510	115 463
Investment in associates ¹⁾	97		417	514	256		501	758
Total	442 269	549 753	14 729	1 006 750	364 148	302 417	9 531	676 096
Liabilities								
Deposits		55 464		55 464		12 497		12 497
Financial liabilities for which the customer bear the investment risk	299 201	7 848	555	307 605	262 029	7 924	603	270 556
Liabilities to policyholders - insurance	24 653	1 181		25 834	21 752	95		21 847
Debt securities issued		19 981		19 981		18 518		18 518
Short positions	44 704	12 461	67	57 233	18 710	4 371	63	23 144
Derivatives	650	132 660	520	133 830	2 616	93 783	473	96 872
Other financial liabilities at fair value	365	3 360		3 725	18	3 595		3 613
Total	369 573	232 956	1 142	603 672	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. At the end of the third quarter 2019 Equity instruments (Fund assets) within the insurance holdings at the amount of SEK 2.3bn have been transferred from level 2 into level 3. The transfers are a result of calibration of the classification methodology, in particular with regards to investment funds and other collective investment vehicles. The reclassification generates an increase of the sensitivity of Level 3 assets and liabilities to unobservable inputs of SEK 293m. The largest open market risk within Level 3 financial instruments remains in the traditional life insurance investment portfolios within the insurance business.

Changes in level 3, SEK m	Closing balance	Reclassification	Gain/loss in Income statement ¹⁾	Gain/loss in Other comprehensive income	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Exchange rate differences	Closing balance
	31 Dec 2018										30 Sep 2019
Assets											
Debt securities	4										5
Equity instruments	7 902		1 552		2 398	-1 014		2 281		138	13 257
Financial assets for which the customer bear the investment risk	614		30		4	-199		90		25	564
Derivatives	510		-60			-3	40				487
Investment in associates	501		-30		70	-126				2	417
Total	9 531		1 492		2 472	-1 342	40	2 371		1 65	14 729
Liabilities											
Financial liabilities for which the customer bear the investment risk	603		32			-195		90		25	555
Short positions	63		2							2	67
Derivatives	473		-57				104				520
Total	1 139		-23			-195	104	90		27	1 142

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 Sep 2019				31 Dec 2018			
	Assets	Liabilities	Net	Sensitivity	Assets	Liabilities	Net	Sensitivity
Derivative instruments ¹⁾²⁾⁴⁾	491	-520	-29	35	510	-473	37	45
Equity instruments ³⁾⁶⁾	3 323	-67	3 256	654	2 584	-63	2 521	505
Insurance holdings - Financial instruments ⁴⁾⁵⁾⁷⁾	10 053		10 053	1 288	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 Sep 2019	31 Dec 2018	30 Sep 2018
Stage 1 (12-month ECL)			
Debt securities	14 864	16 337	15 734
Loans ¹⁾	1 640 097	1 552 954	1 571 239
Financial guarantees and Loan commitments	644 136	602 884	568 578
Gross carrying amounts/Nominal amounts Stage 1	2 299 098	2 172 175	2 155 551
Debt securities	-1	-1	-1
Loans ¹⁾	-669	-643	-668
Financial guarantees and Loan commitments	-202	-195	-185
ECL allowances Stage 1	-872	-838	-854
Debt securities	14 863	16 336	15 733
Loans ¹⁾	1 639 428	1 552 311	1 570 571
Financial guarantees and Loan commitments	643 935	602 689	568 394
Carrying amounts/Net amounts Stage 1	2 298 226	2 171 337	2 154 698
Stage 2 (lifetime ECL)			
Loans ¹⁾²⁾	76 521	70 125	72 603
Financial guarantees and Loan commitments	16 168	16 712	17 285
Gross carrying amounts/Nominal amounts Stage 2	92 689	86 837	89 888
Loans ¹⁾²⁾	-1 232	-1 364	-1 526
Financial guarantees and Loan commitments	-173	-240	-233
ECL allowances Stage 2	-1 405	-1 605	-1 760
Loans ¹⁾²⁾	75 290	68 761	71 077
Financial guarantees and Loan commitments	15 995	16 472	17 052
Carrying amounts/Net amounts Stage 2	91 284	85 233	88 128
Stage 3 (credit impaired/lifetime ECL)			
Loans ¹⁾³⁾	11 242	8 158	8 330
Financial guarantees and Loan commitments	610	242	348
Gross carrying amounts/Nominal amounts Stage 3	11 851	8 400	8 677
Loans ¹⁾³⁾	-4 381	-3 331	-3 326
Financial guarantees and Loan commitments	-103	-38	-138
ECL allowances Stage 3	-4 484	-3 370	-3 464
Loans ¹⁾³⁾	6 861	4 827	5 004
Financial guarantees and Loan commitments	507	203	210
Carrying amounts/Net amounts Stage 3	7 367	5 030	5 214

The note continues on the next page

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

SEK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Total			
Debt securities	14 864	16 337	15 734
Loans ¹⁾²⁾³⁾	1 727 860	1 631 237	1 652 172
Financial guarantees and Loan commitments	660 914	619 838	586 211
Gross carrying amounts/Nominal amounts	2 403 638	2 267 412	2 254 116
Debt securities	-1	-1	-1
Loans ¹⁾²⁾³⁾	-6 281	-5 338	-5 520
Financial guarantees and Loan commitments	-477	-474	-556
ECL allowances	-6 760	-5 813	-6 077
Debt securities	14 863	16 336	15 733
Loans ¹⁾²⁾³⁾	1 721 578	1 625 899	1 646 652
Financial guarantees and Loan commitments	660 436	619 365	585 655
Carrying amounts/Net amounts	2 396 878	2 261 600	2 248 040
Stage 3 loans / Total loans, gross, %	0.65	0.50	0.50
Stage 3 loans / Total loans, net, %	0.40	0.30	0.30
ECL coverage ratio Stage 1, %	0.04	0.04	0.04
ECL coverage ratio Stage 2, %	1.52	1.85	1.96
ECL coverage ratio Stage 3, %	37.83	40.11	39.92
ECL coverage ratio, %	0.28	0.26	0.27

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

2) Whereof gross carrying amounts SEK 1,507m (1,169/1,318) and ECL allowances SEK 2m (2/1) under Lifetime ECLs - simplified approach for trade receivables.

3) Whereof gross carrying amounts SEK 2,225m (1,281/0) and ECL allowances SEK 909m (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 (ECL)

SEK m	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)	Total
Loans and Debt securities				
ECL allowance as of 31 December 2018	643	1 364	3 331	5 339
New and derecognised financial assets, net	264	-44	-81	140
Changes due to change in credit risk	-255	-137	1 604	1 211
Changes due to modifications		9	0	10
Changes due to methodology change	-5	-7	2	-11
Decreases in ECL allowances due to write-offs			-649	-649
Exchange rate differences	22	47	174	244
ECL allowance as of 30 September 2019	670	1 232	4 381	6 282
Financial guarantees and Loan commitments				
ECL allowance as of 31 December 2018	195	240	38	474
New and derecognised financial assets, net	47	-72	-17	-42
Changes due to change in credit risk	-49	-7	81	24
Changes due to modifications		0		0
Changes due to methodology change	0	-2	-1	-3
Exchange rate differences	10	13	1	24
ECL allowance as of 30 September 2019	202	173	103	477
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	311	-116	-97	98
Changes due to change in credit risk	-305	-145	1 684	1 235
Changes due to modifications		9	0	10
Changes due to methodology change	-5	-9	1	-13
Decreases in ECL allowances due to write-offs			-649	-649
Exchange rate differences	32	60	175	268
ECL allowance as of 30 September 2019	872	1 405	4 484	6 760

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)	Total	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/ lifetime ECL)	Total	Total
30 Sep 2019									
Banks	74 027	373	7	74 406	-2	-1	-2	-5	74 402
Finance and insurance	126 885	933	63	127 880	-26	-11	-6	-43	127 838
Wholesale and retail	77 727	3 521	1 201	82 450	-49	-60	-456	-565	81 885
Transportation	37 641	628	96	38 365	-17	-5	-67	-89	38 276
Shipping	57 317	2 113	1 868	61 298	-24	-17	-643	-684	60 615
Business and household services	142 647	7 716	836	151 199	-155	-248	-362	-765	150 433
Construction	12 064	1 329	181	13 574	-8	-11	-61	-79	13 494
Manufacturing	97 420	5 068	1 850	104 339	-67	-159	-761	-987	103 352
Agriculture, forestry and fishing	22 932	1 559	202	24 693	-11	-9	-46	-66	24 627
Mining, oil and gas extraction	20 653	6 715	1 547	28 916	-25	-132	-551	-709	28 207
Electricity, gas and water supply	44 961	902	217	46 080	-17	-65	-84	-166	45 914
Other	39 962	3 673	263	43 898	-21	-98	-73	-193	43 705
Corporates	680 210	34 157	8 325	722 692	-421	-817	-3 108	-4 346	718 346
Commercial real estate management	150 866	3 187	421	154 473	-16	-18	-141	-174	154 299
Residential real estate management	108 077	1 433	47	109 557	-8	-1	-2	-11	109 546
Real Estate Management	258 943	4 620	467	264 030	-24	-18	-142	-185	263 845
Housing co-operative associations	52 165	7 867	4	60 036	0	0	-2	-3	60 034
Public Administration	16 476	960	3	17 439	-1	-3	-1	-5	17 434
Household mortgages	518 806	23 166	1 236	543 208	-50	-138	-382	-570	542 638
Other	39 469	5 380	1 199	46 048	-171	-254	-744	-1 169	44 879
Households	558 276	28 545	2 435	589 256	-221	-392	-1 126	-1 739	587 517
TOTAL	1 640 097	76 521	11 241	1 727 859	-669	-1 231	-4 381	-6 281	1 721 578
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.

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 Sep 2019	31 Dec 2018	30 Sep 2018
Own funds			
Common Equity Tier 1 capital	127 090	125 857	124 699
Tier 1 capital	143 773	141 108	139 848
Total own funds	162 552	159 331	158 282
Own funds requirement			
Risk exposure amount	777 243	716 498	631 958
Expressed as own funds requirement	62 179	57 320	50 557
Common Equity Tier 1 capital ratio	16.4%	17.6%	19.7%
Tier 1 capital ratio	18.5%	19.7%	22.1%
Total capital ratio	20.9%	22.2%	25.0%
Own funds in relation to own funds requirement	2.61	2.78	3.13
Regulatory Common Equity Tier 1 capital requirement including buffer	11.5%	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	1.5%	1.2%	1.0%
Common Equity Tier 1 capital available to meet buffer ¹⁾	11.9%	13.1%	15.2%
Leverage ratio			
Exposure measure for leverage ratio calculation	3 230 206	2 773 608	2 914 154
of which on balance sheet items	2 691 091	2 311 250	2 475 559
of which off balance sheet items	539 115	462 358	438 595
Leverage ratio	4.5%	5.1%	4.8%

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

Note 14 Own funds

SEK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Shareholders equity according to balance sheet ¹⁾	146 088	148 789	145 364
Deductions related to the consolidated situation and other foreseeable charges	-10 307	-14 227	-9 845
Common Equity Tier 1 capital before regulatory adjustments ²⁾	135 781	134 562	135 519
Additional value adjustments	-1 267	-868	-726
Intangible assets	-6 579	-6 467	-6 458
Fair value reserves related to gains or losses on cash flow hedges	44	-313	-519
Negative amounts resulting from the calculation of expected loss amounts	-733	-78	
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	26	8	196
Defined-benefit pension fund assets		-816	-3 114
Direct and indirect holdings of own CET1 instruments	-181	-172	-198
Total regulatory adjustments to Common Equity Tier 1	-8 690	-8 705	-10 820
Common Equity Tier 1 capital	127 090	125 857	124 699
Additional Tier 1 instruments	16 682	15 251	15 149
Tier 1 capital	143 773	141 108	139 848
Tier 2 instruments	19 802	18 987	19 095
Net provisioning amount for IRB-reported exposures	177	436	539
Holdings of Tier 2 instruments in financial sector entities	-1 200	-1 200	-1 200
Tier 2 capital	18 779	18 222	18 434
Total own funds	162 552	159 331	158 282

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 Sep 2019		31 Dec 2018		30 Sep 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	12 780	1 022	11 602	928	11 129	890
Exposures to institutions	55 080	4 406	51 033	4 083	53 495	4 280
Exposures to corporates	376 507	30 121	342 713	27 417	337 835	27 027
Retail exposures	68 029	5 442	63 171	5 054	63 276	5 062
of which secured by immovable property	39 489	3 159	36 720	2 938	36 701	2 936
of which retail SME	7 716	617	7 027	562	7 422	594
of which other retail exposures	20 824	1 666	19 424	1 554	19 153	1 532
Securitisation positions	1 189	95	987	79	1 012	81
Total IRB approach	513 585	41 087	469 506	37 560	466 748	37 340
Credit risk standardised approach						
Exposures to central governments or central banks	264	21	2 241	179	2 018	161
Exposures to institutions	873	70	649	52	649	52
Exposures to corporates	14 395	1 152	14 539	1 163	15 482	1 239
Retail exposures	13 522	1 082	13 310	1 065	13 079	1 046
Exposures secured by mortgages on immovable property	2 422	194	2 184	175	2 573	206
Exposures in default	93	7	168	13	165	13
Exposures associated with particularly high risk	869	70	761	61	694	56
Exposures in the form of collective investment undertakings (CIU)	55	4	45	4	47	4
Equity exposures	3 592	287	4 045	324	2 945	236
Other items	12 173	974	5 885	471	8 473	678
Total standardised approach	48 257	3 861	43 827	3 506	46 126	3 690
Market risk						
Trading book exposures where internal models are applied	27 715	2 217	25 020	2 002	27 550	2 204
Trading book exposures applying standardised approaches	13 013	1 041	7 711	617	12 595	1 008
Foreign exchange rate risk	3 111	249	2 889	231	3 079	246
Total market risk	43 839	3 507	35 620	2 850	43 223	3 458
Other own funds requirements						
Operational risk advanced measurement approach	47 540	3 803	47 151	3 772	47 205	3 776
Settlement risk			9	1	0	0
Credit value adjustment	8 212	657	7 605	608	7 670	614
Investment in insurance business	16 633	1 331	16 633	1 331	16 633	1 331
Other exposures	3 769	302	4 556	365	4 353	348
Additional risk exposure amount ²⁾	95 408	7 633	91 591	7 327		
Total other own funds requirements	171 562	13 725	167 545	13 404	75 861	6 069
Total	777 243	62 179	716 498	57 320	631 958	50 557

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 Sep 2019	31 Dec 2018	30 Sep 2018
Average risk-weight			
Exposures to central governments or central banks	3.0%	3.0%	2.6%
Exposures to institutions	24.3%	25.4%	25.7%
Exposures to corporates	30.8%	31.0%	31.1%
Retail exposures	10.5%	10.2%	10.3%
of which secured by immovable property	6.9%	6.8%	6.8%
of which retail SME	59.2%	57.7%	58.5%
of which other retail exposures	32.0%	30.8%	30.3%
Securitisation positions	9.5%	9.3%	10.3%

Income statement

In accordance with FSA regulations SEK m	Q3			Q2			Q3			Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2019	2018	%	2018	
Interest income ¹⁾	8 992	8 753	3	8 189	10	26 082	24 016	9	32 548				
Leasing income	1 462	1 448	1	1 413	3	4 334	4 240	2	5 656				
Interest expense ¹⁾	-4 387	-4 370	0	-4 115	7	-13 004	-11 801	10	-16 344				
Dividends	527	1 195	-56	844	-38	4 420	8 454	-48	9 130				
Fee and commission income	3 382	3 416	-1	3 132	8	9 959	9 763	2	13 281				
Fee and commission expense	-743	-791	-6	-727	2	-2 333	-2 393	-3	-3 218				
Net financial income	800	1 276	-37	983	-19	3 655	2 980	23	4 574				
Other income	639	183		184		1 221	1 694	-28	1 770				
Total operating income	10 671	11 111	-4	9 903	8	34 335	36 952	-7	47 398				
Administrative expenses	-3 917	-4 040	-3	-3 775	4	-11 999	-11 349	6	-15 263				
Depreciation, amortisation and impairment of tangible and intangible assets	-1 447	-1 430	1	-1 375	5	-4 286	-4 126	4	-5 512				
Total operating expenses	-5 364	-5 470	-2	-5 150	4	-16 285	-15 476	5	-20 775				
Profit before credit losses	5 307	5 641	-6	4 753	12	18 050	21 476	-16	26 623				
Net expected credit losses	-458	-328	40	-371	24	-1 143	-724	58	-1 020				
Impairment of financial assets	-426			-458	-7	-741	-2 800	-74	-2 928				
Operating profit	4 424	5 314	-17	3 924	13	16 166	17 953	-10	22 675				
Appropriations	409	445	-8	570	-28	1 174	1 155	2	2 716				
Income tax expense	-808	-857	-6	-1 111	-27	-2 531	-2 424	4	-3 789				
Other taxes	-5	1		22		-4	-20		118				
NET PROFIT	4 019	4 903	-18	3 406	18	14 805	16 664	-11	21 720				

1) The presentation between Interest Income and Interest Expense of financing costs has been aligned with the group presentation. The movement amounted to SEK 1,622m in Q3 2018, SEK 3,761m for the period Jan-Sep 2018 and SEK 5,523m for the full year 2018.

Statement of comprehensive income

SEK m	Q3			Q2			Q3			Jan-Sep			Full year
	2019	2019	%	2018	%	2019	2018	%	2019	2018	%	2018	
NET PROFIT	4 019	4 903	-18	3 406	18	14 805	16 664	-11	21 720				
Cash flow hedges	-28	-155	-82	-114	-75	-356	-559	-36	-880				
Translation of foreign operations	-1	7		2		36	47	-24	-11				
Items that may subsequently be reclassified to the income statement:	-29	-148	-80	-112	-74	-321	-512	-37	-891				
OTHER COMPREHENSIVE INCOME	-29	-148	-80	-112	-74	-321	-512	-37	-891				
TOTAL COMPREHENSIVE INCOME	3 990	4 755	-16	3 294	21	14 484	12 747	14	20 829				

Balance sheet, condensed

SEK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Cash and cash balances with central banks	233 311	164 081	248 224
Loans to central banks	3 647	29 665	13 463
Loans to credit institutions	102 509	90 668	125 904
Loans to the public	1 613 290	1 410 687	1 427 115
Debt securities	229 582	119 227	178 796
Equity instruments	57 717	36 993	43 150
Derivatives	166 116	113 282	120 902
Other assets	129 723	113 672	126 493
TOTAL ASSETS	2 535 896	2 078 275	2 284 047
Deposits from central banks and credit institutions	228 041	160 022	176 100
Deposits and borrowings from the public ¹⁾	1 015 845	927 224	1 035 677
Debt securities issued	893 960	680 396	711 655
Short positions	57 233	23 144	53 565
Derivatives	130 727	95 269	103 399
Other financial liabilities	3 725	3 613	4 417
Other liabilities	72 929	55 059	71 066
Untaxed reserves	20 855	20 855	21 423
Equity	112 582	112 695	106 745
TOTAL LIABILITIES, UNTAXED RESERVES AND EQUITY	2 535 896	2 078 275	2 284 047
1) Private and SME deposits covered by deposit guarantee	208 747	202 823	200 155
Private and SME deposits not covered by deposit guarantee	111 098	154 785	150 624
All other deposits	696 000	569 616	684 898
Total deposits from the public	1 015 845	927 224	1 035 677

Pledged assets and obligations

SEK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Pledged assets for own liabilities	529 621	489 784	419 832
Other pledged assets	93 327	82 072	168 239
Pledged assets	622 947	571 856	588 071
Contingent liabilities	143 530	134 317	134 804
Commitments	597 976	535 168	549 879
Obligations	741 506	669 486	684 684

Capital adequacy

SEK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Own funds			
Common Equity Tier 1 capital	112 454	108 336	107 577
Tier 1 capital	129 136	123 587	122 726
Total own funds	147 738	141 904	141 319
Own funds requirement			
Risk exposure amount	695 001	640 442	557 621
Expressed as own funds requirement	55 600	51 235	44 610
Common Equity Tier 1 capital ratio	16.2%	16.9%	19.3%
Tier 1 capital ratio	18.6%	19.3%	22.0%
Total capital ratio	21.3%	22.2%	25.3%
Own funds in relation to capital requirement	2.66	2.77	3.17
Regulatory Common Equity Tier 1 capital requirement including buffers	8.6%	8.3%	8.1%
of which capital conservation buffer requirement	2.5%	2.5%	2.5%
of which countercyclical capital buffer requirement	1.6%	1.3%	1.1%
Common Equity Tier 1 capital available to meet buffers ¹⁾	11.7%	12.4%	14.8%

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

Signature of the President

The President declares that the Interim Report for the period 1 January 2019 through 30 September 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.

Stockholm, 23 October 2019

Johan Torgeby
President and Chief Executive Officer

Auditor's review report

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

Introduction

We have reviewed the nine-month interim financial statements for Skandinaviska Enskilda Banken AB (publ) as at 30 September 2019 and for the nine-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, 23 October 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 9.15 am, Swedish time, on 23 October 2019, at Kungsträdgårdsgatan 8 with the President and CEO, Johan Torgeby, and the Finance Director, Masih Yazdi, (in English). The presentation can be followed live on sebgrou.com/ir. A replay will be available afterwards.

Telephone conference

The telephone conference at 2.15 pm, Swedish time, on 23 October 2019 with 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: 8574727 and call at least 10 minutes in advance. A replay of the conference call will be available on sebgrou.com/ir.

Further information is available from:

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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 sebgrou.com/ir.

Financial information calendar 2020

29 January 2020	Annual Accounts 2019	The silent period starts 1 January 2020
2 March 2020	Annual Report 2019 published on sebgrou.com	
23 March 2020	Annual General Meeting	
29 April 2020	Interim Report January-March 2020	The silent period starts 1 April 2020
15 July 2020	Interim Report January-June 2020	The silent period starts 1 July 2020
22 October 2020	Interim Report January-September 2020	The silent period starts 1 October 2020

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

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).

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

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

Tier 2 capital

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

Own funds

The sum of Tier 1 and Tier 2 capital.

Common Equity Tier 1 capital ratio

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

Tier 1 capital ratio

Tier 1 capital as a percentage of risk exposure amount.

Total capital ratio

Total own funds as a percentage of risk exposure amount.

Leverage ratio

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

Liquidity Coverage Ratio (LCR)

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

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

This is SEB

Our vision	To deliver world-class service to our customers.
Our purpose	We believe that entrepreneurial minds and innovative companies are key to creating a better world. We are here to enable them to achieve their aspirations and succeed through good times and bad.
Our overall ambition	To be the undisputed leading Nordic bank for corporations and institutions and the top universal bank in Sweden and the Baltic countries.
Whom we serve	2,300 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 sebgrou.com/ir.