SEB Group

"First Quarter 2023 Financial Results Conference Call"

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JOHAN TORGEBY: Thank you very much, and good morning and welcome to the Financial Results for the First Quarter 2023. As customary, we will go through a presentation which you can find on the SEB Group website under the IR tab.

Turning to Page 2, the highlights of Q1, we recorded in SEB a 17.9% return on equity on a Core Equity Tier 1 capital ratio of 19.2% equivalent to a 480 basis points buffer about the regulatory minimum requirements. We saw particularly high activity within the area of risk management, which clearly benefited the client activity and the financial result for FICC, fixed income currencies and commodities. And the Board of Directors have also resolved to continue the share buyback program for the next quarter to the toll of SEK 1.25 billion.

Turning to Page 3, just to frame the macroeconomic and the environment around us during this quarter, we could probably now conclude that it's evident that the peak inflation is behind us. We are now seeing the estimates from the IMF and from economists around the world, and now I think the debate and the context for going forward will be in what we call the triangle. The monetary policy conundrum between inflation versus risk of recession, and now during this quarter, we've added the third leg which is really financial stability. So financial stability versus how deep should a recession be allowed to be versus the fight to curb inflation, will clearly be dictating how we go forward from here.

We also saw introduced higher volatility in the financial markets, starting the year with quite accommodative performance. And then in March, we had the banking scare, albeit short-lived amongst regional bank in the U.S. thereafter also leading to the event in Switzerland. We can also now add in this graph, the bank sector development, which we normally don't highlight here, but we can see that change in sentiment around banking sector quite clearly with a short modest recovery lately.

On Page 4, once a year, we go through the income, particularly LC&FI income by geography rather than by income type. So we do even this year, and it's very encouraging to see that the income from what we call new clients, clients we did not have before 2010 continue to increase, and we had an income growth on the Nordic German expansion about approximately 10% year-on-year.

SEB is in about 20 countries, and we continue to add new clients although at a more modest pace than in the past, but this has been a very important factor for the last decade and will continue to be for the next decade to improve income growth potential.

The next page, with a double click on the different countries, and it is particularly pleasing to see that about 5 years ago, we had a lively debate about Germany in SEB. It was the least profitable and clearly the one drag we had...and this is the first quarter we now can record that Germany has become the largest geography outside Sweden for SEB at a cost income of 0.27 and a return on equity around 14%.

We've also looked at the geographical distribution in terms of what diversification have we been able to materialize during the last 10 years. And up to your right-hand corner, you can see that in 2010, about 2/3rds of the income came from Sweden and now we're roughly 50:50 when it comes to Swedish versus non-Swedish revenue, including the national network, which spans from Shanghai to New York. All geographies are also doing well. So this is a broad-based support for the financial results, but also from the clients that we have taken on in these countries.

To the lower right hand side is a new…I think, new way of trying to describe how much growth we still have as a long-term potential for the decade to come. This is a graph where we bucket the clients by how many services or products do they engage with SEB. So one, they have 1 product. 2, they have 2, et cetera. And these products, we typically have 17 where we track how deep and how wide is the relationship with a client, and these are things like cash management, trade finance, FX, derivatives, lending, bonds, equities, M&A, et cetera.

And what is very clear that it takes a long time, one need a very long-term perspective to see profitability come up. The new clients, the new kind of generation of the last 10 years tend to be in the category of between 1 and 4, the most successful clients, the deepest and longest relationship we have, they tend to be above 10. The point we want to make here is that this has enormous growth potential over time as there is an exponential relationship with income per client on average, and how deep the relationship is. And this is part of what we are so convinced that long-term relationship is a clear distinction if you want to have a profitable, stable bank with good customer satisfaction.

So what we are doing now is trying to migrate the clients that are of newer nature into becoming more mature and then having an exponential income and more or less, very limited increased cost as the cost is taken by having the client on-board. So it's even more powerful than when we do this on a profit basis, and we continue to modestly add new clients and they typically actually almost always coming into the 1 category. We can also note that the income that we have on a 10 services buying company is typically more than 10 times someone who has 1 or 2.

The next page, Page #6, is, of course, the overall picture of lending demand. It is encouraging to see that even though we have clearly seen a shift in the market when it comes to investment demand and therefore, demand for credits in the corporate space, we still noted a 1% growth in the Q1 versus Q4, representing a 4% annualized growth just for this last quarter's speed. On the household side and the real estate side, there's more of the muted picture, and here, we have only a positive number on the year-on-year and Q-on-Q for commercial real estate, where more than half of that increase as reclassification. And the other half, I will come back to, it's actually related to bond to bank financings for existing clients.

Next page, Page 7, by popular demand. We've chosen to share some more insights about the commercial real estate clients of SEB. To your left, you can see the average capital structure for large real estate companies that are listed, and we've chosen them because that's the group who use such things as hybrid, the capital markets in the form of secured and unsecured bonds, non-listed companies use these type of products much…to a much lesser extent.

And here, I think it's important to point out 3 different conclusions that one needs to analyse and what they should be. First is the equity value. What of the profits attributable to the shareholders are in the real estate sector? We can all view the listed companies on how that is valued in the market. The second analysis is how bankruptcy remote is this particular real estate company or the probability of default? The probability of the company not meeting its contractual obligations that would trigger an event. And the third analysis is what is the loss potential for a bank like SEB? And it's the third one, I'd like to address with a slide here to you left.

So for losses to occur despite the obvious challenges that you see in the commercial real estate space, because of increased interest rates, is that first, the equity needs to be evaporated. Then you need to go into the hybrids and the unsecured bonds. And typically, this is where it stops for a while. This is where the bondholders and the equity hold investors meet, sit around the table and SEB is not involved to iron out what value should be attributable to which category of the balance sheet. Then you need to go through all the hybrids and the unsecured bonds and the secured bonds before you go into the secured bank debt. And this is the area where SEB has 90% of its exposure to the larger listed real estate companies.

So while our point is why we are fairly relaxed that this is not about to create losses for the banking system or in particular, for SEB is that we need for this to happen, at least a 50% reduction of the prices of commercial real estate. Thereafter, you need no cash flow in the company, so they can't meet the contractual obligations. And thereafter, SEB needs to be...have an inability to restructure or to mitigate the situation.

To your right, you can see a picture of our clients that are rated BBB or lower in the real estate...commercial real estate segments and the activity level. We can clearly experience a very high activity amongst these companies for risk mitigation actions. So balance sheet protection is really the name of the game within the sector. And we are impressed by many of these companies who have done a lot. Things they have done, and here we have just marked kind of how common it has been, is capital expenditure reduction. How many have actually announced or completed asset divestments, bought back bonds to mitigate refinancing risk from the capital markets, issued new equity to shore up the balance sheet strength, cancelled the dividends and the last one is refinancing bonds with bank debt which is in this category only the SEB part. We don't know what the numbers outside SEB would be even on our own client base.

This is, of course, one way to...this is not a conclusion. It's a conclusion for you to do, but it's clearly that there are ample ability for these kinds to do more. Many of them have already reacted and the majority of the stronger ones don't have a need to do any of it.

For SEB, we will be very early in the discussion to see any real stress. And that is, we have seen none so far, and I will start with a renegotiation, maybe leading to a restructuring. This is the first sign that we need to do some type of change of terms and condition and do something more material to the company, typically when they break covenants, that's where it starts. And thereafter, if we can meet an agreement, there will be a discussion or repossession of collateral and this is also something that we have no activity around at this moment in time.

Next page, is Page 8, which we like to point out is the importance of customer satisfaction. The kind of shadowed area or the previous one, we have shown, we've gotten 2 new ones since we last had this call. And it's the fixed income Prospera customer satisfaction survey and sustainable advice abilities for different banks. We noted a drop to second place, still a very good position for fixed income. Never happy with being second. We would love to be in the first spot. And we maintained our top position both in Nordics and in Sweden when it comes to sustainability advisory services.

Last page, before I hand over to Masih to go through the financial, Page #9 is now more important than ever to stress the long term. Things are becoming really heated in a quarter or 2, but it's important to look at the resilience of the institution. SEB has over the last 40 years, had more or less a very strong financial performance accelerated in the last 5 and even further since the rates started to become positive, and we stopped having this headwind and this normalization of interest rates is also been helpful in the last year. And we continue to focus on operational leverage to make sure that income by design, if everything goes well, grow faster than cost.

Now, I'll hand over to Masih for the financials of Q1.

MASIH YAZDI: Thank you, Johan. So we're on Slide 11 now and going to look through the Q1 numbers. As you can see, operating income is up 1% compared to Q4, but with a fairly different composition of income with NII growing by 16%, offset by net financial income coming down by 31%. And costs are seasonally lower in Q1, but they are up 12% versus Q1 last year. Remember here that in Q1 last year, we had some tailwinds. It was still a COVID quarter in the sense that we had less activity, but also the invasion by Russia and Ukraine led to the share price coming down, leading to lower social charges back then.

If you look at the expense line this quarter, it suggests that we're sort of in line with the targets we've set which right now is SEK 26.9 billion to SEK 27.4 billion for the full year and there's nothing here suggesting or nothing in the development so far this year, suggesting that we would be at the higher end of that interval, it's even more like we are going to be at the lower end of that interval given the developments so far.

I would also note that the imposed levies are going up. So we're paying 6 basis points instead of 5 for the bank tax, and also the resolution fund fee is going up this year because of the growth we've had in the balance sheet over the last couple of years. Overall, operating profit up 22% versus last quarter, adjusting for items affecting comparability and 48% versus Q1 last year.

Let's move to Slide 12 and look at net interest income. You can see that the year-on-year development is very positive. We have seen a 60% increase. This will probably be the peak in terms of the growth rate as we're now comparing ourselves with the last quarter we had with zero rates. So the growth rates are very likely to come down from these levels.

On the right, you can see the bridge of the Q-on-Q development of NII, up SEK 1.6 billion or 16%, a lot of this is coming from the corporate side. We've seen some improvement on corporate lending, especially on the margin side, we see an improvement of margins, especially on CRE related lending, but we're also seeing improvements on corporate deposits, as well as, in our fixed income, currencies and commodities business.

Important to point out here is that there's a negative contribution from Swedish households. So right now in Q1, we've seen more margin pressure on mortgages, then we've seen improvements on the deposit side. And this is really also driven by how households are acting by shifting their deposits from transaction accounts that are lower-yielding to higher-yielding saving accounts or term deposits.

We see tailwinds from the rate hikes by SEB in the Baltics and in other, including funding and liquidity. Part of that is related to the excess liquidity we have in the Baltic that's placed at ECB, but also a reversal from the negative effects we had in Q4, which leads to a positive effect in treasury this quarter.

There are no one-offs. There are no temporary effects in NII this quarter. You can suggest maybe that the FICC strength of SEK 200 million, part of that is probably short lived. But otherwise, there's no temporary effects. We do mention in the CEO letter that we see some aspects of the NII strength as transitory and by that, we basically mean that the rate hikes have been very quick and it takes time for households and corporates to react and change how they deal with their financials. And we're seeing some of that. As I mentioned, households are shifting some of their savings in the high-yielding accounts. So that part is probably transitory. It doesn't mean that we believe that NII will peak at these levels, we don't know. And obviously, the rate hike we saw this morning will support NII going forward. But that's part of the NII strength, which has to do with the very high fast rate hikes is transitory because customers will adapt to the new environment.

If I move to the next slide, Slide 13, and look at net fee and commission income. You can see that they are down 4%, both compared to Q1 last year as well as to Q4 last year. On the year-on-year development, we've seen a positive development for cards as Q1 last year was still affected by COVID-19 and closures but that has been more than offset by weaker asset management fees as well as lower investment banking activity.

Quarter-on-quarter, the decline is mainly related to seasonally lower card fees and lending fees, but that has been partly offset by asset management fees as equity prices are on average higher in Q1 this year than Q1 last year. We also see some weakness in equities, especially in January and February, and we can see that, that has recovered in March.

If we move to Slide 14 and look at the net financial income development. We report an NFI level of SEK 2.4 billion, which is slightly higher than Q1 last year, but clearly down from the very strong levels we had in Q4. That quarter-on-quarter decline is mainly related to treasury as well as XVA effect of about SEK 0.5 billion in this quarter. We've had very good activity within fixed income this quarter and continued good activity for FX and commodities.

Earlier, we've guided for a net financial income level of SEK 1.5 billion to SEK 1.7 billion, excluding treasury and XVA. We're now changing that guidance for the NFI line to be around SEK 2 billion, including treasury, and we are changing the guidance because of…what's basically happening to the rate environment and how we think that will be helpful for this line going forward.

And to support that change, we'll move to Slide 15. Here, we are using the NFI line as a proxy of how we've been able to take market shares when it comes to fixed income commodities and currencies in the last 10 years or so. As you can see, when we relate our NFI line to the some of the other Nordic banks NFI line. We've gone from a market share, so to say of 13% in 2014 to be at 29% in 2022. And we think this is very much related to the continued investments we've done in risk management tools in IT, Fintech and the fact that we've kept our strategy to support corporate customers, as well as, financial institutions.

If we move to Slide 16 and look at the capital development. In Q1, we've seen an improvement of the capital buffer above regulatory comments by 10 basis points. This has been supported by the strong profit generation, which is 60 basis points after deducting 50% for expected dividends. This is around a 440 basis point annual capital accumulation level gross.

We have deducted the mandates we got from the FSA to do 2.5 billion of share buybacks, despite the fact that we're doing 1.25 this quarter, so if the board decides to continue the share buybacks after Q2, there will be no further deduction of the capital.

And then we have some negative effects from market risk area going up in the quarter. We still think that's an elevated level should go down going forward. And we've also added an expected approval of the Baltic retail portfolios of SEK 4 billion as an Article 3 add-on as we expect an implementation there later on this year.

Then I'll move to Slide 17 and look at some key ratios. And typically…usually, we go through this pretty quickly. I'll spend a bit more time on it as it's been very topical to talk about liquidity and funding. If you look at the liquidity coverage ratio this quarter, it's pretty much flat from the previous quarter. But remember that this ratio is a ratio and it's a stress test already in this ratio.

So just to give you an example, this ratio measures the liquid assets you have divided by an expectation of net outflows over 30 days in a very stressed environment. So if you have SEK 500 billion of liquid assets and you assume to have SEK 400 billion of net outflows, you have an LCR of 125%. So if you increase your liquid assets by taking in very short dated deposits, your ratio goes down. So we typically look at the nominal amount of excess we have relative to the outflows. So you should look at that rather than the ratio in itself, because that's very much impacted by how much short-term deposits you have. And right now, we have about SEK 900 billion in total of liquid assets on the balance sheet.

The NSFR is up 2 percentage points in the quarter. We've done a lot of wholesale funding already this year. So in Q1, we did SEK 66 billion of wholesale funding. That's more than half of the full year need we have. So we're in a very good position.

On deposits, you can see that it's up SEK 87 billion in the quarter. We've seen a decline of household deposits, mainly in January and February. It was more flat in March that's very much related to the high cost of living, especially in those 2 months as a lot of people had to pay very high electricity bills, those 2 months. We have seen an increase of corporate deposits in the quarter as well.

And then I will do something uncommon. I'll comment the deposit development month-to-date in April. So in April, we've so far seen household deposit inflows of SEK 4 billion, corporate deposit inflows of SEK 29 billion, deposit inflows from financial institutions of SEK 67 billion and then treasury deposits increases of SEK 130 billion. So right now, we're around SEK 2,000 billion in customer deposits in total.

And then finally, on Slide 18, just looking through our financial targets. So we have a target to pay out around 50% of the EPS or earnings per share annually. We have a long-term target of being between 100 and 300 basis points in terms of capital above the regulatory comments. And we have a target to be competitive on return on equity with peers and a long-term aspiration of 15% that we're happy that we've reached for 2 quarters running now. And then when we're above the 300 basis points in capital, the share repurchase will be the main form of capital distribution.

I'll stop there, and we can open up for a Q&A.

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. The first question comes from the line of Ekblom Johan with UBS. Please go ahead.

JOHAN EKBLOM: Thank you. Just 2 questions, if I may. First of all on the decision around the buyback. I guess your buffer keeps on increasing. You were very clear last year that you know, if the credit growth slows, there is more scope for capital return. And I think some had hoped that they'd be more than the 1.25. When we think over the next 12 months or so, how should we think about the ability to scale that higher, assuming the macro develops broadly in line with expectation? Is the second part of the 2.5 for Q3 locked in? Or is there scope to increase that before we get to the Q2 results? Or do we need to wait longer?

And then secondly, just on NII, I mean, we're clearly all trying to monitor what's happening to deposit flow between types of accounts. Can you give us some indication as how much you know, you have either in current account, the basic savings accounts or term and how those are maybe relative to historical levels or how quickly they're shifting, that would be really helpful.

MASIH YAZDI: Okay. Well, starting on. I'll do that. On the share buyback, so we have an approval from the FSA to do SEK 2.5 billion of buybacks. We decide ourselves at what time frame we do that. But obviously, now the board has decided to do SEK 1.25 billion next…this quarter as of…starting tomorrow until the 14th of July. I guess it's likely to say that if they continue, they will do another SEK 1.25 billion from Q2 to Q3. And then obviously, post that time, there is a potential to change or ask for an approval to do a different amount of share buybacks going forward post Q3 results. And what level that's going to be? Well, we have to…the board has to think about going forward, depending on also what happens to the turmoil that we saw in March, and what happens to financial stability going forward.

But just remember also that we do have more capital than we plan to have in the long term. And we do say that share buybacks is the main form of coming down on the capital side to the interval we're planning. It's not the only form. So the board will also think about what they would want to do in terms of dividends going forward. So it's not just share buybacks that will be the tool we'll use to go back to the interval that we are planning for in the long term.

On NII, well, I think there is good public data on how much you have on current accounts in general. You can find that on/...in Swedish statistics. I'll just give you sort of one number I looked at in general for the market if you were to sort of want to understand what could happen there. So if you look at the last time we had sort of positive rates. So before the financial crisis in '06, '07, about 35% of Swedish household deposits were in savings accounts. At the trough, so a year ago or so, that 35% had come down to 10%. And now, last time I checked, it's up to 17%. So it's still some way to go before households have sort of reshuffled their savings to high-yielding saving accounts. So we should see that continuing.

For us, you have disclosure on this in the fact book, you can see both the movements between the quarters as well as the current level. So we have...on the household side, quite little on transaction accounts, a lot on saving counts. But on the corporate side, we have a bit more on transaction accounts. This move is happening clearly faster in Sweden than it is in the Baltics. So they're slowly moving, but we're seeing similar trends there.

JOHAN EKBLOM: And just to follow up on that, I mean, there is a big difference between what you pay on an instant tax savings and the 3 month term, right? Are we seeing big moves happening there as we speak? Or because I guess the 35% doesn't tell us if it's yielding 1.5 or 3.5.

MASIH YAZDI: That's correct. Now, we're seeing moves both between transaction accounts to sort of variable savings accounts as well as saving counts to term deposits. We're seeing all that. What your definition of large is, I don't know. But we're seeing that movement going...we've seen that movement in the last few months. It started in June last year, I would say, and it's been at a fairly high level ever since.

At the same time, I mean, in terms of our competitiveness on savings products as of late, we are more competitive now than we were 6 to 9 months ago. So it is also possible or likely that the development we have seen in April so far, which is inflows of household deposits, that could continue given the high-yielding saving products we have. But that sort of difference between how much we have on the saving accounts and term deposits, I don't think we disclosed that, and I don't know the numbers by heart.

JOHAN EKBLOM: Thank you

OPERATOR: The next question comes from the line of Andersson Magnus with ABG. Please go ahead.

MAGNUS ANDERSSON: Yes. Hi, good morning. Just continuing a bit on NII there. If you look at Slide 12, I mean, we all understand that the growth rate was exceptional in this quarter and you talked about peak growth rate. And you imply that the growth rate should continue throughout the rest of 2023. Just when I look at that bridge, I mean, first of all, you talked about the funding and liquidity saying that it's the excess in the Baltics and also some effects coming through in treasury from Q4? If you could split that SEK 800 million, please?

And then just on the Swedish households there where you have lending and deposits, which was the reason for your...the CEO comment there. Do you think that...when this happens more deposits migrate into savings, the deposit margins start to shrink.

Do you think it will be able to offset some of that with increasing the 3 month mortgage lending margin when volumes are not growing, since it has...it is currently at unsustainably low level? That's my first question.

MASIH YAZDI: Yes. Thank you, Magnus. On the sort of SEK 800 million coming from treasury and liquidity, about SEK 300 million of that is coming from the excess liquidity in the Baltics and SEK 0.5 billion is coming from treasury. When it comes to treasury, just be aware, if you look at our fact book and the disclosure you have their it's still a negative NII in treasury of SEK 1.1 billion. So that's why I'm saying there's no one-offs here and it's not sustainable. So it should be sustainable at this level.

On the Swedish, I mean we agree with you that right now, the margins on deposits in general are probably a bit too high to be sustainable. And definitely, the margins on mortgages are a bit too low to be sustainable. So we do expect that this will change over time, and it's difficult to say when and how competition will change. But in the medium term, you should probably see lower margins on deposits, but then higher margins on mortgages, because mortgage margins are down I don't know, from a peak level of 120 to 150 basis points a few years ago to 20 to 30 basis points right now. So it's probably...it's not even covering the risk or it's covering the risk, but it's definitely not covering the capital comments on that product. But as I said, I mean, there's been massive shifts in the market, and it will take time for this to adapt to new equilibrium that will reach at some point. Exactly when that's going to be, it's difficult to say. But yes, in the medium term, falling margins on deposits and increased margins on mortgages mix.

MAGNUS ANDERSSON: Yes. And on the corporate side, are you seeing any signs of corporate lending margins increasing? And also if you could share how much of your corporate lending book that is at STIBOR PLUS margins versus discretionary priced corporate loans?

MASIH YAZDI: Yes, we do see some margin improvements on corporate not generally, but in some subsectors, I mean, CRE is clearly one but we've seen new deals in the quarter at…up to 80 basis points above historical levels in terms of margins. So that's clearly an area where we see margins improve. Generally, for investment-grade corporates, we haven't seen a move…big move up, and if you look at the capital markets, spreads have come down to more normalized levels after being elevated last year. But there are sub parts of the corporate book. I couldn't catch your last question there on the…

JOHAN TORGEBY: I caught it. So the vast majority, if not 100%, you're not too far off is STIBOR, LIBOR, EURIBOR plus.

MAGNUS ANDERSSON: Yes. Okay. And then just finally, if I may, on…do you have any update on this potential Lithuanian windfall tax, and if it would…could potentially spread to the rest of Baltic. Do you have anything new to tell us there?

JOHAN TORGEBY: I don't know what we've told you in the past, but it's very clear to us that it's likely, it seems very serious. And as I understand it, it will go to Parliament for vote. And that typically, in my experience, if it does, and you can bank on the outcome, they would take it up unless they had you know, done the pre-soundings to the extent that they know. And I think it's a meaningful risk that this would inspire others. If you do look up a bit, this has not been going on for the Baltics only for a few months. It started actually with Sweden a year and half ago, we then had even longer, then we had Spain, Czech Republic, Poland, Belgium and some other than I probably forgot. So it is, of course, the sign of the times that when we have these windfall taxes or solidarity contributions as they like to call it, in Lithuania, it's a clearly short-term way for the fiscal policies to take through the tax line or similar some of these windfalls. So it is a risk.

MAGNUS ANDERSSON: What do you think about the risk of it becoming a permanent tax and not only a 2 year thing?

JOHAN TORGEBY: I'll just close them. They have promised and it's in the proposal, it will not or never will be permanent. However, you and I can on this call be cyclical and say maybe one needs to be a little bit more careful. But it's very, very clear that this is different from any permanent tax. It's actually not even called a tax, but it's completely related to a windfall level of NII. So right now, we are hopeful that, that is also true when we get there in a year or 2.

MAGNUS ANDERSSON: Okay. thank you very much.

OPERATOR: The next question comes from the line of Strand Rickard with Nordea. Please go ahead.

RICKARD STRAND: Hi, I have a question on the NII bridge there on Slide 12. Just looking at the Swedish household deposit pickup there of SEK 100 million Q-on-Q sort of given how rates move in the quarter that is...could be seen as quite low. Just wanted to get some clarification if it should be in together with the pickup you have there in treasury or...and if it's sort of due to some delay in transfer pricing or if it's held back by the migration from transaction accounts into savings accounts on deposits?

MASIH YAZDI: Yes. Thanks for the question. No, there's no sort of anything…any money moving from treasury to the division on that side. But it has to do to some extent, with timing effects. So when do you see the rate hikes on the lending side and when do you change your pricing on the saving accounts, so that could be a factor. But it's more a factor of just migration effect that on the lower-yielding saving products, we've had less money this quarter compared to previous quarters. So you see money flowing from transaction accounts, for example, to saving accounts. So that is largely behind the fact that you only see a SEK 100 million improvement there. but there's also a timing factor there as well, yes.

RICKARD STRAND: Yes. And then also, mostly on your comments there on the deposit development for April? If you could just elaborate on if the sort of pickup in volumes there is from sort of existing SEB clients or if you're starting to attract sort of external volumes as well from new clients.

MASIH YAZDI: When it comes to the sort of corporate side and financial institutions and treasury deposits, these are external existing SEB customers. On the household side, it's difficult to say. We've had a campaign that we launched about 1.5 weeks ago. It's been very successful. We do see a clear increase in calls to our telephone bank based on that campaign. So I don't know the numbers, to be honest. But since we have a net inflow of deposits and it's not just a shift between different products, I would assume that some of this is also attracting external customers. We do now have the most competitive rate on 3 month term deposits as well as 6 month term deposits. So hopefully, that will attract some external capital.

JOHAN TORGEBY: And I could add the deposit diversification theme, which is kind of popular one quarter, every 10 year has been very popular this year. And we have clearly been the flight to quality or flight to safety part of that discussion. So even many clients that are not currently using SEB as a deposit bank, but they might be a client somewhere else have been part of this, too.

RICKARD STRAND: Thanks.

OPERATOR: The next question comes from the line of Hakansson Andreas with Danske Bank. Please go ahead.

ANDREAS HAKANSSON: Good morning, guys Just following up a little bit on the deposit competition. We have in Sweden, a number of niche banks that have been quite aggressive on deposit pricing and use it primarily or there is basically the only source of funding. But the risks on the asset side are quite much higher than the big banks. Are you starting to see and maybe you alluded to it or you starting to see actually those type of deposits flowing back to the banks? And is it the stop of bleeding rather than inflow or how do we see the flow between the different players now?

JOHAN TORGEBY: Yes. I can start, Andreas. No, we haven't really seen that, to be honest. I think it's too early, and you're right in the sense that the lending side of their business is a lot riskier than our lending side. But at the same time, I guess, more than 90% of the deposits they have are government guaranteed and as long as you feel comfortable with our government guarantee, it might not move. But we'll see, I mean, if the turmoil comes back and it becomes worse and you start concerned, it's good to be in a position we have very sort of low-risk asset side of the balance sheet, but we haven't seen that yet to be honest.

ANDREAS HAKANSSON: And then just a quick question on your movement in Stage 3 and Stage 2 actually on CRE lending. Is the movements just model driven or credit rating driven? And do you see any changes in asset quality on the CRE side?

MASIH YAZDI: I don't know what's driven by, but we don't see any change in asset quality. I mean, LTVs are slowly going up, as you can see. But at the same time, there are far from levels where you'd experience an asset quality deterioration for us. So I mean, generally, in the quarter, we've had very sort of stable underlying development of the asset quality of the bank. We actually had more upgrades than downgrades this quarter. In total for the book, you can see in the risk exposure amount bridge that we've seen an improvement of asset quality in general. Stage 3 loans are down, and we have more reserves than we have Stage 3 loans in total. So we are generally in a very good position in terms of asset quality and the reserves we have on.

ANDREAS HAKANSSON: Thank you.

JOHAN TORGEBY: Hakansson, I heard you fell off the bike. I wish you a good recovery.

ANDREAS HAKANSSON: Thank you. Just the hand that's hurting a bit, but thank you for that.

OPERATOR: The next question comes from the line of Semikhatova Maria with Citi Group. Please go ahead. Ms. Semikhatova Maria, please go ahead.

MARIA SEMIKHATOVA: Hello. Thank you for the presentation. Couple of questions. First to follow up on...thank you for the presentation. A couple of questions. First one on NII. Thank you for the slides. Just wanted to clarify on the Baltic impact. So if I add the liquidity component, it was around SEK 0.6 billion over the quarter. Is it in line with your previous sensitivity for the Baltic operations to rate hikes? And let's say, going forward, do you still think it is valid, because the share of transaction account remains quite stable or, let's say, does it change the pass-through from additional taxes in Lithuania or other places. And we start with the Baltics task?

JOHAN TORGEBY: Yes. Thanks, Maria. Yes, I mean, I don't think this is that different to the guidance we've given. Just remember, we've had 2 rate hikes from the ECB that has impacted this quarter. So 100 basis points in total compared to the 50 in Sweden. So you've had more happening for euro-denominated currencies in general in the quarter.

Going forward, as I said before, we see some flows from transaction accounts to term deposits in all the 3 Baltic countries, but it's happening much slower than it's happening in Sweden. So the sensitivity should go down, and we've become clearly more competitive on pricing on term deposits, but the customer is just slower moving and then we'll see, I mean to the extent we get a bank tax in Lithuania, the upside will, I mean, still be paid for...60% of it will be paid to the government anyway. So yes.

COMPANY REPRESENTATIVE: Ms. Semikhatova, is that clear. And then maybe on corporates because we discussed a lot about the actual households are taking they are moving from transaction.

MARIA SEMIKHATOVA: No, I have some follow-ups.

JOHAN TORGEBY: Yes, go ahead, please.

MARIA SEMIKHATOVA: Yes. Can I follow-up on NII and then I'll just ask minor questions. Yes thank you. On the corporate side, because we discussed all the actions taken by households, they are moving to savings and term deposits. So what do you expect…what actions do you expect by corporates to adjust to higher rate environment? And then just minor follow-ups. On your CRE exposure, you mentioned 90% this is secured bank debt with regards to largest borrowers. Just wanted to clarify the remaining 10%. Is it bank debt, but uncollateralized, so you have some exposure to…on the bond side?

And finally, on capital position. Today, one of your peers mentioned that it expect a negative impact from IRB overhaul of corporate models. If you have any update on potential impact on your side?

MASIH YAZDI: Yes. I can start with the NII question, the capital, then Johan will take CRE.

On the corporate side, it's quite different in terms of how customers act depending whether it's an SME or it's a large corporate. So on SMEs, they use similar products as retail customers, and we do see some movements that some SME corporates are moving their savings from the transaction account to saving accounts.

On the large corporate side, these are typically bilateral agreements. And so they can sort of digitally move their money as easily, and it's based on the entire relationship we have with these customers. So those kind of...we haven't seen any sort of active bilateral discussions on the deposit side from the large corporates, and margins are clearly lower there to start with. But it is possible that starts maybe second half of this year that you'll see more of those discussions. But obviously, then we will have discussions on the lending side simultaneously with those corporates. But yes, on the SME side, you see similar movement as for households, maybe not as quickly as households are moving.

On the capital side, I'll just repeat when it comes to IRB models, what we've said in the past. So if we look at what we are applying for in terms of IRB overhaul, the application we have and the historical loss levels we have do not indicate that we should get an increased capital comments. If anything...if you just are fact-based you should indicate the opposite that we today have 2 large buffers relative to the historical loss rates we've had almost despite what time frame you look at. Saying that this is not a guarantee for the fact that when the FSA approves the model, there'll be an added capital. But we are sort of convinced that the history we have and the models we have sufficiently are covering for the risks we have in the balance sheet.

JOHAN TORGEBY: Yes. And I would just add that the large corporate space typically have professional treasury and it is more likely if they were to do and change that they will use their commercial paper market that they can find other typically a large corporate policy in treasury is that you need the funds readily available at any given point in time. And, of course, generating a return every day and therefore, savings accounts or investment accounts is really not a big product. It's rather that you can use other types of yield-enhancing strategies for corporates.

On the CRE, the 10% that is not secured is typically of short-term nature. So we are also providing short-term liquidity lines. It can be overdraft that you have account exposure and it can also be bridges that you have had a temporary need to bridge a particular cash flow. And those are typically the ones that are not secured as the permanent long-term debt structure, where more or less all of it is secured.

MARIA SEMIKHATOVA: That's very clear. Thank you so much.

OPERATOR: The next question comes from the line of Kruse Jacob with Autonomous. Please go ahead.

JACOB KRUSE: Hi, thank you for taking the question. I just wanted to ask on your CRE sensitivity analysis. The comparable sensitivity was based on repricing maturities as well as the floating rate volumes. And I just wanted to ask, are you doing this the same way as you make a comment around a 2% increase to your 1 year and less maturity on floating rate debt? And if so, roughly how much of the volumes are you repricing in your 2023 sensitivity when it comes to that stress test of interest coverage ratio? Thank you.

JOHAN TORGEBY: Yes, I can start. So I don't understand the 200 really, but we're putting in 7%. We start at 4.3% for the most exposed group. So we take out the 20 real estate exposures, largest ones. And we took…check these are the more significant, start at 4.3% and then we put in 7%, assuming all of it is refinanced. So not only the pro forma or pro rata share, they actually have maturing just to check as a stress test. And I think we are assuming no income uptick or pass-through, which is, of course, unrealistic, but just as a stress test, just pushing that through. And there, we end up at 2.9% for '23 and 2.4% if we do the whole 7% on 2024. And that is on average. And then we have, of course, ample room for the one the cut-off point where I was earlier alluding to, it's when you cannot meet your contractual obligation. Then it becomes the LTV discussion, which we currently stand at below 50% on LTV on these.

JACOB KRUSE: Yes. So this is the maturing...all maturing debt refinance at 7%, and then you make a note saying that assumptions also include interest rate increase of 2% for floating rate debt with a maturity of less than 1 year. So from reading that, my understanding is you're applying the 7 or the floating rate plus 2 to a subset of the overall debt outstanding for these corporates. So my question was just roughly what percentage of the overall debt has been repriced in that 2023 stress test.

JOHAN TORGEBY: Let's see if I can...sorry, just so I was clear, it's all maturing debt in '23 and '24 at 7% and not all that any time it matures. And I think the average maturity is around 3 years. So you can roughly think one-third of the debt is...needs to be refinanced on average every year. And the longest ones tend to be 5 or 7 and then, of course, the shortest ones are tomorrow, 1 day long now. And then you have, of course, in reality, we have, of course, excluded the interest rate hedges, which are on average 2 to 3 years long too. So even though they are often floating rates, they don't pay floating, they pay through an interest rate swap fixed. But that doesn't go for every single company. It's more on average. So the ones you will see next…this quarter and next quarter being challenged, it's typically unhedged and short-term maturities on the lending side. Those are going to feel the pain here and now.

JACOB KRUSE: Okay. And sorry, finally, could you just say what percentage of your book, this 20% largest clients represent out of the CRE or property management book?

JOHAN TORGEBY: This is 20%…about 20% for property management companies.

JACOB KRUSE: Okay. Thank you very much.

OPERATOR: The next question comes from the line of Peterzens Sofie with JP Morgan. Please go ahead.

SOFIE PETERZENS: Yeah, hi. Here its Sofie from JPMorgan. So, just in terms of your deposits just going back, you had quite significant inflows now month today in April, could you just quantify how much you're paying for deposits or these deposits? Are you paying more than on your back book deposits? And you used to have this very helpful slide in your fact book on net interest income, which seems to have disappeared. End of the fourth quarter, your average interest cost was 1.63. Could you just give what the average interest cost end of the first quarter was if you would still have the same table.

And then my second question would be on costs. You guided for SEK26.5 billion to SEK27 billion cost in 2023. Could you just confirm if this still holds or if we should adjust it for FX?

And then just a quick follow-up on the previous question. You mentioned that you have…that most of the CRE companies also have interest rate swaps in place. Are you the swap counterparty in most cases with these commercial real estate companies? And could you kind of quantify how large these interest rate swaps are and kind of...what kind of terms do you have daily mark-to-market on the collateral or weekly kind of under how yes, how those swaps are documented. Thank you.

MASIH YAZDI: Yes. Thank you, Sofie. I'll start, and then I'll let Johan take the difficult question. So on the deposit side, I'm assuming we're paying more to deposits in April than we have been in the past because rates have gone up. I would guess that, that's mostly true on the household side. So the SEK 4 billion of inflows we've had month to date in April, we're probably paying more for that than we're paying for the back book. I don't imagine that's the case on corporate financial institutions and definitely not on the treasury deposits.

On the cost for deposits from the public you referred to, that table we had in the past, where we paid 163 on average. That level, I think, was around 219 in Q1, so it's up 56 basis points. But obviously, NII is up in the quarter. So the increase on the lending side is larger than the increase on the deposit side, just have that in mind.

On the cost target, we are keeping the cost target. It's the same as you said, 26.5 to 27%. Adjusting for FX, average FX in Q1, that would imply that the cost target is 26.9 to 27.4. But I did stress in my remarks that we are, at this point, more likely to be at the lower end of that interval rather than the higher end, as we've seen the wage negotiations in Sweden now, and we know pretty much where we've landed in terms of salary inflation in the bank for this year. There's still some uncertainty in terms of other costs that could develop differently for the rest of the year. And also salary drift is a possibility...but based on what we know at this point, we're more likely to be at the lower end of that cost interval for this year.

JOHAN TORGEBY: On the swaps, I don't have actual figures in my head. But typically, we will do the swaps associated with our loans. So it's not a one-to-one. Think about it as a one-to-one relationship. So they are predominantly...they are done bilaterally with us as well. Those are also secured. Typically, you can have security in the property or you can have CSAs, credit support annex, that you make sure that this is a very different type of credit risk. So nominally, it can be very large but it's really just the mark-to-market, which is an exposure in the credit risk that they would then owe you if there was something to happen in the swaps. So that's a much less significant credit risk element but they are also...they are part of the total exposure that we have [indiscernible] they're included.

SOFIE PETERZENS: Okay. Okay. And sorry, just one follow-up on the deposit side, so the deposit increase that you saw once to date in April how sticky are these deposits? And also, Anders, just said on the call, they had before you that they could consider paying for transaction accounts. Is this something that you would also consider or that this could happen in Sweden basically the bank started to pay for transaction accounts.

MASIH YAZDI: Yes. It's difficult to say to what extent deposits are sticky. I mean, for us, generally for our bank, corporate deposits are as sticky as household deposits. And in the downturn, we typically see a larger increase of corporate deposits than we see for household deposits.

In the regulation, household deposits are viewed as stickier than corporate deposits. So it depends on whether you trust our history or whether you trust the regulation. But typically, seasonally, household deposit has a better development in Q2 versus Q1. So maybe that's part of what we're seeing as well because typically, you have higher cost of living in Q1 and then in Q2, you have dividend season, so a lot of corporates are paying out dividends to households, which place it on our balance sheet. So this could be just what's happening in the market again that you have the seasonally strong in Q2. But we do see better momentum as I said before, we've had campaigns, and we've seen bigger inflows of costs to our telephone bank, and we see more activity generally in that division, both on mortgages as well as deposits.

JOHAN TORGEBY: I'll just say that...well, we have no plans today to raise rates on transaction accounts. But obviously, over time, we follow competition, and we will have competitive products. So depending on what happens in the market, we will act accordingly.

SOFIE PETERZENS: That's very clear. Thank you.

OPERATOR: The next question comes from the line of Davey Nick with Exane. Please go ahead.

NICK DAVEY: Thank you and good morning. Can I ask 2 questions, please? The first one is maybe just picking back up on this question of deposit flows. Thanks for those comments on household and corporate stickiness. Can I just focus on the other side of it, then the financial corporate deposits or treasury deposits because it seems like you get no reward when they flow in, but people seem to panic when they flow out. So not thinking quarter-to-quarter, but just looking into the medium term, maybe more sort of QTs taking place. Have you got a figure in mind as to how much of that chunk of the deposit base could well leave you? And can you just talk us through any kind of P&L or funding ratio impact that may or may not have just so we can as we go through the ups and the downs on those deposits have some guardrails to think about.

Then the second question quickly, just on commercial paper and certificates of deposits, it's picked up again this quarter. I don't know if it's an all-time high, it's probably close. Can you just talk us through what's going on there? I think you've got quite a good slide in your bigger presentation pack where you show the relationship, the trading asset. But that seems to have decoupled a bit. And this usage of CPC seems a bit higher than normal. So can you just explain what's going on? Thank you.

JOHAN TORGEBY: Sure, I'll start and ask Masih to give you the numbers. I don't have them for financial institutions, but you're absolutely correct. We get no benefit from the market or the regulator or the rating agencies for being the choice for financial institutions to put their surplus deposits. And I think it's important to divide financial institutions into the financial institutions that are clients of SEB who have a need because of custody, trading or other things, to have an account with SEB predominantly in the Nordic currencies and the treasury operations, which is more a day-to-day kind of dealing with other financial institutions and central banks in order to attract or place deposits.

So the first one, you can see, if you look at the market shares of financial institutions deposits that we are an absolute extreme outlier. So we have over the many, many decades being one of the banks in Sweden, in particular, who has a very long-standing and deep relationship with American investment banks, with European commercial banks that have any business in the Nordics currencies or in the Nordics. That will continue. I would bet a lot on that being very, very stable, but it's large amounts per institutions, and they moved quickly around. So there is a reason, but if you look at the longer-term horizon, this is clearly a very, very strong source of liquidity for SEB and funding but it's not really acknowledged anywhere. And that one could debate if it should be in somewhat or not.

When it comes to treasury deposits, that is something that is more an optimized…part of an optimization exercise, which we tried to explain in Q4. You can actually choose quite precisely if you want to get some inflow or not in order to manage your positions in the bank with the surplus liquidity that we control.

MASIH YAZDI: Yes, I can expand on that. So treasury deposits are generally money we take in from money market funds in the U.S. that do not have access to the Federal Reserve and then we place that money overnight at the Federal Reserve. This is a service we make for these customers of ours, but this is overnight money, and we can sort of put the tap on or off on a daily basis. And it's an optimization exercise. We like to do this service for these customers. We're not making good margin on it. Doing it means that our deposit base goes up and then some people are happy about that. But at the same time, as we're expanding the balance sheet when we do it, both the LCR goes down as well as the leverage ratio. So you try to find a good balance between different regulatory ratios that people look at when they're analysing a bank, whereas we try to look at the actual sort of liquidity position in the bank.

At year-end, obviously, we try to minimize the treasury deposits to make sure that we don't pay excess amounts for the bank tax and resolution fund fee because, as I said, we don't make any real margins on this but at the same time, we're paying 11 basis points in taxes at year-end.

On the commercial paper, you should be aware...I mean, you've probably seen that in the U.S., you have very large inflows into money market funds. These money market funds typically buy commercial paper, and we have a very sort of good commercial paper in a sense that we're viewed as a low-risk bank. So there's a lot of demand for that right now. And obviously, in the turmoil we've had and the instability we've had, we make sure that we take use of that. So we have in the short-term over the last 6 months or so, issued a bit more commercial paper to make sure that we have both liquidity as well as appealing to these money market funds that do have a lot of inflows and have a lot of excess capital, which they can use to some extent to buy our commercial paper.

NICK DAVEY: Brilliant. Thank you for the color. So to bring it all together and I'm thinking to the medium term, I think you've mentioned well then the structural element to this and then a kind of volatile elements. In 3, 4 years from now, is there any reason with QT these balances would be meaningfully lower? Or is it more just a structural component and just a bit of up and down along the way?

JOHAN TORGEBY: I'll start, and Masih can again fit in with the details. QT win and is aimed and designed to inevitably lower the sum of deposit and free liquidity in the system. So it is about to go down. That should be a very orderly non-dramatic phenomena, and it's the whole point of QE and QT.

Now thereafter, it's to which institution will benefit or not in that environment. And we are, of course, one of those institutions that will most likely if everything works out benefits as this is then going to be part of the market share, which is the more stable and reputable and creditworthy counterparty, and that's the market share. So that's how it's going to pan out per institution in that scenario.

MASIH YAZDI: Yes. And for us, to the extent that if this happens, you have to look at what kind of deposits are flowing out. If it is financial institution deposits, there is no value in those basically in terms of our regulatory ratio. So you don't get an improvement of NSFR just because you've attracted financial institution deposits. So therefore, you don't need to offset that by doing wholesale funding.

If corporate deposits flow out, then you need to offset some of that, still the weight of corporate deposits in NSFR isn't that high. So you probably need to do about half of the wholesale funding relative to the outlook of corporate deposits, if that would happen. Whereas household deposits, you need to do almost as much in wholesale funding.

And to the extent you need to do wholesale funding, you have to look at what banks can do wholesale funding at affordable levels. And obviously, we have SEK 300 billion or so in extra space in our cover pool, so we can do that. And then in terms of senior funding, we have among the lowest CDS spreads in the market. So in a relative world, we will probably benefit from this development.

And in a relative world, we have lost on the fact that we've had a lot of QE in the last 10 years or so.

NICK DAVEY: That's very helpful color. Thank you.

OPERATOR: The next question comes from the line of Samtani Namita with Barclays. Please go ahead.

NAMITA SAMTANI: Hi. I've got two questions, please. So firstly, you printed a 17.9% ROE for this quarter and you don't believe NII has any one-off effects. So do you believe you can print this ROE next year potentially when rates fall or possibly enter a recession.

Secondly, is there any way to keep the household deposit bit lower in Sweden? So are you able to offer money market funds, which give more attractive returns? Or are customers...are they looking for money market funds? Or is it just the movement from transaction accounts to savings accounts. And finally, just a request, could we please have that net interest margin table, which has disappeared from the fact [indiscernible] for the second quarter results?

MASIH YAZDI: Alright. That request, it's noted, we'll see what we'll do. On the return on equity, I mean, it is at high level this quarter, but we do have, I would say, below normalized expected credit losses, 4 basis points is probably lower than we will have in the long term. And then the NFI line is a bit elevated. We do guide for around SEK 2 billion, but we're at SEK 2.4 billion. So if you make those adjustments will be at a lower level. And then a year from now, we have most likely have built a bit more equity.

So we need to have a higher profit just to keep pace with the equity build-up we have in the bank. But we'll see. But surely, I mean, given the higher interest rate environment, we do see a higher normalized return. And that is what we're supposed to generate because the risk-free rate is going up and for investors to be willing to invest in banks, you need to get a higher return than you had in a zero rate environment, whether that's going to be sort of in line with our aspiration or higher, I mean, we have to wait and see. But here and now, we don't see any real deterioration of asset quality. And to the extent that we will see that, we do have plenty of reserves on the balance sheet as we've shored up a lot of reserves during the last couple of years. Yes, I think that answers your question. Johan seems to be...want to add something.

JOHAN TORGEBY: No, just on the money market, which I think is more a personal reflection. I worked for 25 years and every year I've been passionately marketing the formidability of using the financial markets such as money market and corporate bond funds and government bond funds as an alternative. That's, of course, have been dead for a decade. And it's a big thing now that we need to re-educate all the customers that there is an alternative to saving in deposits.

In Sweden, this is not particularly common like we've seen in the U.S. So it's not very easy to talk to retail customers and say, yes, the best rate we offer today is what, 3.75%. That's on a 1-year deposit. But we have funds that will give you 4% to 10%, but you need to take the mark-to-market risk. So that's a very, call it, well understood in the Anglo-Saxon world, particularly in the U.S., and not at all understood. So typically, many....majority will look at what does the bank offer me. They don't really know that there is a market out there that you can access directly through funds.

If we go to Baltics, it's actually the ≠1 explanatory factor in the short run is that the Baltics have not moved over to even SEB's placed savings accounts. And we have a much, much better yield that is a lot, but they're not moving. And we talked about this 3 quarters ago in Sweden, and now it's happening a little bit that you move out to the placement accounts, and this will accelerate as people are now finding themselves to review the financial situation. And also, I think it is...everything else being equal, quite positive, although marginal for the funds [ph] in money market, fixed income and credits.

NAMITA SAMTANI: Thanks very much.

OPERATOR: The next question comes from the line of Rovere Ricardo with Mediobanca. Please go ahead.

RICARDO ROVERE: Good day, good morning, everybody. Thanks for taking my questions. A couple, if I may, and you started to get back on deposits again. If I look at your balance sheet, I mean, deposits...customer deposits have gone up SEK 100 billion. Loans are up maybe SEK 10 billion. So the loan-to-deposit ratio is going down. You clearly have access to commercial paper. The interbank position is balanced and you still have almost SEK 400 billion of cash at Central Bank accounts. So the question here...when I look at these numbers, the feeling that I have is that you really have no incentive to pay up deposits. You could actually be in a position to say no to deposits and lose some of them or redirect them somewhere else. Did you agree with that? Or do you think that is too aggressive?

And the second question I have is on the overlays. We charged the less than SEK 300 million of credit losses in this quarter. You have SEK 2.2 billion of overlays out there. How should we think about those? I mean, is it fair to say that by the end of 2023 a decision on those will have to be taken and allocated or released or whatever.

And if you can…is it possible to have an idea if part of the SEK 2.2 billion overlay is somehow already allocated to commercial real estate, even the commercial real estate is supposed to be one of the most vulnerable sectors at the time with COVID-19, shopping malls and stuff like that. Thank you.

JOHAN TORGEBY: I'll start and then Masih can fill in. On the incentive to pay up for deposit, you're absolutely correct. There is no such incentive if you purely would do short-term maximization of profits but we don't really care that long-term maximization of standing with our clients, you need to pay. It's the right thing to do. And if you were to redirect any of our customers because of that…let's call it, logical reason, you would lose them potentially or at least invite another bank, institution to provide them with other things.

So in the long run, that's a very, very costly strategy because it costs us 10 times more to bring a client back than to keep them in the bank. So it's really the client-centric thing that will be first on the agenda and thereafter, and that's also looking at the market dynamic and thereafter, we will optimize rather than maximize the profit because that's long-term maximization.

Then on the overlays, I'll start to hand over, but I think it's always good to have in the uncertain times. Masih?

MASIH YAZDI: Yes. on whether that's going to be a decision by the year-end, whether those are sort of reversed, it just depends on the outlook at that point. I mean they could be either used, that something has happened that is related to the reasons why we put the overlays on or that the uncertainty related to the reasons why the overlays are there is gone. And it's very difficult to predict at this point whether that has happened or not by year-end.

So you can't really say when and if that's going to happen or...if it's definitely the case, but at some point, you won't have the overlays. But the question is whether that's going to be the next couple of quarters or whether you have to wait until 2024? It depends a lot on the macro outlook at that point in time.

RICARDO ROVERE: Thanks. And Masih, do you have an idea, if any, is part of the SEK 2.2 billion is already allocated somehow to commercial real estate?

MASIH YAZDI: Yes. I mean we did take SEK 300 million in Q4 related to commercial real estate. So we did disclose that back then.

RICARDO ROVERE: Okay. Thanks, thank you.

OPERATOR: The next question comes from the line of Leitgeb Martin with Goldman Sachs. Please go ahead.

MARTIN LEITGEB: Yes. Good morning. Thank you for taking my question. Just a couple of follow-ups on NII, please. And in your opening remarks, you flag some of the NII benefit being temporary in nature due to customers adopting to the higher rate environment. And I was just wondering if you could give us a feel or sense how quickly you think this adjustment will be. It seems like today than in the first quarter, data back suggests that transaction accounts within corporate and private customers are down to 47% of the deposits in that division, down from 51%. It seems like this adjustment is well, happening, but I was just wondering if this is the pace you would expect, would this essentially slow down sooner could this go on for a while?

And secondly, I was just wondering if there is any element within NII where the benefit of higher rates is yet to come through, whether that's some form of longer duration asset swaps, bond books which could support NII progression from here. I'm just trying to understand where NII for SEB could settle going forward. Obviously, the 1Q run rate is up 60% year-on-year, over 70% since 2021. So, a remarkable step up. And I'm just trying to understand what the kind of steady-state level of NII is for…is to be going forward.

And I was wondering if you could give us any feel or any comment on where you think…whether you think…whether consensus expectation of SEK 141 million [ph] annualized is a fair assumption? Thank you.

MASIH YAZDI: Okay. Thanks for that. We do say that we think that some aspects of the NII line is transitory. We have no idea how quickly that will happen, how quickly that will go down. There should…when it comes to how much sort of migration you could see from transaction accounts to other accounts, there should be a sort of end of that at some point because you cannot take your transaction account deposits to zero because you have to pay your bills and so forth. And when we'll reach that point, we don't know. And maybe just assume that the pace you've seen in Q1 just goes on for a couple more quarters, I don't know. But we just...we think that we're just stating the obvious that people will adjust their savings to a new environment, and that adjustment hasn't fully happened yet.

Higher NII, I think, I mean, NII should be higher in 5 years than it is now because we will do new lending and stuff like that. So there's no sort of steady state of NII. It's difficult to say whether we will ever reach steady state of NII, it should over time go up as we expand our balance sheet. But the numbers we produced in Q1, there are no one-offs in them. They're sort of steady state here and now. And then we have a rate hike that was announced today that will be supportive going forward. But at the same time, you have these migration effects in the portfolio that we'll make sure that the potential improvements from here will not be as fast as you would have had, had these migration effects not happened. That's pretty much all the guidance I can give.

MARTIN LEITGEB: Okay, thank you. And on the NII transmission, is there any lagging impact in terms of some of the benefit of prior rate hikes you have seen yet to come through?

MASIH YAZDI: Yes, there are some lags on 3-month mortgages. For example, we repriced that book a third per month, so when you have a rate hike, it takes 3 months at least for that book to be fully repriced on a list price change, for example, and you're going to have lag effects elsewhere as well. On the corporate side things are down, large fixing once every 3 months, even though you have fixings every day basically. So yes, there will be a sort of delayed tailwind from rate hikes later on. And then over time, as treasury sort of reshuffled its liquidity book to higher-yielding bonds, you're going to see a positive effect there as well, but that takes some time as well.

JOHAN TORGEBY: Yes. And the markets book, we also log securities that have taken a hit in the upward trend on rates and spreads, and those will also come later.

MARTIN LEITGEB: Perfect. Thank you very much.

OPERATOR: The next question comes from the line of Dimitriou Alex with Credit Suisse. Please go ahead.

ALEX DIMITRIOU: Hi, thanks for taking my questions. I have just one question. So we've spoken a lot about the tailwinds from higher rates. But just if we look at some of the headwinds, what would be the main headwinds that you see on NII? And how would you be able to mitigate these? So is that solid just like an improvement on the lending asset margins or there other levers that you can pull? Thank you.

JOHAN TORGEBY: I can start, I mean the obvious it's not on margins. It's actually a tailwind or neutral, but it would be that the interest rates bite and investments are not going to happen, and therefore, loan demand will be muted for longer that goes for households, that goes from mortgages, real estate and all of the corporate. So that's the major tailwind on volumes. And the other tailwind is asset quality who will…who knows what the state of asset quality will be if we enter into a more severe recession than we are currently predicting.

MASIH YAZDI: You mean obviously means headwind. Sorry, headwind.

ALEX DIMITRIOU: Now, that's perfect. Thank you very much. And just quickly, just a second one, just what kind of actions have you taken to improve your market share flows?

MASIH YAZDI: Market share for what, sorry?

ALEX DIMITRIOU: Mortgages, sorry.

MASIH YAZDI: Yes. I mean quite large actions. I was just looking at the queue, the number of minutes that people have to wait in queue in the telephone bank year-to-date, it's 2.8 minutes, I think. Last year, year-to-date was 28 minutes. So that's a pretty large difference. So we have a much better situation there when it comes to that.

We've added maybe 30 FTEs in different parts of Sweden that are making sure that, that administrative process of approving mortgage has come down significantly by, I think, 67% in terms of time, how long it takes. So the whole process around the mortgage product is much, much better today. We have a better offering in our app as well. You can do more of self-service there and when it comes to fixing rates and so forth. So, I think there have been very large improvements.

In March, we are pretty much at our back book in terms of mortgage market share, and we see a good development. You can see in the numbers that we had despite the fact the mortgage book didn't grow in Q1, we did add about 6 billion of new commitments in Q1 for mortgages, and that's usually a leading indicator of what's going to happen to the lending book going forward. We'll see whether that materializes now, but we do see encouraging signs.

ALEX DIMITRIOU: Thank you very much.

OPERATOR: Gentlemen, there are no more questions registered at this time.

JOHAN TORGEBY: Okay. Then we'll wrap up. So thank you very much, everyone, for today's call, and wish to see you soon.