SEB

"Q4 2022 Results Conference Call"

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MODERATORS: JOHAN TORGEBY, PRESIDENT AND CHIEF EXECUTIVE OFFICER

MASIH YAZDI, CHIEF FINANCIAL OFFICER

OPERATOR: Good morning. This is the conference operator. Welcome, and thank you for joining SEB's Q4 2022 Results Conference Call. As a reminder, all participants are in listen-only mode. You can register for questions at any time by pressing "*" and "1" on your touchtone telephone.

At this time, I would like to turn the conference over to Mr. Johan Torgeby, President and CEO. Please go ahead, sir.

JOHAN TORGEBY: Thank you, and good morning, everyone, to the close of year quarter, and the Q4 quarter presentation of today. So, turning to Page #2 on the PowerPoint presentation that we posted online, we start with just saying a humble thank you to all of our clients who've just received this, and the last 12 months customer satisfaction, and it was a very supportive result of SEB. And we were top-ranked both amongst corporates and financial institutions in the Nordics for the second year running.

For the full year, we've had a good performance, return on equity amounted to 14.7% in the quarter, and it was driven by strong trading activity and of course, a more benign environment as interest rates have been at a higher level than in the past. This was done on a Core Equity Tier 1 ratio of 19%, with a capital buffer of 470 basis points.

Our strategy that we launched in January last year is broadly intact. We have checked all the assumptions and we think it still holds. However, we've done some minor changes in the short run, which we will get back to, and concluded that we will continue to invest in

SEB, and have set a new cost target for 2023 in the range of SEK 26.5 billion to SEK 27 billion, assuming constant FX as of 2022.

The Board of Directors has also proposed to the AGM to pay a dividend of SEK 6.75 per share and now, as we have switched into quarterly share buyback, continue for now with the annual pace of SEK 5 billion amounting to SEK 1.25 billion for the next quarter, and then a new decision will be taken.

Flipping to Page 3, you can see the financial year of 2022 in numbers, and Masih will come back to these numbers, but I'll just state that underlying results was very strong. However, after the imposed levies and the adjustment for Russia and the tax line, operating net profit grew by 6% and return on equity marginally to at 13.8%. This was on a cost...led to a cost to income of 0.39 and expected credit loss level of 7 basis points.

On Page 4, if we look at the credit exposure, the credit portfolio development, and we have seen a 3 to 4 adjusted for reclassification q-on-q growth for corporates FX adjusted. So continuation of good demand for credit to be provided and also the annual number becomes 5% mostly now falling because of the base effect as Q4 last year was very strong. We've had somewhat lower volumes in Swedish mortgages and also real estate, commercial real estate, it looks like it's up 60% but its flat underlying, and there has been a minor reclassification of some of the corporate exposures that we've had, to be put into the real estate category.

Now, I handover to Masih.

MASIH YAZDI: Thanks Johan, and so I am going to focus on the quarter and we are at Page 6 now. So if you look at Q4 we've seen income grow by 33% compared to the same quarter last year, that's largely driven by net interest income, as well as net financial income, whereas fees and commission are slightly down compared to the last quarter in 2021.

And as you can see, that it is true also for the full year, the expected credit losses are higher than last quarters in '21, because of the introduction of the tax fees, back tax as well as the higher resolution fund fee, though the imposed levies have increased as well.

Just a couple of comments on the item affecting comparability. This is an impairment we've done in our Russian business, and it's an impairment of the equity that we placed at the Russian Central Bank. Because of the dividend restrictions that the Russian Federation has imposed, it will take us many, many decades to be able to transfer this equity to the parent company. And because of this, because of the time value of money, we've decided to be prudent and do an impairment to the equity we have, which is almost the full amount of equity that we have in the Russian subsidiary, and this amounts to SEK 1.4 billion. So in the quarter, we had a return on equity of 14.7%, a cost to income ratio of 0.36 and we took 8 basis points of expected credit losses.

If I move to Slide 7, and we look at the long-term development of the bank in terms of income, expenses and profit before ECL and imposed levies, we can see that since 1990, we have seen an average income growth of 6%, an expense growth of 4%, leading to a profit growth of 6% before ECL and imposed levies. The number looks fairly similar, if you look at the last 10 year period. And if you look at the last 6 years, we've seen slightly higher income growth and slightly lower cost, expense growth than we've done in a very long time. So for now, this...it seems like we've found a better balance between how we invest in the bank and what type of income growth that leads to.

If I move to Slide 8, net interest income, up 28%, we are just over SEK 7 billion in 2022 compared to 2021. You can see that the contribution from the lending side has come down, and during the quarter compared to the same quarter last year, and...but we've seen positive development in all divisions. So because of this, this is mainly driven by the COVID side.

And if I move to the next slide, you can see a bridge somewhere on Slide 9 of the development of NII during 2022. So this increase of SEK 7.3 billion, SEK 1.1 billion is coming from increased corporate lending during the year, and SEK 4.1 billion is corporate deposits, and the absolute majority here is deposit margins and deposit volumes, even though they are up, the contribution from that is fairly small.

We have another positive effect of about SEK 600 million from our fixed income currencies and commodities business. On Swedish households, we've seen declining mortgage margins that have led to a negative effect of SEK 0.5 billion, but that's more than offset by improved deposit margins from Swedish households, and the contribution from our Baltic business, if you look at the household side, it's about SEK 1 billion year-over-year.

So, the issue or what we are going to conclude on this slide is that for this bank 80% of the net interest income improvement during 2022 is coming from our corporate and financial institutions business, and this is pretty natural as that's the dominating part of the business that we run.

If we look at Slide 10, and the net fee and commission income development, that grew by 2% during 2022, the main contribution here comes from the cards and payments business, which grew by about 25% during 2022, and this is basically a full recovery of this…the lower level we had during the pandemic, and now we've seen a full recovery especially on the corporate card side. And we've seen an extra boost on this line due to the high level of inflation

We've also seen a positive development of lending fees, as the balance sheet has grown, but on the other hand we've seen a negative development from advisory fees, so this year, equity capital markets and M&A, that type of activity has been lower in 2022. What I think is positive here is asset management and custody fees, which are largely flat during the year even though asset values are down quite a bit, and the reason it is flat is that we've had large custody inflows by the end of '21 and early parts of '22 that has offset the valuation decline during the year.

Moving to Slide 11, and the development of net financial income, we've seen a 13% growth in '22 versus 2021 and Q4 was especially strong with a total amount of SEK 3.5 billion. We've seen good underlying development within our fixed income business in the quarter, and we continue to see elevated levels of activity within FX and commodities, albeit a bit low…lower than we've seen in Q2 and Q3. We've also had some positive effects related to XPA as well as positive effects within our treasury business. We've always guided on this line and the guidance has been and it states that this should be between SEK 1.5 and 1.7 billion excluding treasury and XPA. Here we have for the first time added, but the average has been, if you look at the total amount of NFI over the last 16 quarters and we've seen an average of SEK 2 billion with a standard deviation of about SEK 1 billion. So we think that the combination of the guidance of 1.5 to 1.7, excluding treasury and XVA and this historical level we've been at, is the best possible guidance we can give.

I'll move to Slide 12 and the capital development. During the quarter, we've seen an improvement of the buffer of about 60 basis points in Q4. A large part of this is driven by the strong underlying capital generation, which is added 47 basis points net of the dividend that the board has proposed to the AGM. We have a negative effect from the item affecting comparability, the Russian impairment of 16 basis points gross. One should note here that there's also a reduction of the risk exposure amount related to this. So the net effect of the Russian impairment is only about 5 basis points.

We've seen an improvement of asset quality. This is mainly due to the fact that the new business that we've written during the quarter has been to corporates that are high quality and better than the fact book average of the bank. And we've seen a reduction of the market risk capital comments during the quarter, although they are still at elevated levels compared to the history.

On the right hand side, you can see that during the course of 2022 the capital buffer above regulatory comments came down by 120 basis points from 590 basis points to 470. So in the first year of the 3 year Business Plan, we have reduced the capital buffer by about 120 basis points. And we think, we're on-track of reaching the guidance we've given to be within our target range of 100 to 300 basis points by year end 2024.

If I move to Slide 13 and look at the expected credit losses. So in the quarter we took about SEK 0.5 billion of expected credit losses, about 190 of this amount was driven by adjustments to macro scenarios, so driven by the IFRS 9 rules and due to lower GDP and consumption estimates going forward. The remaining part is due to a new portfolio overlay for our real estate portfolio of about SEK 300 million.

What we've done here is to do a bottom up screening of the real estate portfolio and look at what could be potential vulnerable clients. What we've looked at here is, for example, access to market financing, how much of that, that is needed to be done in the near-term and the ownership of these companies. For this part of the portfolio, we've assumed that there will be a 10% default rate and that at that point in time the collateral values will have dropped by 20%. When doing this exercise, this leads to a portfolio overlay of SEK 300 million, this is pretty much the edge. What we can do at this point, in terms of being within the accounting rules and being proactive and take reserves for this portfolio. You should obviously put this reserve of about SEK 300 million in connection with the total size of the portfolio of about or over SEK 300 billion.

Overall, you can see that Stage 3 loans in the quarter came down quite a lot and that we today have more reserves than the total amount of Stage 3 loans. The total reserves in the bank is SEK 8.6 billion, of which SEK 2.2 billion are portfolio overlays.

Moving to Slide 14, and looking at some key ratios. So we saw customer deposits grow by about SEK 100 billion during the year. We've seen that liquidity ratios, both the short-term, the LCR liquidity coverage ratio, as well as the NSFR, Net Stable Funding Ratio are stable and that we've gone through the capital buffers before, but the leverage ratio, I should add is stable compared to the end of 2021.

That was it. I'll go back to Johan and we'll have an update on the Business Plan.

JOHAN TORGEBY: Thank you, Masih. So now we turn to Page 16, and switch gear a bit, and we start with just a quick little key highlights from what we achieved and what we did in 2022, divided by the 4 pillars of the strategy that we launched last year.

So first we have had a modest expansion of our Corporate Banking business in the Netherlands, Austria, and Switzerland and this is broadly in line with what we plan to do. Investment Management has launched several new investment products and we are on-track both when it comes to the green activity, the Sustainability Index, and the brown, the Carbon Exposure Index where we want to improve the green activity and reduce the exposure to carbon.

On the strategic change, we've launched new functionalities in the app that meets our clients and we've continued to expand Private

Wealth Management and Family Office division and established an office in South of France in Nice to support Nordic customers that reside there. We've also decided that as a spinoff of SEBX to commercialize banking as a service and we've launched a business area we call SEB Embedded, which is a very exciting new leg to stand on for the future, still early days where we support and give access to our clients...our industrial and retail clients, to use banking like services in turn for their clients.

On partnerships, the most noticeable is the Private Wealth Management initiative in Denmark where we partnered up with Ringkjøbing Landbobank to support private banking customers, making us reach much more customers in Denmark in the future and also focusing on getting more clients into the family office initiative. We've done 6 investments in clean tech and green tech entrepreneurs and this is of course to help early stage companies to finance new innovations in order to improve the transition to a carbon-free economy.

And lastly, we continue to solidify the cooperation with authorities, most noticeably the police, in order for us to work together to combat financial crime.

On efficiency, we've done many small and operationally organic improvement in automation. But most notably, I'd like to highlight the one in sub-custody as we have onboarded about SEK 5,000 billion over the last 18 months. And this is of course meant that we have a completely different version of how to handle that volume in the future. We've also set up a financial intelligence unit to help us to combat financial crime, but also using intelligence that we can find in-house. And we've improved and launched a new data governance and appointed a new head of data in the bank.

Going to Page 17, we now have the full-year result of all customer surveys that we do, and broadly speaking the outcome is such that we are either on top or we are flat except for one, which is the business bank at...in the bottom row. So this is a very good result for us. We're going to work hard to maintain this position or even improvement and there are still many things that we can improve.

Then looking at the particular initiatives that we did last year from the perspective of what did we say on the trends that we want to capitalize on and support our customers in. This is on Page 18, we have a very optimistic and long-term positive view on corporate and investment banking and we've had a very strong underlying growth for some time. However, during 2022, not at all planned in January 2022, we saw a sharp shift in activity, particularly within ECM, M&A, DCM [ph], corporate finance investment banking. And we had significantly dampened activity due to volatility and lower asset prices and higher risk outlook.

Savings and investment, we had a very, very solid starting point with one of the highest savings ratios we've seen, this has also changed quite dramatically, and that is, of course, that the cost of living has gone up and also the ability to save has gone down therefore. So we are still very positive on savings and investments and corporate investment banking in the long run. But clearly there's been a cyclical headwind in the near-term.

On technology and sustainability and on non-financial risks, we would say more or less more of the same. So we have not changed our either short or long-term view, if anything, cybersecurity has been accentuated around the new technologies that we can do. Sustainability continues to be a top priority and we met, broadly speaking all the targets that we set out on the green and the brown and nonfinancial risk the trend continues that in the past majority of the risk CROs of banks would identify…would be of financial nature. Today, the majority of risks are nonfinancial in nature, operating risk, and that is really something that all banks need to relate to because the risk landscape is changing.

Next page, Page 19, is more or less just a plain repeat so for the ones for time stamping [ph], the strategy 2030 we've included here as well as a reminder. And now I hand over to Masih.

MASIH YAZDI: Thanks again, Johan. So, looking at Page 21 and the cost development and the cost target we've given out today for 2023, you can see here for the first time, we are giving out an interval of SEK 26.5 billion and SEK 27 billion in 2023 assuming average FX rates of 22. The reason we have given out an interval right out on the point estimate which has been customary for us is the uncertainty around inflation in general, both when it comes to salary inflation as well as inflation on other areas impacted, such as premises, information services, and energy prices.

When it comes to the things that we can do something about ourselves, that is efficiencies, those are a bit clear, so we'll do more efficiency work during 2023. We'll take out more cost-related to efficiencies and this can be achieved through measures we've taken over last few years in terms of automation and so forth. And we'll invest as much in 2023 as we've done in 2022 on top of the investments we do going into the year. So, SEK 800 million to SEK 900 million extra in 2023.

And here you can see what we are investing in, just a few examples. So, in the front, the customer-facing part of the bank, we will continue to develop our remote advisory. We will continue to expand our Private Wealth Management and Family Office division and we'll continue with expansion within Austria, Switzerland and Netherlands. And in…within sustainability, we'll continue to improve our customer offering as well as our disclosure and reporting. When it comes to future proofing the core, cybersecurity is a very important area in the bank as well as the whole society and we'll continue to develop our cloud capabilities.

On and off boarding is both a future-proofing but it's also something that will enable us to become more efficient in the future doing that process much more automatically than historically. And then finally house in order. We've invested a lot within financial crime prevention in the last few years and we'll continue to increase those investments in 2023. That will also over time lead to efficiencies for the bank. And risk in compliance are areas that we've seen increased investments in for last decade or so and those will continue in 2023.

On the next page, Page 22, we've done some minor revisions to the financial aspirations of different divisions of the bank. As a reminder, we do a review of these aspirations every year depending on how our peers have performed but as well as taking into account any potential accounting changes or organizational changes. This year there are 2 minor changes, so a slightly lower cost to income ratio aspiration for the large corporate and financial institutions division and a slightly higher cost to income aspiration for Investment Management. And this is mainly related to organizational change moving one's units from one of the divisions to the other.

On Group level, we have a slightly lower aspiration on cost to income ratio instead of around 0.45. We now aspire to be between 0.4 and 0.45. And this is mainly related to the fact that we have done a reclassification of the resolution from the out of the net interest income line to imposed levies. So, therefore everything else equal the bank on the Group level needs to have a slightly lower cost to income ratio to reach the Group aspiration of 16% return on equity.

And again reminding here the cost to income aspirations, those are not explicit targets, those are implicit targets, what we think is needed for each part of the bank to achieve what we think is the explicit target, a certain level of return on business equity.

And then finally, just a reminder of our Group financial targets to pay out 50% of the earnings per share adjusted for items affecting comparability every year to be within our management target range of 100-300 basis points and to have a return on equity that's competitive with peers, aspire to reach 15% in the long-term.

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

Q&A

OPERATOR: Thank you. This is now the conference operator. We will now begin the question and answer session. The first question is from Magnus Andersson with ABG. Please go ahead.

MAGNUS ANDERSSON: Yes. Good morning. If I start with NII, just if you could give us some flavor around the competitive situation on deposits. For example, I note that your deposits shrink…your household deposits and corporate deposits are shrinking quarter-on-quarter and this is primarily in the…when I look at the retail-oriented deposits there and also if your own deposits, could you share with us what share of the Baltic deposits have…still have zero interest rates.

Secondly, on NII just you talking about volatile…more volatile items in your favor in from Q1 really, bridge financing is under strong thick [ph] related NII in Q3 for example, what's the status is there right now?

So, that's on NII and then secondly just on capital. Last year, you gave us a capital repatriation outlook for buybacks of SEK 5 to SEK 10 billion. Now we know that you have announced SEK 1.25 billion for Q1 so my question is just this, SEK 5 billion on the annualized level are the best expectations for 2003 or could anything change that? Thank you.

JOHAN TORGEBY: Very nice. I think I'll start on the 3 questions and I ask Masih to fill-in on all 3. If it's on the deposit, I think it's a macro trend which is quite interesting and that is after many, many years of QE, we are now going to QT and higher rates. So, the whole point of what's happening right now is to drain the economic system of liquidity. That is, I think, what we are seeing overall in the market right now. So, this is the deposit that has continuously increased. Liquidity has been very, very ample. That has of course supported real economy and now with higher interest rates potentially QT, that will be withdrawn from the system.

A few other points. The cost of living has gone up and the cost of input goods for corporates has gone up. So, we could clearly see that corporates needs to spend more to produce their services and that's a working capital squeeze. A corporate only have to access to capital and you need to pay your bills to get the input goods. Either you take from your cash or you ask a bank to give you the money through a loan. And we can clearly see that lending growth has not really gone up.

There has been a little bit less deposits in the bank as the…that has been used for something, but credit exposure has gone up. So, the number of loans that we have written has increased. So, this is also a part of potentially explaining that and for the retail side, I would say it's the macroeconomic monetary change and it is of course spending more on the same basket for energy, mortgage rates et cetera, that has also drained it. But predominantly corporates for the deposits. Masih, anything on?

MASIH YAZDI: Yes. I will just add on the sort of deposit decrease during the quarter. So, we can track what's happening to deposits and we can see that we are not losing deposits to competition, especially on the retail side. So, the outlook we've had during the quarter is driven by increased cost of living. So, that we can see that customers are using their deposits to a larger degree to be able to pay for bills and that's not money going out from SEB to competition on the deposit side.

Just adding onto your question about the Baltic business, I can't really say how much is their interest rate, but if you look at the facts closely, you can see how large share of deposits that are in transaction accounts and how large share we have in savings accounts. You can assume that on this…the part that is in transaction accounts has zero rates and on saving accounts, we are paying something. So, that's the sort of the best…that's the best guidance you can get there.

On the volatile items, we still have a couple of larger bridges on the books and the contribution from that is fairly small. I would say if anything, during the quarter may be net interest income is slightly understated and this has to do with what happened to the 3 months STIBOR during the quarter and then if you remember early parts of the quarter, the 3 months STIBOR starts to take in the bank tax and the resolution fund fee that is payable by year-end. So, there was a very low STIBOR trend. So, at the beginning parts of the quarter and a lot of fixings are made at that point. This is fairly technical but that it has corrected itself now, but it probably has led to maybe the net financial income line being slightly overstated in the quarter and the net interest income line being slightly understated in the quarter.

On the capital side, you are correct. I mean, we are executing on the mandates we have to do SEK 1.25 billion of share buybacks until the AGM. This is not a guidance for what the pace will be post the AGM. It could be same, it could be lower, it could be higher. The guidance we can give and this is obviously confirmed by the Board yesterday, is that we plan to be within our target range by the end of 2024.

Whether that's going to be reached through continued organic growth, through any potential acquisitions or whether that's going to be due to dividends or share buybacks or a combination of that, we can't say at this point, but the plan is still to be within that target range in 2 years' time.

MAGNUS ANDERSSON: Okay. Thanks. Sorry...go on.

MASIH YAZDI: There I just had 2 things. On the deposit side, this is more a reflection. But for many, many years, as we are pitching to clients how to manage their liquid funds, there's not been an alternative. Because also the government bond rates have been very low or negative and right now, this is changing. So in SEB, we are offering quite a change now in terms of managing short-term liquidity.

You are going from zero to some of our investment products yielding 4%. This is not a net number but gross number is very good that you have actually now, when the rates have come up, you can start looking at fixed income security that is clearly yielding more than you would get in...just in transaction accounts and that's also a potential explanation and it's a very good thing because we would love the money to be more productively placed.

MAGNUS ANDERSSON: Thank you and just a follow-up there on deposits. Have you also seen amortization going up in the mortgage book, that part of the explanation?

JOHAN TORGEBY: Yes, we have seen that happen. It's a very small increase from low numbers but this has been a new trend since September that we have seen more applications for amortizations and we are approving a larger share of those applications for every month really. So the increase started in September and it was higher in December than it was in September.

MAGNUS ANDERSSON: Okay. Thank you very much.

OPERATOR: The next question is from Omar Keenan with Credit Suisse. Please go ahead.

OMAR KEENAN: Good morning. Thank you very much for making the time. I just wanted to explore the deposit volume going just a little bit more. I guess if we look at system [ph] level trends, deposits were down about 0.3% [ph] in November. So they're still pretty flattish. So I was hoping if you could perhaps comment on whether...why SEB's trends look a little bit different from the system or did something happen in December that's a little bit different. And just related to that, we have seen quite a nice development in terms of the deposit margin and we are expecting to get another, I guess, the market is saying 50 basis points rate hike from the Riksbank. And could your help us perhaps think about the various moving parts on NII going forward in terms of what benefit from rate sensitivity we can get, what lending volumes look to be doing or what lending margins look to be doing? Thank you.

JOHAN TORGEBY: Okay. Thank you, Omar. I really wouldn't make a big number of the deposit decrease in Q4. If you look at the full year number, we have seen deposit inflows in the bank. We have seen...the largest deposit outflows in Q4 is related to the corporate business and this has to do with that over the course of the year in 2022, some of these corporates pick up new funding from us for a purpose and some of the purposes have been to acquire other companies and you can see that when they do the actual payment of that acquisition, they have taken out liquidity [indiscernible] they've put in the bank as deposits and when they do the actual acquisitions they use those deposits to do that. So that's the big part of the deposit outflow. As I said before on the retail side, this has to do with...and that's a very small proportion of deposit outflows in the quarter that has to do with the cost of living mainly.

So it's really no drama in it and since we are a predominantly corporate and financial institutions bank, there will be more volatility in our deposit base than if it will be just a pure retail bank. So I wouldn't say that we have a different trend on deposits than which you can see in the overall market.

When it comes to deposit margins going forward, it's difficult to say what's going to happen. It has a lot to do with competition really and how customers will behave. The increases in rates that we have seen has been very rapid. So financial actors, both corporates and households, haven't really had time to act and now we will see what they will do. What we do know is that we have about SEK 200 billion of equity in the bank.

So if you just do it very sort of technically, freights go up by 50 basis point. Obviously, we don't pay any interest on the equity. The positive effect of that is about a billion annualized basis. So that's sort of what we can guide on and the rest is going to be up to competition and what's going to happen in the markets.

We do see right now or our view is that lending margins, especially on mortgages are unsustainably low. They are very depressed and you can argue that some parts of deposits, margins are high or higher than they have been historically. So we are in a process of the markets really finding a new equilibrium between lending margins and deposit margins and it seems reasonable to believe that to some extent lending margins should improve from current levels, also given that what's happened to credit spreads in the market, at the same time as maybe deposit margins will come down. And what the net effect of this will be, it's very difficult to predict. We have had such a fast moving environment in terms of rates. It's going to take some time to find its equilibrium and it's just difficult to predict where that's going to be.

On lending volume side, there is subdued lending demand. We did see quite a lot of credit demand in Q4 from high quality investment grade corporates adding all liquidity facilities in Q4. These haven't been drawn yet but obviously to some degree this could be drawn. These are not CAPEX investments, so these are back-up facilities to a large degree with shorter tenures than CAPEX investments would have.

But we did see quite a lot of that activity in Q4, a sort of mini pandemic effect, if you can say. So as we call in the early parts of the pandemic, we did SEK 140 billion of new credit facilities over 6 weeks. Now, we did about SEK 60 billion in Q4, so almost half of that amount. So fairly large and we will have to wait and see how much of that will be drawn in the coming months or so.

OMAR KEENAN: Okay. Thank you very much. I guess just on the deposit point, I was referring to the household deposits. If I look at the CPC deposits, they were down 2% in the quarter and it doesn't look like that the trend is showing that.

MASIH YAZDI: Yes. In CMPC, more than 50% of deposits are from corporates, so less than half of that is households. So if you look at the household side it's a very small decline and when we track the flows and see where the money is going, it's is not going to other banks. It is going to pay bills basically.

OMAR KEENAN: Okay. That's great. Thank you very much.

OPERATOR: The next question is from Nicolas McBeath with DNB. Please go ahead.

NICOLAS MCBEATH: Yes, thank you. So first a question on growth that's in your balance sheet and your strategy here, so the credit portfolio was flat quarter-on-quarter and then Masih, as you just commented that your lending demand is currently subdued, so, assuming what looks like a possible scenario for the next couple of years with very limited and possibly even negative loan growth on both the corporate and household side, how would you think about your growth strategy in such environment? Do you find it critical to continue to grow your kind of credit and lending or do you think you could be content with absence of growth and rather focus on protecting profitability and distribute earnings to shareholders rather than reinvesting into the business?

JOHAN TORGEBY: If I start…yes, so we have the same mindset. We don't dictate how much a corporate needs to borrow. That's very much driven by every institution's desire to invest and right now that is subdued. We have still a recession coming our way. Many large corporates are still very cautious and careful and worried, but that is also good for loan demand, namely for the rainy day argument. So we have seen these facilities now put in place but they are not drawn because they are drawn if there is something to happen.

The growth strategy for SEB is completely not driven by macro. It is driven by increasing our market share in most large corporates and financial institution. It's driven by increasing the number of clients that we service and that's predominantly outside Sweden, so there is still a little bit growth in Norway, Denmark, Finland. There is significant opportunities in the long run to grow this bank in Germany, Austria, Switzerland, UK et cetera, and the other part of the growth strategy is to increase the proportion of any clients business to us. That's a very organic, very powerful change in how much market shares you have on one client, and the data points of course to a fantastic 2022 and there is no reason to believe that we are not going to continue, that we have increased market share and gained more clients.

Then, on the...kind of estimate of what will volumes be? I don't know it's very much a macro driven question in my book. The margins on corporate are more or less a global, so there is a market price set in the international financial markets, there is not much you can do about it, that has, of course, in a positive, its supported right now by higher credit spread then we use to have. So, that's a very positive thing that money is becoming more expensive and therefore also the credit card the difference between credit quality has clearly widen out, even though stabilized in this quarter. That margin that we receive is of course very much driven if we are efficient, if we have a low funding cost and if we are cost efficient which I hope to be able to say that we are. And therefore that will be good, a good margin and development.

NICOLAS MCBEATH: Okay. Thank you. And then, second question please on your ROEs aspiration, so looking at the underlying ROE in Q4, it seems to be pretty close to 15%. So, I was wondering whether you think it would be a stretch for you to aspire higher in particular given your current strong capital position and maybe some further NII tailwinds going into 2023? Do you think you could aim higher with the slimmer equity base. And also if you could please elaborate what drives you see impacting your ROE positively and negatively from the current level over the next couple of years?

JOHAN TORGEBY: Okay. I will start there Nicholas. The board confirmed our financial targets yesterday. So, the ROE aspiration continues to be 15%, I think for us it's about, trying to strike a good balance between adding a value to the shareholders, so having a return on the equity that is sufficiently above the cost of equity, but also making sure as we can grow the business. So, there is going to be a balance that, the higher ROE aspirations you said the more you are going to potential your limits, your growth, or potentially you could sort of take on too much risk as a higher ROE aspiration which could incentivize you to take on, higher margin business and therefore take on higher risk. But, in the end, I mean it's going to be about competition as well, obviously a lot of our peers who moved to other ROE targets that something we will have to reflect upon and take into account when we set our own targets. But, here now, this is the aspiration we have if we can get help from the interest rate environment being different that we have used to, that's obviously great. And hopefully we can grow our business at this higher return on equity level for the coming years.

NICOLAS MCBEATH: Perfect. And then, final question please on commissions for 2023, given where stock markets are currently and actively pipeline you see for 2023 at this points? How do you view the commission outlook for this year, do you…expected growth, net commissions in 2023 versus last year?

JOHAN TORGEBY: It's going to be very dependent on what's happens to asset values and balance sheet growth when it comes to lending fees for example, compared to 2022, what we don't have going into 2023 is a further recovery in the cards business. So, we have seen a full recovery there, so that's behind us, at the same time the advisory related fees are clearly lower in 2022 then 2021, so if asset value is stabilized, it's possible that that business could pick up, so that's a potential.

On asset management I mean, it's going to depend a lot on what happens to the stock market and asset prices in general, I should just note that we are a bit more geared towards fixed income then equities compared to many peers, so you should also look at what happens to fixed income prices to try to sort of track or understand what's going to happen to our assets on management, and asset under custody business and the development there. It's very difficult to say what the fee income line will do in 2023 as its again very macro dependent.

NICOLAS MCBEATH: Okay, perfect. Thank you.

OPERATOR: The next question is from Maria Semikhatova with Citibank. Please go ahead. Ms. Semikhatova your line is open?

MARIA SEMIKHATOVA: Hi, yes, thank you. First on the capital outlook maybe near term because…okay. Hello, I have couple of questions first on, capital trajectory maybe near term we used to see a higher market risk,

risk weighted assets in the first quarter if you are expecting versus analogy this time around? And then, maybe, kind of over the year horizon if you have the impact of be more than overhaul?

JOHAN TORGEBY: Yes, I will take that Maria. You're right, I mean typically market risk really comes down in Q4, and it's going up slightly in Q1 and this time around its more unlikely that's going to happen as the market risk is already elevated in Q4, compared to historical levels. So, hopefully that won't happen, hopefully that could come down, it's going to depend a bit about on the volatility in financial markets as those have been elevated during 2022 and more recently that type of volatility has come down.

And so, we will see, and on the sort of full year we do have the IRB overhaul that process will likely end during the course of this year. As we have said before based on what we applied for, based on our historical default rates, which we based our models on, we don't see that this overhaul should lead to any net effect on our capital requirements on our risk rates. But, in the end it's going to be…we have to say that approves the model, so we can't say, but we think that we have a good application and we have a good sort of good assumptions behind this conclusion that in the end this shouldn't lead to any meaningful net affect for us.

MARIA SEMIKHATOVA: And just to follow-up to have a sense of why…where your portfolio is different from key peers, because Swedbank provided quite a different outlook for the net impact from this process?

JOHAN TORGEBY: Can't really compare to peers, what I can do is to look at our historical observed default frequencies in the portfolios and the risk rates we use, and look at general data for European banks, we can see that we have clearly higher buffers in our risk rates than other banks have on average compared to the historical default rates. So, given that we have larger buffers to start with, it's difficult for us to assume that we would have...to have even larger buffers compared to average European banks. So, that's what I base that conclusion on that, we start out with clearly higher buffers than the average bank.

MARIA SEMIKHATOVA: Understood. Thank you for your comment. And then, the other question on asset quality outlook, maybe first on the commercial property lending, you stood out among other Swedish banks with the quite conservative approach and portfolio didn't increase. But, I see that it's grew in the fourth quarter, I don't know, if you changed your view on this specific factor and maybe you could comment what's your risks appetite for adding new CRE exposures in 2023. Than more broadly, I believe previously you included in the report some kind of commentary on your outlook for expected credit losses. So, we were at 7 basis points in 2022 to get a sense of how high can we get this year given your forecast recession?

JOHAN TORGEBY: Okay. Yes, on the CRE portfolio it is right we believe that we are conservative to the extent that the accounting rules allow us to be, and so we have done this bottom up analysis and the best number we can come up with at this point is the portfolio overlay of about 300 million. This is not a guarantee that, that's going to be sort of how much we lose in the end, it could be lower than that, it could also be higher, but the accounting rules allows you to be forward-looking to an extent, and we have been as forward-looking as those allow you to be, at this point. The risk appetite, we didn't grow the CRE portfolio in Q4 as you answered before is that growth rate is driven by reclassification, so the underlying growth in the quarter is zero, our risk appetite is such that we will continue to support the core customers that we have, and we will not add market share during this period of elevated risks in that market.

On the outlook on credit losses, we're not giving any guidance on that for this year, as there is obviously a higher uncertainty related to that. What I would say is that we are going into 2023 in my view with probably the sort of cleanest and healthiest balance sheet we've ever had. If you look at the reserves we have against Stage 3 loans, how much Stage 3 loans we have as the share of the total book, how much reserves we have, how much portfolio overlays we have, it's a good position to be in when going into more uncertain environment, so very comfortable in that sense that we have good buffers going into what is likely to be an uncertain environment.

MARIA SEMIKHATOVA: Thank you, and just a minor clarification question, if I may, on your cost guidance, just to check, if it's based on the average FX rate in 2022, or the year-end FX rate?

JOHAN TORGEBY: It's based on the average FX rates, that's a good point, so year-end FX rates are higher than average, so everything they stay where they are. We are going to be sort of not at the lower end of that interval, so that's great.

MARIA SEMIKHATOVA: Great, thank you.

OPERATOR: The next question is from Andrea Hakansson with Danske Bank. Please go ahead.

ANDREA HAKANSSON: Yes, hi, everyone. And we've gone through most areas, but a few follow-ups. On the mortgage margins, Masih, you said that you think that they are unsustainably low at the moment, but when I look at how you've been pricing your mortgages, it seems like you've been truly the most aggressive in terms of mortgage prices, and I see that your average price at the moment is even below a step...quite a lot below some of your bigger peers, so could you tell us a little bit about your strategy and why you're doing this?

MASIH YAZDI: Yes, I can do that. I think, I mean, first of all, it's a timing issue here, so at any point in time, we could be the cheaper or more expensive than our peers on mortgages especially if you look at the list price, I think it's wiser to look at the actual price, you can both change the list price, or you can do something about the underlying model and yes, change...change those prices, what kind of discounts you give depending on what kind of customer it is. So I think the main issue here it's a timing issue.

We...going into 2022, we had a view on the mortgage market and the real estate prices that they were a bit elevated, and there were some risks. We've started seeing inflation come up, and we didn't feel that this was the best point in time to advise customers to take on mortgages at the very low rates we had, when we could see that prices were a bit elevated, and that rates would go up. So that's the stance we took back then, now we think the market is more balanced, prices are down 15% or so, and now it's more visible to households, what mortgage rates will be, and they've gone up quite significantly. So we have a different outlook on the market as such.

At the same time, we have lost some customers that we didn't want to lose during 2022, so we're trying to make sure that we don't lose good customers going forward, and the plan is to come back to or back with market share. So, that is also behind sort of the reasoning we've had. But I think the main issue here is that it's a timing question, when do you change prices and what price do you change, is it the list price or is it the underlying negotiated price depending on what type of customer you are.

ANDREA HAKANSSON: Yes, I mean I'm obviously looking at average prices, but, so getting back to clients, I mean we see that you're actually shrinking your mortgage book at the moment. But are you going to do that by offering a lower price or you're going to do that by offering new services, so how do you plan to get back into that market?

MASIH YAZDI: Andy, and it is going to be a combination that we have, a total offering that is competitive, and then we've done a lot with service during 2022, so if you call in through the telephone bank you will notice that telephone queues are very short today, and they've been short for several months now, so our service has improved quite a bit. We've improved also the access you have, then what you can do yourself in the app. And then we've have a slightly lower price compared to what we had about a year ago. So, it's about finding the best combination of these, based on what the customers want. Obviously, in the end, I mean, we want to improve the service as much as possible. We think the customers appreciate that, but obviously there's a lot of competition in the market, mortgage growth in the market is very, very low. It's basically zero at this point, so which means that a lot of banks are chasing less volumes and that increases the competition, and that's one of the main reasons behind why mortgage margins are still depressed at this point.

ANDREA HAKANSSON: Okay, thanks. And then Johan, when you were talking about capital, you mentioned M&A. Could you tell us, I would assume it's…we're talking about smaller transactions, but within what areas would you be impressed, is it asset management, is it international or what would pick your strategy?

JOHAN TORGEBY: When I said it I meant corporate finance, M&A Advisory, so I didn't mean SEB M&A, but I'll answer the question as if I meant that. So there is no in the plan [indiscernible] with the board, there is no M&A included, so the organic stance, the base case for what we are talking about costs capital everything what is called, it's assuming no meaningful acquisitions or disposals by SEB. That doesn't mean that things can't happen, as things happen in the market we always have to look at it, it's our fiduciary duty and there are of course areas where we could expand, but there, it was very clear, there is no M&A in the current plan. Should there be one, we would of course have to come back because that would change how you view the statements that we have seen today.

ANDREA HAKANSSON: That's clear. Thanks very much. That's it.

OPERATOR: The next question is from Sofie Peterzens with JP Morgan. Please go ahead.

SOFIE PETERZENS: Yes, here is Sofie from JP Morgan. So I just wanted to go back to the cost target, because if I see in the average FX rate for 2022 and I [indiscernible] that you're average days [ph] SEK is currently almost 5% higher, so if I adjust for the latest FX rate, well, does it mean that I get to SEK 27 billion or does it mean that I would get more to SEK 27.5 billion if I do get the upper end, if we take the sort of current FX rate, what will be the cost I guess for 2023 will be? That would be my first question?

JOHAN TORGEBY: Yes, I don't know what the current FX rate is compared to the average for 2022, but you're right that it's probably sort of worse in the sense that the cost target we've given out would imply a higher cost level, so the interval we've given out is based on uncertainty around inflation, not uncertainty around FX, so if inflation is such that we would land at 27, and then you would have to add whatever FX does on top of that, so yes, it is possible that we end at 27.5, if FX rates will moves in the direction of that. But recall, if you look at 2022, the FX effect of our cost line was about SEK 0.5 billion, but we had a positive FX effect on our income line of SEK 1.3 billion, so whatever you do, so we are more profitable and have a lower cost to income ratio outside of Swedish krona than we have in Swedish krona, so a weakening Swedish krona, although it increases the cost level of the bank, it actually improves the profit level by more. So in the end the net effect of depreciating Swedish Krona is positive for our results.

SOFIE PETERZENS: Okay. That's very clear. And could you just kind of reiterate your rate sensitivity guidance. Does it still hold SEK 715 million for 25 basis point rate hike in Sweden and another 250 in the Baltics? And could you also just remind us, what your rate sensitivities to our 25 basis points cost in interest rates?

JOHAN TORGEBY: Yes. So if you look at that guidance that was based on that we don't pay anything on transaction accounts when rates go up and that obviously we don't pay anything on the equity base that we hold. So with the same assumptions, you would have the same sensitivity. The question now is can you make the same assumptions? Is it reasonable to believe that if rates go up further than they have that we wouldn't have to pay anything on transaction accounts? And what we're saying now is that at this rate level that assumption is less likely to hold. So competition in the market is more likely to lead to banks generally having to pay up for all types of deposits in line with interest rates moving upwards or downwards. So what we do have is, obviously the equity base of SEK 200 billion, which we don't pay interest on, so it's...with the same assumptions, it's the same sensitivity, you can just question the assumptions more at this point in time. So that's the point I want to make.

There is still some tailwind from the rate hikes we've seen so far. So obviously the whole lending book hasn't been re-priced. That's going to happen over time. It takes maybe up to 2 years before that happens. So I think, there is still some tailwind from the hikes we've seen, but the question is, will there be further potential tailwinds if we get additional hikes at this stage? And I think, that's a much more sort of uncertain issue.

SOFIE PETERZENS: But then you also have some headwinds on NII from higher wholesale funding costs. Is that...my understanding is that the wholesale funding costs, therein re-priced [ph] all at once.

JOHAN TORGEBY: Yes. Well, the question is how those potential headwinds are offset by on the lending side. I would say that if anything lending margins are depressed at this point relative to credit spreads. So hopefully going forward, we could have some improvement in lending margins, and obviously that's related to the wholesale funding cost, so net-net hopefully that will be positive going forward.

SOFIE PETERZENS: Okay. That's very clear. And then just a final question, you did SEK 1.4 billion provision for Russia, it's writing down the equity base, but you still have SEK 7 billion of exposure to Russia. How should we think about any future write-downs? And if you don't believe there will be any more write-downs against Russia, why is that makes me comfortable?

JOHAN TORGEBY: Yes. So we had SEK 1.6 billion of equity in our Russian business, we've written down SEK 1.4 billion of that. So the maximum additional potential risk we have is SEK 200 million. The deposits we have in addition to that is customer deposits that we are taking from customers and place at the central bank. And we have parent guarantees for those deposits, so even if you would assume that there will be any losses related to those deposits, which is just, well, that couldn't happen. But even if you assume that we still have SEK 1.6 billion of equity in the subsidiary that could cover any potential losses for the parents bank, we have impaired that. So, yes, I would say the maximum potential further impairment in Russia is SEK 200 million.

SOFIE PETERZENS: But why wouldn't you see any write-downs on the asset side? Considering that most other European banks have written down most of the assets that they have in Russia, why would you only see it on the...on your equity?

JOHAN TORGEBY: Because it's not our assets. It's the customer's assets, it's their deposits that we take in, and we place it in the central bank in Russia. So it's not our own assets, and we have parent guarantees for those assets. These are Nordic companies or German companies doing business in Russia, it's not our assets.

MASIH YAZDI: If you're asking about lending, it's very different if you compare to other international banks in Russia, because we don't have any Russians in Russia. We are only there for the Nordic and Northern European companies that we already have. And therefore, there's no real exposure to be compared to if are a bank in Russia for Russia, because we have then a parent company in some of the Nordic countries or in Germany who has a more often than not a guarantee. So the credit risk is still going to be on the industrial company, typically speaking from the Nordics or Germany. And therefore, the credit risk in that sense is the same as the overall bank, regardless of the problems that might be created. And that's why that is a separate issue, which we feel very comfortable with compared to the equities...the money that we owned, our money, which we are not allowed to take out, and therefore, we take it we do the prudent thing to write most of it off.

SOFIE PETERZENS: Okay. Thank you.

OPERATOR: The next question is from Rickard Strand with Nordea. Please go ahead.

RICKARD STRAND: Yes. Hi, good morning. So starting off with the first question on Swedish mortgages. Given that you have not hiked prices in line with the competitors recently, but at the same time, sort of a comment that mortgage margins are very low. Would you say that that indicates that you're more likely to move your prices ahead going forward in line with peers in general?

And also a follow-up question there, on sort of, given that volume growth is now approaching close to 2% on sort of an annualized basis, if we start seeing volumes coming down to 0, even negative, just if you could comment how you would prioritize between sort of keeping volumes up between that and sort of protecting your margins?

MASIH YAZDI: Yes, Rickard, I'll try to answer that. I can't give you any indications of what we'll do with prices going forward, that's going to happen when it happens, and so yes, you just have to wait and see.

On volumes, I mean, we don't really look at the volumes in that sense, we look at customers. So we want to keep good customers in the bank and whether those customers at any point in time, want to borrow or not, that's going to be cyclical. You're going to see scenarios where they're going to borrow and scenarios where they won't borrow, and we won't force them to do either. So but we want to make sure that we're going to keep the customers that we think we can service. So at this point in time, you have very low mortgage lending growth and then, that's fine. And if it goes up, then that's fine too. That's something that sort of happens in the market, that's not something we can dictate really.

Over time, we think that the mortgage market will rebalance, that the depressed margins you can see today are too depressed for that business to be viable. But it's going to happen over time, and it's going to be probably a combination of something happening to deposit margins and something happening to lending margins, and we're going to find a new equilibrium somewhere at some point. But it's just...it's been such a fast moving environment, so it's very difficult to say whether when and at what point this will sort of stabilize. But I'm sure that a lot of things will happen during the course of this year.

JOHAN TORGEBY: May I add, it's...I understand the question and we're having...we're posting the same. So let me answer the question about what we are not saying. We are not saying that we're going to be cheaper or have lower volume or less profitability in order to gain market share. That's not part of the strategy. The overall composition of return on equity or profitability in retail banking, you can see the aspiration we have. So, we need to both deposit takings, savings and investment more [indiscernible] cards to kind of fit that bill and we need to have a competitive offer that clients like to choose both with the right price and the right service. So, that's how we box it in. What that's going to lead to in terms of dollars, euros, cents, kroner next year in volume, I don't know. But it's just like Masih said it is important that we maintain our position in the market and this has gone so fast and the heights you refer to, some of them were a few days ago. So, we are talking about really real-time and we don't change the mortgage price every day, but there are...there is a little bit of lag and the time...and timing issue in this discussion.

RICKARD STRAND: Then a follow-up question also on the SEK 300 million overlay you do on commercial real estate. I guess this is overlay. You have not really started to see any impaired asset quality yet, or if you have...or how do you expect the timing of this sort of to play out for your customers there. We are somewhat more concerned compared to previously.

JOHAN TORGEBY: Yes. You're right. We haven't seen anything yet. So, the underlying [ph] portfolio both in CRE and the balance sheet in general looks very solid. Nothing has happened. As I said before, we are trying to stretch the accounting rules to the extent that we can to be prudent and take into account what potentially could happen. If I just give you an example, so here we have assumed that we will have defaults in parts of the portfolio and that collateral prices will go down by 20%. If in a year's time, this hasn't happened, then we have to rethink this and see whether we should recover this overlay or if something more sort of negative has happened, then we would have to do the opposite maybe add a bit more in overlay if nothing has happened to the underlying portfolio. So, this is something we will reassess basically every quarter and what it's going to be sort of higher or lower than this amount that we have put aside. At this point, it just depends on market developments. But for now, there is no difference and no change in the underlying quality. If anything during the quarter as you can see, our Stage 3 loans came down and the reserves we have come down less. So, we have more reserves relative to any potential issues in the balance sheet today than we had prior to Q4.

RICKARD STRAND: Thank you.

OPERATOR: The next question is from Namita Samtani with Barclays. Please go ahead.

NAMITA SAMTANI: Hi, thanks for the questions. My first one is what confidence can you give us that the investment spend of SEK 800 million to SEK 900 million has a decent return and who is accountable for this, because if I look at asset management flows, they have been negative for the past few years and this has been an area where you have stated previously where investment spend has gone?

MASIH YAZDI: Yes. I'll start to see if Johan can support me. I think that's a good question. It's very difficult obviously to evaluate the investments you do, especially in the short term. We have now allowed the cost base of the bank to increase for 4 years or so after keeping it flat for 10 years. The only thing we can say at this point is that when we compare ourselves to other banks, we have seen a higher income growth in the last 4 years than others had, which clearly is over…sort of is up…over and above the cost inflation we have seen but it's…at the same time, it's difficult to conclude whether that income growth is fully driven by the additional investments we have done or if it's something else. And then it's difficult to say what would have happened if we take your example of the asset management business, if we hadn't done the additional investments, how would the flows look like in that scenario. So, that's you should compare with but it's difficult to know what that…how that scenario would look like. We have a sort of accountability on all of the investments based on who is responsible. So, what we envision is the investments going into and then we have KPIs we follow for every part of the bank and make sure that they are following the trajectory that we have assumed that they need to follow given what we allow them to invest. So, I can assure you that we have good accountability in the bank when it comes to the investments with that we do.

NAMITA SAMTANI: Thanks. And then I've just got a question on ESG, because I saw this Article in [indiscernible] Industry stating SEB is one of RWEs well that German entry company main banks for financing, but the article states that if the support undermines the global climate goals and violates the Paris Agreement. It also states it violates SEB's policy which excludes loans to companies whose operations are more than 15% of call operations. So, I'm just wondering are these comments true from the articles and do you have any additional comments? Thanks.

JOHAN TORGEBY: Yes, I think, I can take that. I would start normally by saying we don't comment on a single relationship. At this time, I'll make an exception because we asked RWE if I have it as part of the update on the sustainability presentation we gave quite recently. This is a very tricky as there is not an answer if it's true or not. It's a matter of opinion. People think very differently about RWE or any utility who is not a 100% renewable. We have a luxury position here in the Nordics not because we are great or better than anyone but Sweden and Norway particularly has an extremely high density of non-fossil energy generation and we are a very large bank in Germany and no other Nordic bank is at all comparable to us.

So, if you were to look at a corporate bank who is in Germany, you would not look like you are a corporate bank in Sweden. You will by nature have a lot more fossil dependents and as you might have seen gas is now being increased quite a lot and there has been coal-fired plants and there has been a lot of oil discussions since the invasion of Ukraine and it's pretty clear to everyone, this is huge investments going in. This is the explanation why it is correct when you compare us to our peers around this square where we sit that we are the only large corporate and investment bank in Germany.

The financing, I actually explained on the Corporate Day, it was the acquisition of Con Edison Energy. So, it was a $6 billion. So, it's absolutely correct we did…probably did part of that financing together with a large group of international banks and it was a 100% renewable investment which was not the part of the narrative in the paper.

NAMITA SAMTANI: Okay. Thanks very much.

OPERATOR: The next question is from Piers Brown with HSBC. Please go ahead.

PIERS BROWN: Yes, good morning. Maybe just a final question from me on the CRE overlay. I wonder if you could just explain how you factor refinancing risk into your mobiles [ph], in your assumptions because when I look at the CRE sector in Sweden, it looks like the main risk is not really collateral values per se. It's the possible inability of these customers to refinance particularly in 2024 if the wholesale markets remain shut. So, if you could just maybe shed some light on what sort of assumptions you are using for cost of debt for these companies as you move into next year. That would be very helpful. Thanks.

JOHAN TORGEBY: Yes. I'll try to do that. It is probably a bit too detailed I'll have to ask the risk organization [ph] exactly how they've done that, but I know what factors they have looked at. So, they've looked at capital market dependency, access to equity for example and exactly where to sort of put the threshold and how much access you need to have and how dependent you need to be. I actually don't know the details, but these are sort of to some extent crude assumptions that you take a portion of the book, you look at what kind of dependencies you have and you assume that 10% of it will default and then you assume a certain decline in collateral values in that scenario and then the model gives you a potential loss in that scenario which in this case is about SEK 300 million, but that's sort of how…what we have done. Just to know that when it comes to collateral values, they are unchanged to-date. So even though we have had this volatile environment for about a year or so, nothing has happened to collateral values, mainly because rents have gone up, equal amounts compared to discount rates for the collateral.

So as I try to say, I mean, this is as much as we can do. We want to be prudent and conservative and this is as much as we can do given the outlook we have today. If the outlook changes, and if things deteriorate then it could be possible to take further reserves portfolio overlays or if something materializes in portfolio then these overlays could be used against any potential underlying deterioration of that credit book. But so far, nothing has happened and we are trying to be prudent.

MASIH YAZDI: May I just add, it is a cash flow first and foremost dependent analysis. Thereafter, it's a relative default analysts where LTB is come into play, but that's after the event where you cannot as a real estate company meet your legal obligations to repay loans or other things. And we did show a few quarters ago, one I think could be helpful where we put in was a 200 basis points. We just increased the funding cost or we put STIBOR, at the time we increase it to 4% and we just check the interest cover ratio. And you could see there that no one in that scenario…we did a few months ago was breaking the one. And it's still the case [indiscernible]. So that is still a valid analysis.

So we have [multiple speakers]. We have to put something on top which is not easy to…you cannot really calculate it. It would indicate zero increase risk and here is the forward looking…like liquidity risk, equity markets tells you something about what they think about the outlook, but they are not particularly part of the liquidity model or the credit risk model. This is what we have done.

PIERS BROWN: Yes, that's interesting, and I guess if I look at the wholesale markets, it looks like these companies probably need to be paying 7% plus the rollover wholesale debt from what you are saying the spread the banks are asking for are put in the cost of debt from a bank perspective at a lower level. So 4% given the still a sort of realistic number for kind of modeled…

JOHAN TORGEBY: No, sorry, we are using the credit spread, which you allude to. We are using the reference rate. We put it up. So we increase…if it's 7 in your example, it would be 9% or 10% that we would assume but with many of these would even pay 10 or 20. So it's not a credit spread widening number I gave you. It's actually the benchmark number, which is a different assumption so…are clear.

And then the analysis we do is not on the market, so that is on our clients that we have. We have of course a very ample ability to service existing clients. As Masih said in the beginning on the CRE strategy, we will support the clients that we like and that we have, but we don't have…and that means…that's very different from saying that we would increase or do more CRE. We will not…we are very cautious, continues to be that, but if we have clients that are dependent or also if they have bond maturities that they might struggle with, of course, we are going to be that. That's what we do. We do the bonds and we do the loans to support them.

PIERS BROWN: Okay. That's very helpful. Thank you very much.

OPERATOR: The next question is from Riccardo Rovere with Mediobanca. Please go ahead.

RICCARDO ROVERE: Thanks a lot for taking my questions. Just to get back one second to NII, if I recalled correctly at the beginning of the call you stated there were some items, some travelling between NII and NFI in the quarter so that one is a bit understated, the other one maybe a bit overstated, now knowing that this is probably a volatile item. Would you be in the position to, let's say, to throw a ballpark on what you think might have been the travelling part between these 2 lines. This is the first question?

The second question I have is on capital repatriation. Just need to understand the 1.25 billion buyback consumes roughly 15 basis points of capital. It is not exactly affected in helping you achieving 15% ROE target. My understand and please correct me if I am wrong is that you intend to…you see this 1.25 as a quarterly buyback so we should assume this to keep going more or less at the same level every single quarter over the course of 2023 provided nothing really horrendous happens this year. Do I get it correctly?

And then the other thing on…then is the curiosity. Why impairment in Russia now and not at the time of first half results 2022, even then sanctions have been there since a while but why now?

JOHAN TORGEBY: Okay Riccardo. On the NII and NFI traffic, it's difficult to quantify what the amount is. I think if you just look at market risk rates, mainly the 3 months STIBOR you will see that it dropped quite dramatically in the beginning of October and it took some time for that to recover and sort of be at the pack. It should be at, given the expectations of policy rates from the Swedish Central Bank. So it's that drop I am referring to and there were a lot of fixings on the corporate book in relation to that drop so those fixings were probably at lower level than they otherwise would be and now when those fixings will be done again in December, January, it will be at sort of more correct levels and exactly what the effect of that is, it's difficult to say. I was just referring to the question I got whether there is anything additionally in NII. I think if anything the opposite in Q4 that's it's probably…slightly understated.

On capital repatriation, so the 1.25 billion we are doing until the AGM is not a guidance of what we will do post the AGM. It could be a higher amount, it could be a lower amount, it could be the same amount. The only guidance we can give at this point is that we plan to be within our target range of 100 to 300 basis points by the end of 2024 and whether that's going to be reached by increasing buybacks or doing anything with the dividend or growing faster or buying something, we can't say or obviously, an accident happens and credit losses increase because the environment is uncertain, we can't say at this point. We only know that that's what we want to end up by the end of 2024.

And then finally on the impairment in Russia, I think if anything, I mean we are being conservative in that impairment. And just to be clear on that we still have that equity in Russia, 1.6 billion and we will do what we can to make sure that that comes back to the parent company and the shareholders of the bank. We just feel that at this point in time, it is going to be difficult to guarantee that's going to happen anytime soon. But, it's been, its takes some time to conclude that this is a restriction that would be in place for some time, just as difficult it's been to conclude whether the war is going to continue for a long period of time. And these rules have sort of stabilized themselves during the course of the year and we felt that in Q4 we could discuss this with the authors and allow ourselves to be prudent and make this impairment. So, if that's the reasoning behind it. And it take just time to understand exactly how things will turn out.

RICCARDO ROVERE: Alright. Thanks. Thanks all very clear. Thanks.

OPERATOR: The next question is from Martin Leitgeb with Goldman Sachs. Please go ahead.

MARTIN LEITGEB: Yes, good morning. Thank you for answering...for taking my question and thank you for the time today answering all the questions. Really just one question from my side, and I was just wondering a strong NII trend in the fourth quarter and the strong progression in NII over the last essentially 2 years. Do you think the 4Q '22 NII trend represents peak [ph] NII, peaking [ph] for SEB? I am just trying to squaring up all the various comments, in terms of NII progression from here and appreciate there are a lot of moving parts, but I was just wondering from today's perspective looking at employee policy rates and looking at your assumptions in terms of mortgage pricing deposit accretion and migration, would you expect NII on a quarterly basis to continue to edge higher or is the potential for these to either stabilize or even decrease from the year? Thank you.

JOHAN TORGEBY: Yes, a good question. It depends on what view you have on all the types of margins and policy rates. It's difficult to say, I guess, if policy rates go higher than they are, that increases the likelihood for NII to continue to go up, if policy rates are cut that increase likelihood for NII to go down. And in addition to that, I will just say that we probably still have some tailwinds from the policy rates changes we have seen during 2022 as the whole balance sheet hasn't been re-priced at the higher levels. So, that's pretty much the guidance I can give you, and then you have to add your own assumptions, so loan growth going from here and obviously everything that's going to happens with margins. But, yes, that's...I don't know if you want you can add something.

MASIH YAZDI: Maybe, I could just step back and spend 2 minutes on the history. So, you understand that as why the benefit is coming, is that for households, and for the majority of non-financial corporates, we never introduced the negative interest rates. So, we have had many years of zero or negative cash flow or even profitability we wouldn't even speak to. And this is why, this enormous shift is happening that as we never lowered the savings rates or the interest rate on deposits for a year or 2 when still the policy rates were going down that was just...put more and more in the rent. Now, this would enormous speed and power reverses, and right now we are normalizing the interest rate level in the economy and we are all trying to adopt and it's a year or 2. And that's what the positive is. So I don't know where it's going to go from here, but it's reasonable to assume that whatever has happened will not happen again, because we are not going to...from now go from negative territory to significantly positively normal rates. And that's just what I wanted to add.

MARTIN LEITGEB: Thank you very much.

OPERATOR: The next question is from Jacob Kruse with Autonomous. Please go ahead.

JACOB KRUSE: Hi, thank you. Just to follow-up on the question from the floor. Would you be able to just say anything about in the treasury NII, how much of that was at transfer pricing and if there were any other effects impacting that...that reach treasury income line? And I guess relating when you talk about these NII versus trading income moves, if you could say anything about what's kind of magnitude you are talking about there?

And then finally on NII, just in the Baltic the strong NII growth in Q4, does that...to what extent does that fully reflect the rates hike already seen and how much sort of additional tailwinds from rate hikes already happening, how would you expect to sort of see in Q1 or Q2 this year? Thank you.

JOHAN TORGEBY: Yes, thank you Jacob. On treasury this quarter it's fairly small portion of the NII drop in treasury that's related to internal funds transfer pricing. As you can see in the report, its more now related to that the cost of short-term funding has increased which has impacted treasuries NII negatively.

On the traffic with NII and NFI, I can't really add anything on that, it is probably slightly understated, but exactly the magnitude of that, don't know and it is difficult to estimate, I would say, but we will see obviously in the coming quarters.

On the Baltic NII, it's probably so that there is still some tailwind there because of rate hikes we have seen, and I would assume that's since ECB is slightly behind or the rates hikes have come slightly later then the Riksbank, you probably a bit more effects from further hikes going from here, in the Baltic business, and as you can see here we have a clearly more deposits relative to lending in the Baltic division compared to what we have in the group as a whole. And so, well, it's prudent to assume that for the rates hikes in Sweden whether that too much it's more likely that in the Baltic business there will be some benefits going forward.

JACOB KRUSE: Okay. Thank you. And are you seeing any sort of dynamic moves there already in terms of competition or deposit growth or everything like that, that's been going on in Sweden in the Baltic business?

JOHAN TORGEBY: No, I mean, you can see in the disclosure that in the quarter, in CMPC there were some flows fairly small from transaction accounts to savings accounts. So, we are seeing that customers are starting to understand that if they shift money from certain accounts to that accounts and maybe to some extent lock in their deposits, they can get a better yield, and so that process is ongoing and probably that's going to sort of continue for the coming year and when people now adopt to positive rates, and yes try to manage their portfolios.

JACOB KRUSE: Okay. Thank you very much.

OPERATOR: The next question is a follow up from Andrea Hakansson with Danske Bank. Please go ahead.

ANDREA HAKANSSON: Yes, sorry for that. it's been going on for a long time already, but just on your…we saw a macro reports from you guys coming out just a couple of days ago, where you actually started to upgrade a few of your GDP forecast? Where these assumptions that went into your IFRS 9 model or was it from the previous reports where you were cutting GDP forecast?

JOHAN TORGEBY: No, it's a previous report. So, it's based on what we had back in November, really and obviously these estimates or whatever they will be revised to later in Q1 will be used for the Q1 sort of IFRS9 overlay or macro assumptions. And so, you're right that they were some smaller positive revisions.

ANDREA HAKANSSON: That's it. Thank you.

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

JOHAN TORGEBY: Great. Then I thank everyone for spending more than an hour and half with us, very much appreciated and hope to see you soon. Thank you very much.