SEB AB 2022 Q1 Report

Wednesday, 27th April 2022

Highlights Q1 2022

Johan Torgeby

Chief Executive Officer, Skandinaviska Enskilda Banken AB

Introduction

Thank you very much, and welcome, everyone, to 2022 first quarter results. As normal, we have the slideshow put on the SEB web, and I will refer to those slides as we go through the presentation.

Highlights in Q1 2022

On page 2, the highlights of Q1, we conclude that we've had a robust financial and operating performance in the first quarter of the year. However, the whole quarter was more or less coloured by the invasion of Russia in Ukraine and everything that has been put in play as a consequence of this.

We clearly also see that we have maintained a good profitability on our own equity, of 13.4%, and a capital management buffer 190 basis points higher, than the upper level of management buffer between 100 to 300 basis points, and also conclude that asset quality remains very good, and we have a recorded expected credit loss level of 8 basis points.

SEB in Russia and Ukraine

Page number 3, we just start with saying a few things around the bank's operations in Russia and Ukraine. First, when it comes to the direct effect on SEB, it is more or less insignificant. We have 0.1% of our credit exposure in our Russian operation, and 0.01% of our credit exposure in the Ukraine. 90% of this credit exposure is then in turn, guaranteed by the parent company, so it's only a tenth of this that is actually solely exposed to these countries. So, insignificant in any respect.

One could also add that the indirect effect is not really relating to SEB's operation in Russia or the Ukraine, but has much more significant implications. This is the heightened risk for inflation, the interest rates that might come as a consequence, commodity prices, et cetera. And that doesn't affect SEB because we have an operation in the Ukraine and Russia, it affects everybody in everything that we do.

Development in Financial Markets

Next page, a few short reflections of the macro development. We are, of course, experiencing clearly higher volatility in the equity markets. We have come down somewhere between 10% and 20% from the peaks that we noted in the last six months. However, I think it's also good to remind oneself that we are still somewhere between 20% and 30% higher than we were pre-COVID. During both 2020 to 2022, we have, so to speak, absorbed the whole problem with the COVID and now, a war in Ukraine, and we are still at a pretty good level in a more long-term perspective.

However, everything is moving around for the first time in decades. We are now sitting here talking about inflation expectations, interest rate expectations that are clearly different from what we have experienced the last decades. We have already seen the data come in, showing that rates are going up, central banks are expected to start moving globally, and we have also seen inflation rates here now, creep upwards to high numbers compared to history. As a proxy for energy prices, we've just also included the natural gas price to see that this has of course, a very direct effect on businesses and households that are now facing clearly, higher input prices. It has also spread broader into the commodities at large, which is represented by the commodity index. Both indicating that we will have a very turbulent period right now, with difficulty to make accurate prognosis of inflation, and also of course, I do not envy central banks that need to now counter this development.

A northern European corporate and investment bank with international reach

Next 3 slides, with the beginning on Slide 5. Once a year, we talk a little bit about SEB in the geographical dimension outside Sweden. And so we will do this year. First, as a reminder, we are currently in 26 different locations, and this has now been added with 4 since last year, Austria, Switzerland, the Netherlands, and also a representation office in Nice for private wealth management. We have more or less maintained the same proportion from the Nordic German growth case that was initiated in 2010. That is about 18% of the income in LC&FI that comes from clients that we did not have in 2009. This is of course, a very important feature of the future strategy where we're now continuing more or less the same thing, to try to outgrow through adding more clients in new geographies, not changing the strategy on whom we bank, that is predominantly large corporates and predominantly investment-grade listed companies, but we are continuing the next years to come of course, in order to make sure that this is a continuation for SEB.

Increased growth outside of Sweden over time

On the next page, we show the contribution of these just north of SEK4 billion that has come from our expansion. The contribution is predominantly from Norway, Germany, Denmark and Finland. We did have 5 years later, the same attempt, and we are well underway to continue a positive journey in the UK, and we actually have added Sweden here because in these last 10 years, we did add a few new clients also in Sweden.

Profitability on this growth is then in the table below, which is all between 15-18%. The international business of SEB and large corporates has a higher return on equity on average than what we have in Sweden. It's also very cost efficient to continue expanding as we will not have to invest in any more fixed cost necessarily for systems, so it's a scalable business, except for staff. We need people to bank customers.

Cost income, again, is better on average. You can also see how many people that we have in the different countries. Over the last decade, this has meant that SEB has gone from a predominantly Swedish bank with 66% of income of large corporates, to just north of 50%, and we expect this trend to continue gradually.

Strong development in total client income across geographies

Last page on the international dimension of our large corporate business is the CAGR, the growth rates, which again just confirms what you could see from the other slides, that we've outgrown Sweden in our expansion phases here, with CAGRs around 7-12%. Maybe most noticeable is the German business, which also on the previous page now, for the first time really, is contributing to the average, by having a good return on equity.

Strategic partnership to strengthen the PWM&FO division's growth strategy

Next page is on a new partnership. This is the first change we do for private wealth management and family offices in the new strategy where we have a quite forward-leaning and high ambition to expand private wealth management outside Sweden. This is particularly for Denmark. We have now announced a partnership with Ringkjøbing Landbobank, which is a very good and stable, and well performing institution in the affluent market in Denmark. We are now considering to develop this relationship for them, to be the daily banking provider, so SEB thus no longer have to develop a retail bank with retail capabilities, and we will contribute to all their clients, including the ones we have ourselves, the international family office, the international private banking capabilities, and also all the institutional things that comes with professional private banking clients, that is, companies, corporate finance, and funding of companies.

We really look forward for this partnership as our new way to meet many, many more clients. We go from hundreds of clients in private banking in the old way, to many thousands of potential clients that we can serve through the distribution channel of Ringkjøbing, as well as complementing their client base with all the international capabilities and corporate capabilities that we have.

Exploring new technology

Next page, page number 9, is another, I guess, initiative that was announced yesterday. That is the Banking as a Service based on SEBx, and our new tech stack that we've been developing over the last few years. Now we have announced the first client to join the platform that we will support. Just as a quick reminder, Banking as a Service is a fairly new concept. It's really a clear distinct difference from cooperation through white labelling or outsourcing, which are very common. This is where the banking license that an institution like SEB has remains with SEB, but you allow our customers to use the infrastructure of a bank for the benefit of their clients in their own name.

In this case, you have a consumer or a private individual or a company in the future that consumes a financial product. Rather than consuming that with a choice of a financial institution, they consume this directly from the seller of the goods and service they primarily deal with. In this case, that would be Axel Johnson through their own internal fintech hub, Humla, who will be collecting all the customer interaction in a way to collect the data and use it for the benefit of their clients.

Thereafter, you need an enabler into the financial institution. In this case, SEB, and that's SEBx. This is where we have developed the new technology stack, the new APIs, in order to connect this, straight into the capabilities of products, such as payment, and then the provider who holds the banking license is behind it.

We are very excited that this is a very new innovative way for SEB to reach hundreds of thousands of people in the retail banking market through a B2B strategy, where we deal with our clients and allow all their clients, in their term to be serviced by us. Then this is much more of an infrastructure that you provide, in a new business model with new dynamics, which is more like a fixed fee. We set a fixed fee per user or per year, instead of having a normal financial product with interest margins and fees and commission. This is a slightly separate tweak to that. This will be fees and commission as we see it with Axel Johnson today, and there's no lending in the current setup. It's a payment, it's a payment provider type of role, that Axel Johnson takes on themselves, instead of relying on a third party for online and in-store shopping.

Ambition to be a leading catalyst in the sustainability transition

Next page, page number 11, 0is a quick update just on the sustainability work we've done in the last quarter. This is, of course, heavily being debated right now given the consequences of Ukraine and the dependence on energy and particularly Russian energy. I would say that in our opinion, we have spent a lot of time on this. We think this is a medium to long-term positive for the transition. This means that the reliance of safe energy sources will mean that the holy grail is to get there faster than before, in a non-fossil or a renewable way, because now, we are in a completely different situation where many nations have stated that we immediately want to reduce the dependence on this energy.

We also see that we have done one green bond in our own name. This has now been expanded. We did one for EUR500 million in 2017. That was now refinanced by EUR1 billion, and we've included more breadth in the documentation, to also include biodiversity and the transition to a circular economy. In our opinion, the next green is probably going to be biodiversity, which the financial sector has not yet really spent as much time on in order to create financial services that benefit.

We can also talk about data that supports that sustainability is not decreasing. It's increasing in importance. Here is just a proportion of sustainability-linked bonds of sustainable finance, and it's gone from 1% in Q1 2020, and this quarter, we saw 80% of this financing being done in sustainability-linked bonds. This is the bond market. The total proportion of sustainable finance, has also increased during this quarter in comparison with the whole.

How is SEB performing? Well, we have a very small number. As you know, we've had a quite muted activity level in investment banking, DCM, ECM and M&A. However, we have performed quite well in first quarter, where we ranked well amongst our peers. We've also received this year's annual, the third time, we do a client survey, Prospera, do a client survey, on sustainability adviser, which financial institutions do the corporate clients are they most likely to use, and who do they like, and we ranked very well across the Nordic countries in this.

I'll stop there for the themes and some highlights of the development and hand over to Masih, welcoming him back, for the financial results.

Financial Results Q1 2022

Masih Yazdi

Chief Financial Officer, Skandinaviska Enskilda Banken AB

Financial Summary Q1 2022

Thank you, Johan. It's great to be back. If you move to Slide 13, and look at the quarter, you can see that operating income is up 5% compared to the previous quarter at 8% compared to Q1 last year. Expenses are seasonally down in Q1, and they're slightly up from Q1 last year. Underlying here on the expense row, we are following the path that we put forward in terms of reaching the cost target for this year, of SEK24.5 billion. In this quarter, we've had some positive effects on the cost line through the fact that the share price of SEB is down, which reduces the social charges for our variable compensation programme.

As you probably also have seen is that we've done some restatements. Some items have been moved between NFI and NII. Also, we have taken out the resolution fund fee from the net interest income line and introduced this new line, called, imposed levies where we have the bank tax as well as the resolution fund fee.

This means that the cost income ratio that we report this quarter of 0.39 is not fully comparable to the historical ones, and is not fully comparable to the aspirations that we put forward of being around 0.45 in the long term. Now as you know, we revisit this, every year, and we'll come back by the end of this year to revisit the future cost income ratio of the bank, given these more sort of static changes to the disclosure that we have.

It doesn't mean that something will definitely change as the cost income targets that we have, are really implicit targets to reach the returns that we want to reach, the aspiration of 15%.

Capital 18.7%, I'll come back to that; returns 13.4%, and the ECL level is 8 basis points in the quarter.

Net interest income development

If we move to slide 14 and net interest income, we've seen a 12% growth compared to the first quarter last year. Quarter-on-quarter, we see contribution from lending growth in all divisions, but it's mostly coming from the LC&FI division where we saw bridge financing commitments being put on in Q4, and those have, to a large degree, now converted into lending and, therefore, paying interest and therefore supporting net interest income. If you look at that Q-on-Q improvement within that division, we believe that up to SEK200 million of that increase is coming from bridge facilities. This should come off the books in the next one to two quarters, unless new bridge financing is put on the books. You should see that effect in the next one or two quarters.

On lending margins, they are down on mortgages in the quarter, and they are up in the corporate sector – corporate exposure and the improvement on the corporate side is mainly a mix effect coming to parts from the bridge financing that has been put on.

Net fee & commission income development

Moving to Slide 15, net fee and commission income development. Net fees are up 13% from the first quarter last year. Quarter-on-quarter, we see seasonally lower fees and commissions compared to a very strong Q4. Within Investment Banking, the revenues reported are lower than Q4, but still a very good level for a Q1. One should have in mind here, that most of the activity and generating revenues in this quarter, came before the invasion by Russia in Ukraine.

The pipeline still looks good here, but one should have in mind that the increased volatility, depending on how long it lasts, creates high uncertainty to what degree this pipeline will materialise.

Asset Management business. Asset values are down, but for us, the fees, they are partly offset by the fact that we've taken in fairly large amounts of assets under custody mandates in this quarter starting to pay fees. Finally on payments. We note that on the private cards, we are now at a turnover level that is above the same period in 2019 to the pre-pandemic levels. On the corporate cards, in March, we reached the same levels as we had in March 2019.

This doesn't mean that we have a full recovery for the full quarter, and it also doesn't mean that the mix is as good as it was back in 2019. We still have lower credit outstanding on the corporate card side and less FX fees as the traveling that it has resumed now, is mostly within Europe and not to same kind of exotic countries as in the past.

Net financial income development

Move to slide 16, net financial income, down 8% from the first quarter last year. If you look at the underlying business, in this quarter, we've seen very strong development within commodities and FX. At the same time, we've had some weakness within fixed income, mainly related to interest rates going up. We have some positive valuation effects within treasury, also coming from the fact that interest rates are going up. In this quarter, we also booked a new fee of SEK260 million from the Tink sale that was announced last year, and has been fully executed during Q1.

In the past, when it comes to this line, we've had a guidance of SEK1.3 billion to SEK1.5 billion, excluding results in Treasury and XVA. Now with the restatements that we have done, this guidance is changed to SEK1.5 billion to SEK1.7 billion, excluding XVA and Treasury.

Operating leverage

Slide 17. Very briefly, operating leverage with the strong results in Q1 and with expenses not going up to the degree that we had expected, it looks very good so far this year.

Capital Development in Q1

If I move to slide 18, on the capital development. So, we do have a buffer of 490 basis points above regulatory requirements. It's down 800 basis points compared to the previous quarter with several moving parts.

First of all, we have a profit, net of anticipated dividend, of 60% of the profit that adds 40 basis points. At the same time, we have deducted fully the SEK2.5 billion of share buybacks that have been announced post the AGM and that we're conducting up until October, and that is reducing the buffer by 30 basis points.

Credit volumes, mainly related to the bridge facilities, is consuming another 40 basis points and FX also has a negative effect.

On market risk, we are typically at low levels in Q4, and now it's moved up to more normal levels, also due to higher volatility, we see an increase there.

Overall, depending on what happens to the bridge facilities and the volatility in the market, some of this negative impact on the capital position should reverse in the coming quarters.

Development of Credit Portfolio

If I move to slide 19 and look at the credit portfolio. Reminder here, is that, we're looking at both the on and off-balance exposure. If you recall, in Q4, we had strong credit growth within corporates. Now we have stabilised at the same level as we had in Q4, but some of the credit exposure on off-balance that we had in Q4, has now converted into lending. We do have FX adjusted lending growth for corporates in Q1.

On mortgages, we've seen clearly, slower lending growth this quarter. On the credit portfolio, with the commitments, it's a bit higher, but on the lending side, it's about half the growth that we had last year, at least last quarter of last year. This is partly due to the fact that we have been very proactive in raising mortgage rates on the fixed side. When funding costs have gone up, we have raised them four times, and we have been more proactive than many of our peers, which means that we, throughout this quarter have been a bit more expensive.

Over time, this should obviously equal out, but it's also to some degree due to the fact that we've had longer queues in our telephone bank, as we've changed our distribution model with not having drop-ins anymore. In the near term, we believe that discipline on price is more important than volume growth on mortgages.

Asset quality and risk management

If I move to slide 20 and look at asset quality. Here, we just want to show that in terms of the most problematic loans, stage three loans, as a share of our total outstanding loans, this is at its lowest level ever, especially net of the reserves that we have. On the right-hand side, you can see to what degree we have reserved against the stage three loans. This is just a way of showing that going into a more certain environment, we do have a very healthy starting position.

ECL allowances for future expected credit losses

Move to slide 21 and look at the reserves that we have taken so far. We have SEK8.2 billion of total reserves outstanding in Q1. Two out of this SEK8.2 billion is model overlays, so not attributable to a certain counterpart. What we've done this quarter is that, we have added an additional model overlay for geopolitical uncertainty. Generally, for corporates that we believe are exposed to what's happening in Russia and Ukraine and exposed to higher energy prices, we have partly offset that by reducing the model overlay that we had for oil and gas, and all other COVID-19 overlays that we put on in the last couple of years are kept unchanged. The underlying asset quality looks very solid, as you could see on the previous slide.

I just want to point out here that in the Baltics, we have SEK400 million of model overlays as we stand. Our current estimate is that, looking at the credit book there in the Baltics, this SEK400 million should be enough to withstand whatever is going to happen in the next few quarters in the Baltics. At least that's the outlook for now.

Strong asset quality and balance sheet

Move to slide 22, on key ratios. We've talked about most of it. Deposits going up, as is normally the case in Q1, and the capital is moving down a bit, and this is going down a bit more on the total capital ratio compared to the CET1, and that has to do with the AT1 that we will call now in May has already been reduced from the total capital ratio.

SEB Group financial targets

Finally, on page 23, just reiterating our targets, 50% dividend pay-out ratio, 100 to 300 basis points of capital buffer, and a return on equities competitive with peers and the long-term aspiration of 15%.

That was it. I think we can open up for Q&A.

Q&A

Nicolas McBeath (DNB): Thanks, and good morning. So, first, a question on costs. The Q1 costs were impacted negatively due to lower LTI programme costs. So I was wondering whether this is due to the share price being lower compared to – in Q4 and whether you would expect to have costs below the guided level, unless the share price recovers to the level listed by last year-end, or use that potential headroom to further increase investments? That's my first question, please.

Masih Yazdi: Thank you, Nicolas. It is correct that the lower cost related to the long-term incentive programme is related to share price coming down so far this year. That has reduced the cost level by about SEK200 million to SEK250 million this quarter. Now, I mean, for the full year, we do have investment activities already planned. We showed that in the strategy update that we did.

Those investment activities are unchanged. We're not changing them here now. We've added 300 FTEs only in Q1. We are ramping up pretty quickly. Now, it's very difficult to say. We're one quarter into this year and how the share price will move in the sort of next three quarters. We always have this sort of two factors we can't really dictate ourselves when it comes to the cost level. It's FX, which we are adjusting for, but we are not adjusting for the share price. If it goes down, it helps us, if it goes up, we have to stomach it. Just saying this, that we have the activities that we have planned for. If we have the relief from the share price coming down, we won't automatically consume that, by investing more. There could be things happening.

If we think it's viable to do further investments, then it will be planned. We might do that if we think it's going to create value for customers and shareholders, but there's nothing planned for that now. We'll see. I mean there are three quarters to go, we'll see where this ends up. However, you shouldn't sort of technically assume that we'll go back up to the SEK24.5 billion target. If the share price continues to go down, we won't automatically consume that sort of relief we get.

Nicolas McBeath: Okay, thanks. That's clear. And then on SEBx, and you mentioned that you've landed a customer for SEBx's Banking as a Service platform and that there is high demand for this service. It would be interesting to hear if you could please elaborate or attempt to quantify what kind of revenue potential you see in a slightly longer term for this embedded finance service, please?

Johan Torgeby: Thanks, Nicolas. I think the question is, of course, well put, but it's very difficult to say. I don't want to create any expectations that we can't live up to. This is early, early days. As far as we know, there's no other bank who has ever done this yet. We need to first see that it works. However, it is a model, and I have no clue where the pricing will actually end up in a few years' time if this works. However, think about it as tens of Swedish krona per client per month. That's how I think about it. I have no clue where that will end up.

It's a very, very scalable way of doing business, and there will be a fixed fee with low variability, more variable by number of customers, our customers have, our clients have. But there is some extreme estimates out there from consultants thinking that Banking as a Service could be trillions of dollars of business in terms of getting it in that shape and form in the decades to come.

Nicolas McBeath: Okay, thank you. Then final question on capital, please. Do you consider yourself overcapitalised given the 490 basis points management buffer, if also taking into account upcoming normalisation to counter cyclical buffers and any other impacts you may want to take into consideration, such as maybe slightly longer-term Basel IV or potential additional buffers for German tax rate claims? Related to that, are you confident in another buyback programme this year to be launched after the SEK2.5 billion is completed, or do you start to see more potential for value creation in reinvesting the capital in profitable growth?

Masih Yazdi: I'll take that, Nicolas. I mean, technically, we are overcapitalised. We have a target range of 100 to 300 basis points, and we're at 490, and some of the weakness this quarter should sort of go back in the next couple of quarters. However, there are moving parts. You're going to have raising counter cyclical buffers, you're going to have Basel IV eventually; so, exactly how those will impact, obviously, it changes that buffer.

I would say, we do have a new dividend policy, that we've had for a couple of years, where we used to have a dividend payout of 70% to 75%. We've reduced that to 50%. We believe that we don't need to hold on more than perhaps 30% of the annual profit to be able to finance that growth that we have.

In a normal state, irrespective of excess capital or not, we will have to combine dividends with share buybacks just to stay flat on capital. I mean, today, 50% of dividend, plus 5 billion of share buybacks, is exactly the same as it used to be in the past, when we paid out 70%. We think that share buybacks is a more or less, sort of permanent feature, but it gives us more flexibility. When things happen that are uncertain, the risk of not being able to pay a dividend has been reduced compared to when we used to pay out 70% or so. We have more flexibility now. Also, if this is coming from higher growth, for example, more demand, then we have more flexibility now by not doing share buybacks to the extent that we otherwise would. However, yes, we believe this is a more or less a permanent feature of doing share buybacks every year.

Nicolas McBeath: Okay, perfect. Thank you.

Magnus Andersson (ABG Sundal Collier): Yes, good morning. And welcome back, Masih. Good to have you on board again. Just – I have three questions. First of all, whether you stick to the rate sensitivity you gave us earlier, of around SEK1 billion for 25 basis points just ahead of the Riksbank rate meeting or rate announcement tomorrow morning.

Secondly, just a follow-up to Nicolas' question there on capital. I mean, I know that you kept your guidance of SEK5 billion to SEK10 billion in share buybacks during '22, you did SEK1.1 billion in Q1, you announced now about SEK2.5 billion, that's SEK3.6 billion. So it means that you would probably end up in the lower end of this, why is that? Why the lower end now? Do you have any volume expectations or is there anything else there that keeps the capital repatriation in that?

Thirdly, I missed part of it, but I think you updated the trading income guidance to SEK1.5 billion to SEK1.7 billion per quarter. It sounds pretty much like you took the accounting change there and upgraded it. I was just wondering, do we have any sensitivity here, to potentially steepening yield curves that could be an upside risk to earnings now when we've been at 0 rates and a completely flat yield curve for eight years or so? Could that be kind of an upside risk to that guidance? Those are my three questions. Thanks.

Masih Yazdi: Thank you, Magnus. Thanks for the welcome back. On rate sensitivity, so what we've said in the past is that, 25 basis points for Sweden is about SEK1 billion. It's today, slightly north of that when it comes to sensitivity to Swedish rates.

There's also a sensitivity to European rates. It's a bit different there. As long as we are in negative territory on European rates, a rate hike from here is actually slightly net negative, up until zero. Then when rates go above zero, it becomes clearly positive. It differs a bit in terms of Swedish sensitivity and the European sensitivity.

That still holds. It's slightly north of SEK1 billion. Just a reminder, that's a very sort of technical effect, everything that sort of we know it's going to happen. Then you have many other dynamics in that, with lending margins that could go up or down, and asset prices and consumption. Kust don't think that this is just something that happens in isolation. That's just some advice.

On capital, you're right. The way that's right now, it's going to be difficult to be way above the lower end of the guidance. We feel that given what's happened in our surroundings with very large macro uncertainty, which could, in itself, drive more appetite for corporate lending, I mean we saw just this quarter the utilisation of the balance sheet, so the lending facilities that we have, increased quite a bit relative to the commitment. Obviously, if there is more volatility in the market with credit spreads widening, you could see more appetite from our customers borrowing from us. In that kind of environment, it would be good to have some extra capital. However, you're right, the way it looks right now, and given the uncertainty, it looks like we're going to end up at the sort of lower of that interval.

On trading income, it's correct, SEK1.5 billion to SEK1.7 billion, excluding treasury and XVA. A reminder here, that we did increase the guidance a few quarters ago by SEK100 million, based on steeper yield curves. I don't think that yield curves have steepened further since then. I mean they are at a higher level, but they haven't steepened.

However, it is absolutely possible that the increased volatility we've seen this quarter, if that continues, and you do have yield curves, that are as steep as they are today, but on a higher level, that it does create opportunities in our markets business that we haven't had for many years. I think it's too early to say, and we don't want to sort of discount on that yet.

However, overall, the changing interest rate environment is positive for that part of our business. It's positive for deposit margins, it's positive for our markets business. Then you have areas it's going to be negative for. Definitely, for our markets business, we think this is a positive change to the environment.

Magnus Andersson: Okay, thank you. And just to be really clear. On your rate sensitivity there, I guess, that you assume a 100% pass-through of higher funding cost to clients, so then we have to make up our own minds of whatever we think that will be?

Masih Yazdi: We are assuming unchanged lending margins when I say slightly north of SEK1 billion.

Magnus Andersson: Okay. Thank you very much.

Sofie Peterzens (JPMorgan): Yeah, hi. Sofie from JPMorgan. My first question would be, just, if you could give a little bit more details on your Russia-Ukraine exposures. In the 2021 annual report, you had around SEK1 billion of book value in Russia-Ukraine, around SEK7.6 billion of total assets. Could we just know how much provision you have against the total assets, what your total assets are composed of? Is it purely loans or do you also have government bonds? Do you have trade financing? Do you have kind of asset management products in your balance sheet exposure? If you could just detail a little bit more on your Russia, Ukraine exposure and also how we should think about the book value?

Then related to that, I was also wondering, some of the Swiss banks got booked, all Russian clients have deposited in Switzerland. Do you have any clients with deposits in the Baltics? If so, what's the level? What is the treatment of these Russian deposits in the Baltics?

Then the last question would be on the withholding tax case in Germany. I noticed you didn't talk about it anymore in your quarterly report, same with the US information request. Why is that? Does it mean that that cases are closed? Or how should we think about the fact that it's no longer reported in the quarterly reports? That's for me. Thank you.

Johan Torgeby: Thank you. I'll start, and then Masih can fill in. The disclosure we have on Russian exposure that it's 0.1% of the credit book, I don't know the number you have, but it's just take the credit number, and take it 0.1%. It's predominantly a typical lending business overdraft, it could be a subsidiary loan to a factory or such.

90% of it is not Russia exposure, it's the home market client guaranteed exposure. This would be, think of any name that you know from the Swedish industrial side, or the Germans, that are our clients in Russia, so there's almost, I would say, no exposure to the problem in Russia as such, and therefore, very little.

You also need to be reminded that we don't have any Russian Russia clients. We have Nordic and German clients in Russia, and we only bank with our home market clients in Russia. Therefore, this is not a Russian exposure, per se. We also know that many of our customers and clients have done exactly what we are doing. We're scaling it back. This is coming down quite quickly and regardless in what pace, it's not significant in any shape or form.

On top of this, we also need to mention that we are a deposit taker in Russia, and therefore, we have some type of exposure and reliance on the central bank as we are putting the excess ruble into the Russian Central Bank. That is, of course, something that shouldn't be a worry, but it's good to know. That is, of course, being depleted as and when our dear clients in Russia, start to withdraw, which most of them are also doing in tandem with us.

However, being a bank, this is not going to be an exit of Russia in the short run. It's going to take time with a lot of licenses, etc., but we have said that we cannot see a way to conduct good business in Russia given the current circumstances, therefore, we scale back.

On the Swiss bank resemblance, I think it's clear to say that we have very, very limited and not comparable, should not be compared, when it comes to private individuals. However, you are correct, we are part of the sanctions that are being implemented. We're implementing the economic sanctions. Sanction screening is, of course, something we have done for a long time, and it has been exceptionally busy lately.

If there have been any Russian clients on any sanctions list put on, of course, those are now being shut off. I can tell you, I don't even know about anyone right now, personally. That doesn't mean that we haven't found one or two on the sanction list, but we don't have these sanctionable items, sanctionable entities, private individuals or corporate, as part of our strategy. That doesn't mean that you can – you can never be 100% safe, that you have found them all. That also goes for the Baltics, of course. Then we have stopped all the trading of US dollars and there are restrictions also in Ukraine. We're just following all the rules and implementing them as best as we can.

On the US, there is no reason it's not mentioned. We might not have been clear about this, but last year, end of 2021, we made a change to just update in the quarterly result if there is a change in the risk disclosure. The US is still in the annual report, and we will just keep it there and not repeat the message, if there's nothing. If there is a change, we will, of course, include it, in the quarterly results. No change when it comes to the US and the information request. That's progressing.

Did I miss something?

Sofie Peterzens: It was very helpful. Just on the Russia-Ukraine, if I do understand correctly, so if you, let's say, you lend to one of the Nordic companies that have big operations in Russia, let's say, one of the companies like in retail, and they have to close down a third or two-thirds of their production which has predominantly been in Russia, so what you are saying is that, any losses that you're going to make on this company, fully shutting down, you would just ask that the parent company pay you for that?

I know, for example, I mean, there has been a lot of press reports that you have the luxury good companies closing down their operations. You have McDonalds, you have Fotsa[?], you have a lot of companies closing down their exposure to Russia. Do you really think that if they close down their operations in Russia, you can pretty rely on the guarantee?

Johan Torgeby: First, because a company, like a big retailer or anyone you mentioned, would close down in Russia does not at all mean that you will have a credit loss in Russia. It is very, very unlikely that company, and we know them all, we are talking about less than 100 names in SEB, that they would have any problems fulfilling their contractual obligations despite or regardless of what strategies they have chosen. Either they have chosen to stay, they have not decided yet or they have decided to exit.

I am not very worried about any of the shy of 100 names we have that they would not honour it. They have no intention not to honour it despite of the strategy. If there is a local bankruptcy and they would then not honour it, we would rely on the parent. We have not lent the money only to the subsidiary. The parent company is responsible for repaying the contractual obligation. Therefore, you are right, there is no problem in those.

We know our clients well and they are very reputable and very responsible. I would say you are right. The number 90% is the degree of the 0.1% we have which is parent guaranteed. Even the part that is not parent guaranteed, the 10%, I would say, we feel very, very safe with. It is a technical, legal, if you ever would have a dispute. Even if you did not have, you might have the client. We do from time to time to say we do not do guarantees. We would like you to lend on a standalone basis. They are still very responsible more often than not in terms of making [inaudible]. We have a relationship with these companies across the world. There is a very mutual symbiotic relationship to maintain a good working relationship with each other. We are working with our clients, not against them. That also, I hope goes for our clients.

Andreas Håkansson (Danske Bank): Two questions. First one is following up on Magnus's question on the rate hikes. Could you tell us a little bit, since you are a much more deposit-rich bank today and less reliant on cover bonds and so on for your funding, do you think that the rate impact of SEK1 billion per 25 basis points actually going to be a little bit cleaner this time around than what we have seen in the past? Or are you still expecting competitive pressure to bring down the margins there? That is the first one.

Masih Yazdi: Yeah. Thanks, Andreas. I will take that. I think it is an important observation. There is about a SEK1000 billion[?] excess liquidity in the Swedish system, which means that every bank has more deposits than we have had in the past. It looks like right now that you will get rate hikes clearly before all this excess liquidity is pulled out.

It means that it is a slightly different environment compared to when we had positive rates before where there was more sort of competition for deposits. Today, if you look at ourselves, for example, we have an ability to issue up to SEK250 billion to SEK300 billion of covered bonds would deposits flow out. From the competitive standpoint, I think banks in general have less needs for deposits now than we have had when we had positive rates before.

If you want to do a competitive analysis, yes, banks should not be as eager to compete for deposits by pricing up deposits if we get positive rates now. Yeah, I think it is a slightly different dynamic. From that perspective, everything else equal because there are many other things that could change, it could be easier to protect margins on the deposit side as long as you have excess liquidity in the system.

Andreas Håkansson: Similar to that is that when you say banks have excess liquidity and deposits, of course, the challenge here is to the big banks on much more wholesale funded dependent than what the big banks are. Would you also therefore expect a competitive change when rates start to rise, and therefore the funding costs for the wholesale funded banks go up?

Masih Yazdi: I mean, in general, I mean, we get so many questions on rate sensitivity and whether that is positive or negative in absolute terms. It is difficult to say, to be honest. So you can clearly see some positive. However, we know that, to some degree, assets prices are inflated and there has been other positive effects of the low interest rate environment.

What we feel comfortable with is that we have been a relative loser from the loose monetary policy over the last decade. If we do have an introduction of positive rates, introduction of real risk differentiation in the market with higher spreads, we, as a AA-rated incumbent old bank, will be a relative winner from a competitive standpoint, both when it comes to, as you are alluding to, mortgages and the funding costs of that compared to fintechs, new start, niche banks, but also, generally in the sort of broader economy, I think we have a good inflation hedge in our business, and we have suffered from the low interest rate environment more than other industries have and other new banks have. Even though this change will probably cost to some degree for maybe unemployment, consumption, and it is going to have some negative consequences for society in general, as a bank, it is overall a better environment than what we have been in for the last decade.

Andreas Håkansson: Second question on loan losses. You said that you expect loan losses for the year to be at a lower level, and not that Q1 is very high compared to anything really. You took general provisions in Q1 and you did not really bring down the corporate overlay and so on. Should we expect coming quarters to actually be quite a bit below Q1? Is that what you are saying when you say it is going to be low for the full year?

Masih Yazdi: I think you can say it like this. In the next few quarters, we will have to, to some degree, at least, take back some of the COVID reserves. The question is whether you fully take it back and let it go through the P&L, or if you come up with new overlays that are more tilted towards the new uncertainty we are seeing. That depends a bit on how this uncertainty develops, to what degree will the current uncertainty on interest rates and energy prices lead to concerns on a Group level on deteriorating asset quality?

I think you can expect the COVID-19 reserves to be pulled back, but then it would be replaced with new reserves. Time will tell. We just have to see how this develops. However, the underlying asset quality looks very solid. The balance sheet did get a cleansing through the pandemic, especially when it comes to oil and gas and those kinds of exposures. It looks healthier than in many, many years going into this uncertainty.

Andreas Håkansson: That should mean that if you just write it back and you do not need new overlays, then we are going to have positive loan losses. However, if you net them out, that means that we are going to have very low losses, right?

Masih Yazdi: It is all of those scenarios are possible.

Rickard Strand (Nordea): Starting off with a question on your household mortgage bank, where you talked about that you had some queues in the phone after you changed your operating model and closed the doors for ad hoc visits. Just want to hear what that looks like now and what do you expect going forward if you expect to close up to where the market growth will be going forward.

Johan Torgeby: Okay. I can take that. It was very clearly a temporary effect that we had reduced. They were I am sad to say also heavily impacted by sick leave. We had the worst possible scenario there for a couple of months. Right now, we are in a superb position. Queue times have gone down 95%. Right now, knock on wood, we are back to where we want to be and the queue times are no longer hindering us.

On the back to normal, we have no other ambition. Everything is moving around now. Everyone needs to change the prices. We have chosen to act quickly when the market circumstances change. As Masih said, we think pricing integrity is quite important here. Yes, it will be quite a different type of outcome in the very short term. Who goes first? Who increases rates?

We will stabilise all this. Our ambition is, of course, nothing but to be back and not having these two, call it, explanatory factors ever as a permanent thing. This is not an excuse. We are just trying to explain why we think we had this hiccup in the last data points on new sales.

Rickard Strand: Then moving over to corporate demand. If you could just describe during the very turbulent Q1, if we look at corporate lending excluding the bridge financing, how the demand from your clients have developed throughout the quarter? What it looks like going into Q2 if the turbulence has been positive or negative on overall corporate demand?

Johan Torgeby: I would say that the base case, and now I am not guiding. We are talking about the next quarter and next 60 days of working and I have no clue what is going to happen. However, the best case is quite muted. We have had a stable, quite modest type of increase in demand, which, as I always said, do not forget, we need to do a third of the loan book every year just to keep it flat. There is a lot of business and a good business activity that is associated with maintaining a level.

Now we have talked about the M&A market. Last year, it did not happen the first three quarter, but it did happen in the fourth quarter. That pipeline looks very constructive. Let us see, we probably need a little bit of lower volatility before we know how that will materialise.

We have the medium to long term, which is clearly every quarter that goes we are more and more convince of the green super cycle. It is a ten-year statement, but we are definitely seeing no reduction in effort and in announced new companies, announced projects that all want to try to find another type of sustainable finance for some type of transition to a positive contribution. That has also been accentuated.

As I said in my prepared remarks, we think this is actually accelerating that because now we need to find alternative energy sources, and the best thing is not to buy the gas from a new supplier. It is to find an alternative to gas. There is a huge economic incentive we have never had with the gas prices where they are to find not gas, and we have a national strategy that is developing in Europe amongst all countries to replace whatever dependence you have.

On top of that, what has happened this quarter, something we have not talked about and we were just calling it here internally, the supply chain supercycle. This is very much triggered by Ukraine, but it actually started with COVID. After COVID, many, many companies have reassessed their dependencies on critical services and critical products in the global supply chain that you do not want too much of exposure to one single country. For me, that means you are reviewing your supply chain. Where do we have production plants? How are things being shipped? This was also very much accentuated by the high freight rates. Can you find alternatives? How do you do it smarter, warehousing, etc.?

On top of that, we now have the whole energy sector really screaming that we need to change. This is a massive, massive mobilisation right now in order to build up new terminals in harbours to take on energy if it is gas or liquid natural gas or whatever it might be to replace the pipelines that we have invested so much in lately.

There is something, and we can see it a little bit in the quarter. The questions, the discussions, the requests are in this nature, which is a little bit new that there will be a lot of capital required we believe in the change of the supply chains globally. A company needs to build a new factory or changed the way they ship their goods and all those things.

It is not a guidance for next quarter. It is just saying something that things are moving around. I think SEB has a very important role to play, and it could be a very good business opportunity to help our clients with this.

Rickard Strand: Then finally, just a question on loan losses. We saw where Masih talk about the buffers you have there on the Baltic book, etc., and the stuff you have on the large corporate also. Looking forward, where do you see the largest uncertainty going forward? Is it in the corporate space or could it also be in the Baltic portfolio?

Masih Yazdi: Rickard, I will take that. I think in terms of direct effects, it is difficult here now to see any real issues, to be honest. I think our main concern is about the secondary effects of what is happening. I think Johan mentioned that in his opening statement. You do see a lot of things moving around with inflation and interest rates.

Depends on how far this goes and how much rates are raised and how long we have this kind of inflationary environment. However, it is secondary effects on commercial real estate, on households in general, the indebtedness of society in general. How that plays out, it is just very difficult to say.

However, we shared the view that the Swedish FCA has had is that you have had a development on asset prices in certain sectors in the last decade or so. To some degree, given higher rates, that will probably be reversed. The question is, what are implications of that and what banks have been prudent in what is happening last decade? We have had for a long time caps on commercial real estate, for example. We do not allow it to grow as a proportion of our lending. We hope that is going to safeguard us quite a bit.

It also could mean that the bond markets for companies that will be impacted will be a bit more difficult to issue on, and it could create more demand for bank lending to refinance whatever is maturing on the bond market. There are many dynamics here that could play out, but I think everyone just has to look at what has happened in the last decade and to what degree that will reverse, because we are in a reversal mode in terms of monetary policy and all the implications of what they have done will have to reverse to some degree. I mean, that is the whole purpose, and then we will see what happens. We are very aware of the secondary effects and the implications of that.

Maria Semikhatova (Citi): Several questions. First of all, on fee income. I appreciate that your comments on the impact of bridge financing and NII. I see that lending fees were quite strong in the first quarter. If there is any contribution from bridge financing, which was temporary.

Second, a follow-up on your NII sensitivity. Just to clarify this SEK1 billion gross impact. You assume no pass on to customers on their deposits given a very comfortable liquidity position. And maybe if we think about consequence rate hikes in Sweden because now consequence rate hikes in Sweden because now people are talking about up to ten hikes. Do you think that is there any impact from forward exposures that will change the impact of fuel for the following hikes?

Finally, on provisions in Baltics. I hear your point about the secondary impacts. We need to see how this plays out. What about direct effect on the companies in Baltics from supply chain disruption for our imposed sanctions? If you have reviewed of what portion of your corporate book in the Baltics is already directly affected by the current situation?

Masih Yazdi: Thanks, Maria. I will start, and Johan will fill in. On the fee income and lending fees, yeah, I think there are always new bridge facilities being put on and probably that has contributed a bit on the lending fees this quarter, clearly not as much as on net interest income.

You should have in mind as our balance sheet grows and credits grow, then lending fees will grow unless you start to see the balance sheet shrink. As you well said before, a third of the book has to be renewed every year and all of that generates lending fees basically. We do have a structural growth in lending fees, which is as structural as the credit growth in the bank.

On rate sensitivity, the numbers that I mentioned so slightly north of a SEK1 billion, that includes all the implications from deposit floors and lending floors and all that. That is included in that. If the question of whether we start to pay deposit rates, it depends in the end on competition. It depends on how attractive deposits are for us and how the competitive landscape looks like.

We are very dependent on what other banks do. As I pointed out before, is that it is slightly different this time around as we have a lot of excess liquidity in the system. Everything else equal, competition for deposits should be less in this great hike cycle than it has been historically.

On the Baltics, I think also in the Baltics, we have gone through the book and the parts that could be sensitive to what is happening in Russia and Ukraine. We have seen that GDP estimates for the Baltic countries have been revised downwards and more so than the other Nordic countries, for example. However, we do not see any large direct effects here now.

We have a few companies that we track more carefully. I would say that, in general, we are as concerned for the Nordic countries as we are for the Baltics because of the secondary effects of inflation and rate hikes and consumption. I think the direct effects are a bit exaggerated. The Baltic countries have reshaped their economies quite a bit in the last eight years after the invasion of Crimea. The export dependency on Russia is much less than it used to be. A lot of the exports are just re-exports from Nordic production through Baltics into Russia.

The direct exposure is less than it has been. They have been good at managing their economies out of Russian dependency, which is what Finland did maybe 20 or 30 years ago. They have gone through the same process in the last eight years or so. Do you want to add something, Johan?

Johan Torgeby: I will add a few things. I just know that the export from the three Baltic States is about 2% of their exports to Russia. I think this surprised many of us when we actually started to look in the national statistics which you have not had a reason to do for many years. There is very, very low dependency, all changed after Crimea.

The second point is around the work we have just done on ECLs, expected credit losses in the Baltics. You can see in today's report, there is none. We have zero credit losses, and we went through the whole book and we have added, was it 400? We have 400 of overlay reserves. That is, of course, a little bit of cushion, if things materialise in a different way.

I can tell you we have done all the critical companies that have any type of challenge, not only Russia exposure, but you also include interest rates or other dependencies. We are talking only about a handful in that tens of number of clients amongst all that we have gone through. And those are, of course, we have got to keep a very close eye on, where risks are more likely than not to be increased. It does not mean default. It does not mean necessarily anything but that they are, of course, having a trickier situation than most to sort out.

Maria Semikhatova: Just a quick follow-up, if you have a sense on the direction of the impact for the following hikes in Sweden, if is it going to be bigger or smaller?

Masih Yazdi: Yes. Again, it depends when you see deposit rates going up. So typically, if you look at history, we start to pay an interest rate on saving accounts much earlier than transaction accounts. On transaction accounts, it has been very rare that you have a rate at all. You have to have an interest rate in Sweden of maybe 3% or 4% before transaction accounts start to pay an interest rate.

On savings accounts, it starts earlier, maybe at 0.5%, 1%, 3%, you start to pay something on saving accounts. Again, it is difficult to say what is going to happen this time around. It depends a lot on competition, to what degree do we need deposits to fund our lending business. Yeah, we just have to wait and see.

However, in the sensitivity that we mentioned, we have taken into account the historical patterns that we have started to pay on savings at some point. You do not start to pay on transaction accounts anywhere near the natural levels we are at today. The first 25 basis points, we do not assume anything is going to happen on savings accounts or transaction accounts.

Namita Samtani (Barclays): I have got two, please. Firstly, on the SEB labelled mutual funds. If we look at the past nine quarters, five of these quarters have presented outflows. Maybe this quarter is a bit more understandable because of the environment. What exactly is the problem with SEB mutual funds? Are they just underperformers? Or are they too expensive? Secondly, sorry to come back to this, but a question on rate rise and the capital impact. We have seen some other banks have a negative impact on capital as rate rises due to their interest rate hedging strategy, where they hold a portfolio of their financial investments measured at fair value through other comprehensive income. I appreciate the NII impact in the P&L will be stronger ultimately. Would SEB have an issue like this as rates start to rise?

Johan Torgeby: The SEB labelled investment management funds. It is a long discussion. However, predominantly we could say that we have not been happy with how they have been sold, if you can use that word. These are being distributed by ourselves, but also by a wide array of different type of financial institutions. In this quarter, it is actually more on the institutional side that explains the SEK20 billion of outflow. This is fixed income.

Fixed income has been a long and slow death when it comes to having institutional mandates. And as explained, quite a lot over the last couple of years. This is a very little impact on P&L. As you know, the institutional products are completely different priced. It should not be at all compared to that.

We are currently working on trying to fix this. We have had the highest monthly savings and many of that is in our own funds in Q1. This is all looking good, but it is going to take a few years, I think before we turn the corner. It has been on the agenda for at least two or three years now that we are addressing it with a lot of changes in the bank.

On the interest rate hedging, etc., from Treasury or for the bank. We really do not have that problem you described. We have a much more natural flow through and taking it through the volatility on capital as we come and see it. FX and rates, they do affect the capital position and that is naked, so to speak.

Antonio Reale (Morgan Stanley): All of my questions have been answered. Maybe I will ask you one on the investments. We have seen, of course, a number of banks globally turning to investment mode and you have been one of them. I realise these are investments to position the business for the medium run. However, I wondered to what extent does the possibility of returns on such investments change enough after the conflict for banks like you used reconsider, resize or delay some of them? That will be the question.

Johan Torgeby: Thank you, Antonio. Where we stand today, we are not contemplating to change anything, given the current circumstances. I like to think about it as cyclical and tactical considerations versus strategic. Our strategic agenda is not changed, even though we have this enormously negative development of a war in Europe.

Now that means that until further notice, that is the case. We will maintain the current strategy piece that we introduced in January. We are also tactical and we are also trying to take cyclical considerations into account away from the investments and the ten-year plan for SEB. There, things can change.

Today, we are not changing that much, but we are trying to mitigate any negative, of course, implication of the war. We also see a lot of opportunities. We are stepping up or channelling energy to those areas, where clients have the most need. Should we have an absolute negative scenario? Of course, you could change the strategy because you find that you need another cost costume or something. It is all assessed in the basis of how do we have the optimal profitability, given SEB and what we do. We will always have profits and the shareholder value in mind when we consider these things.

I think it takes quite a lot for the strategy of SEB to change. We are very committed to being a northern European bank with an expansion now in the areas that we described in the strategy presentation.

Robin Rane (Kepler Cheuvreux): Hopefully, two fairly quick ones from me. From the net financial income, so how should we think about this treasury gain on interest rate and FX swaps? Would you expect to give back some of this in the coming quarters? Or will it be stable with the current outlook?

Secondly of the Swiss bank tax. Now that you have lived with this throughout the first quarter, how would you say you have been able to pass on this higher cost to customers? Is this according to your expectations or better or worse?

Masih Yazdi: Thanks, Robin. On the treasury gain, no, I mean, if rates stay where they are, I do not think that is going to be reversed. It is actually a recovery of earlier losses, I would say, the gains we have had in treasury. We had fairly large losses on falling interest rates a couple of years ago. That has been regained back.

I do not think that is going to change if rates stay where they are. In treasury, there is always a lot of moving parts, so it depends on many market movements. However, no, I think that should stay on as long as rates are where they are.

On the bank tax, we have had some activities to pass the cost on. I think we have executed accordingly. Overall, it has been fine. We have had a small change of the interest rate on variable mortgages and there are some fees in the bank that we had not changed for many, many years, even though we have had some inflation in the system that we have changed now.

There is some compensation. It is not going to be a full compensation of the cost of the bank tax. However, we have done what we can to make sure that we offset some of the negative implications on our P&L.

Jacob Kruse (Autonomous Research): I guess most of my questions were answered as well. Just on the comment around tactical and cyclical awareness. You had relatively low costs this quarter. You kept the cost guidance stable. Should we consider that a holding pattern until you see where things end up, and we get an update on your cost thinking in Q2? Or is that reading a little bit too much into what you say?

Masih Yazdi: I think it is reading a little bit too much, but it is not impossible. What we are saying is that the two factors that we are facing every day, it is the change in the FX rate, particularly the Swedish kroner versus the euro, and the share price, as we are the old LTI programmes. The staffs current LTI programmes are affected by the social charges are reflected by the price.

We cannot consume the freedom this has created us as we would also ask for your humble acceptance. If the share price were to skyrocket, we will have a trouble saving for it. This is what we say. If this is, of course, prolonged and we will have a completely different situation, yeah, we could definitely at least explain why we would not hit the cost target of SEK24.5 billion, and it could be such that we have seen the share price drop, which means that we will therefore guide lower.

The opposite could also be true that the share price performs well and therefore we do not want to stop any of the strategic initiatives just because we are performing according to plan because the plan is to perform well.

Jacob Kruse: As a similar question to that, do you think on the revenue side, that what was considered brown assets at the end of last year. Those assets have become more interesting again? Is there new areas of growth that were [inaudible].

Johan Torgeby: Very much debated right now. I think this is a unique situation. When we are talking about burning any fossil input, there will not be more fossil input burnt because someone has a willingness not to transform into a greener society. It is by geopolitical necessity this might happen. This does not go from the Nordic. I am thinking particularly about Germany and other areas who does not have renewable energy at hand that they might need to restart other things that are highly undesirable.

For me, that is a very short-term effect as a consequence of a geopolitical necessity. The interest in those assets could therefore have a short-term upbeat, SEB will not play. We will not change our green, brown and transition strategy because of it. However, we do need to acknowledge that a lot of the companies that we bank currently will have higher investment needs in the short-term than they previously had because they are part of the solution to reduce the dependency on Russia.

Many of these companies, I would say most of them have both the largest investments in greening of the economy as they have the do-harm part. It is the same company. One of the largest green energy providers is a Nordic company in Europe, but they also have some brown assets. That is going to be a new complication to relate to. I think we all know what we need to do. We need to do what is required to make sure that we are stable, protect democracy, market economy and free trade. We will try to keep it there.

Andreas Håkansson: Just you were talking about the SEK1 billion rate sensitivity many times, but you never really mentioned the size of the potential negative impact you get from non-Swedish rates. If you guys give a little bit of that size. Related to that, outside Sweden, do you think that you have a different structure of your balance sheet, which is why it is going to be negative? Or do you think that is going to be more common among ECB banks that you actually have a more negative impact for the first 50 bps until you come to zero?

Masih Yazdi: Thanks, Håkan. I think one of the reasons we have not talked about the euro sensitivity is that no one has envisaged the euro rates to go up. That is obviously on the agenda now. It is a couple of hundred million net with rates going from minus 50 basis points to zero. That is approximate the impact of the euro sensitivity. It has to do with EURIBOR floors that we have on the lending side that will not have the positive effect it has today when rates go up. That is the reason for that.

I have no idea to what extent other European banks have the same situation there as we do. However, if rates do go above zero in Europe, it is a positive effect both on the deposits, on the large corporate business to some degree, lot of sensitivity there, but also in the Baltics, the sensitivity goes up quite a bit compared to when you are in negative territory. That changes a bit when you go above zero.

Johan Torgeby: Thank you. Then I will do something unusual. As we have now talked about rate sensitivities for a long time, I would like to ask you for five minutes, you can hang up if you do not want to listen to it, give you my view on your very difficult task to assess the different banks and should you buy what and what should you not buy, because it becomes a very topical discussion. A little bit for the record, I think I will say my thoughts on the topic here as we will probably talk about this quite a lot in the near-term future.

You have heard everything about the static, call it, non-dynamic analysis. This is just taking the deposit rate which is had not had a margin or it has been loss making for the last seven years. If you calculate that. As Masih has explained several times, the dynamic effect is the interesting one when one considers what to buy or not, and how will this affect a bank or an industry.

I want to also say that we do not spend time on this. We understand that you have the very difficult task to spend a lot of time on this but we just do banking. We try to do the best we can with our clients regardless if the rate is 1% or zero in one year's time.

The first thing that you need to be added is the fixed income industry. We have had ten years of really, really bad performance and contribution in the industry from fixed income. Fixed income in the government bond sense is more or less debt. This can be re envisaged coming back if we reintroduce positive yields and particularly positively sloping yield curves.

If you are a government bond salesperson, if there are anyone left, you might see some light at the end of the tunnel that things will change. This was a huge contribution to investment banking and market banking, and we think we are very well positioned if we would have had a little bit more activity. As I mentioned, even this quarter, the biggest contributor to lower net asset is institutional fixed income mandates. These are international asset managers who hire SEB to manage Nordic interest rate-based portfolios and it is one of the trickiest business areas.

The other thing is credit spreads you need to assess. When rates go up and volatility gets introduced, the credit spreads tend to increase more often than not in historical analysis. This means that pricing power increases for banks and the bond market leads the way. We have just seen it. We have talked about it in the past. For the last 25 years I have been working. It has been a one trick only downwards. Right now, we are considering the prospect that at least for the next year, we will have a shift. This is a very important inflection point where things are moving the other way for the first time in a very, very long time.

Then you want to talk about savings ratio. When introduction of volatility and increased rate, first, for ten years, we have not had a real alternative to investing in riskier assets because non-risky assets have not given any return. Hence, there is no business activity around them. This would completely change if you were to have positive yields on government bonds. Therefore, bank paper and more stable corporate names will all of a sudden become much more interesting to have in your portfolio. It will change the dynamic for brokers, for equities. It will change the asset allocation changes. These changes, are we well positioned as SEB to capture this?

The next one is the mortgage margins, which you have talked about. I would not spend time on that. Then you have asset pricing, the negatives. When rates go up and volatility gets introduced, you do not know where asset prices are going. Stock market, housing market, and that could affect a bank negatively.

You also then have the GDP. As savings ratios tend to go up in volatile terms, consumption goes down. Coupled with increased interest rates, we have just introduced the new mortgage market today is averaging 2% and it used to be 1.5%. Only in a very short period of time, we have increased the price by whatever 25% or so. That is, of course, a risk.

Then you have credit quality. As inflation gets introduced, margins are being squeezed by corporates. This is a challenge, any company, any business has. Can you pass it on and/or cannot you? You will have a shift and it is, of course, a negative naturally. It is as many that it is a positive for, mainly if you are one of the ones hiring and increasing the prices for a good reason, not for a cost push inflation. You need to assess that, too.

And then supply chain. Everything changes, when different prices move around, different energy types, different commodities, you will find replacements and that will also affect the business conduct.

What I am trying to say is that we often get the question now, are we perfect bets for an inflation hedge or for an increase in interest rate hedge? I do not know. I can say when we do the full assessment or we just talked about interest rate sensitivity and how inflation could impact the financial industry, banks and SEB in specifics. For us, all these areas are things where we are very much adept in doing, and we think we are very well placed to conquer any type of challenge that will come from because of a macro shift.

Similarly, this will be the test for the first time if you have a diversified wholesale banking business model, because when volatility gets introduced, maybe IPOs and ECM business and DCM business gets a temporary halt, but you compensate if you are a large player in the FX and the commodity market. On top of that, if you have a large ambition, like we do to be active in the credit market, in the fixed income market, this might be a turning point for that industry, that part of the industry, which has had such a tricky area.

On the other side, there are several negatives that can come. The GDP drop, too much interest rate increases, too much savings ratio going up. That is, of course, a balance. Do not envy the central bankers that they need to strike right now because they cannot affect the gas price by increasing interest rates that reduces demand for other products and services, because they are high because of another reason, a geopolitical tension in particular.

I do not know if we have a great hedge, but I definitely think that banking is going to be better in a normalised interest rate environment. Let us see if that happens. For the record, that was my little monologue.

Therefore, I guess we conclude and say thank you for your attention. We are here if you have any questions or want to talk to me about more about my thoughts on inflation. Have a good day, everyone.

[END OF TRANSCRIPT]