Risk, liquidity and capital management

Managing risk is an integral part of banking, and risk awareness is deeply embedded in SEB's corporate culture. The bank has a comprehensive framework for risk, liquidity and capital management that is continuously developed to reflect current market trends and global developments as well as to detect emerging risks.

Overall stable risk profile in 2022

2022 was yet another extraordinary year. The pandemic had barely subsided when Russia's invasion of Ukraine provided a new shock to the global economy. The year was marked by energy crisis, prolonged supply chain disruptions, inflation, rising interest rates and a weak Swedish krona. The global economy showed unexpected resilience, although the confidence among corporates and households has weakened. Economic growth is expected to remain weak in 2023 before starting to recover in 2024.

SEB's overall risk profile remained stable in 2022, demonstrating the bank's resilience in turbulent times. Credit growth was moderate during the year, mainly driven by currency effects and corporate credit demand. Asset quality remained robust with credit losses at low levels. The liquidity and capital positions were strong. Market risk increased due to significant volatility in the financial markets but was managed within the bank's risk tolerance levels.

Russia's invasion of Ukraine has had implications for non-financial risks. Management of operational resilience, cyber security and sanctions screening has been key given the bank's Northern European presence, including operations in the Baltics as well as small subsidiaries in Ukraine and Russia. Already prior to the invasion, the bank's crisis management plans were activated and business continuity plans were tested and updated. A sanctions response team, including representatives from the business as well as the compliance and risk organisations, was established to support in sanctions-related matters as complexity in the area increased quickly. The elevated cyber threat environment was managed by enhanced threat intelligence and teaming up with strategic partners to strengthen the bank's defense. The bank has decided to scale down its operations in Russia.

At the end of 2022, there were no clear signs of deteriorating asset quality in the credit portfolio. During the year, focus has been on monitoring households' and corporates' ability to manage higher interest rates and energy costs. SEB has well established processes and long experience in managing traditional financial risks with clear governance for credit approval, credit portfolio limits as well as a limit structure for market and liquidity risks. The bank works proactively to identify customers that show early signs of deteriorating debt service capacity which enables intervention at an early stage with supportive or other measures to reduce the risk for losses.

It is SEB's fundamental belief that a strong risk culture is a bank's best defence. Risk culture comprises the values, beliefs and behaviours that determine how decisions are made and risks are managed. It allows an organisation to quickly adapt to change and is a critical element in operational resilience. In 2022, a new program was launched by the Chief Risk Officer to further strengthen the bank's risk culture. The program is directed to all employees and will be a focus area also in 2023.

SEB's risk tolerance and risk management framework

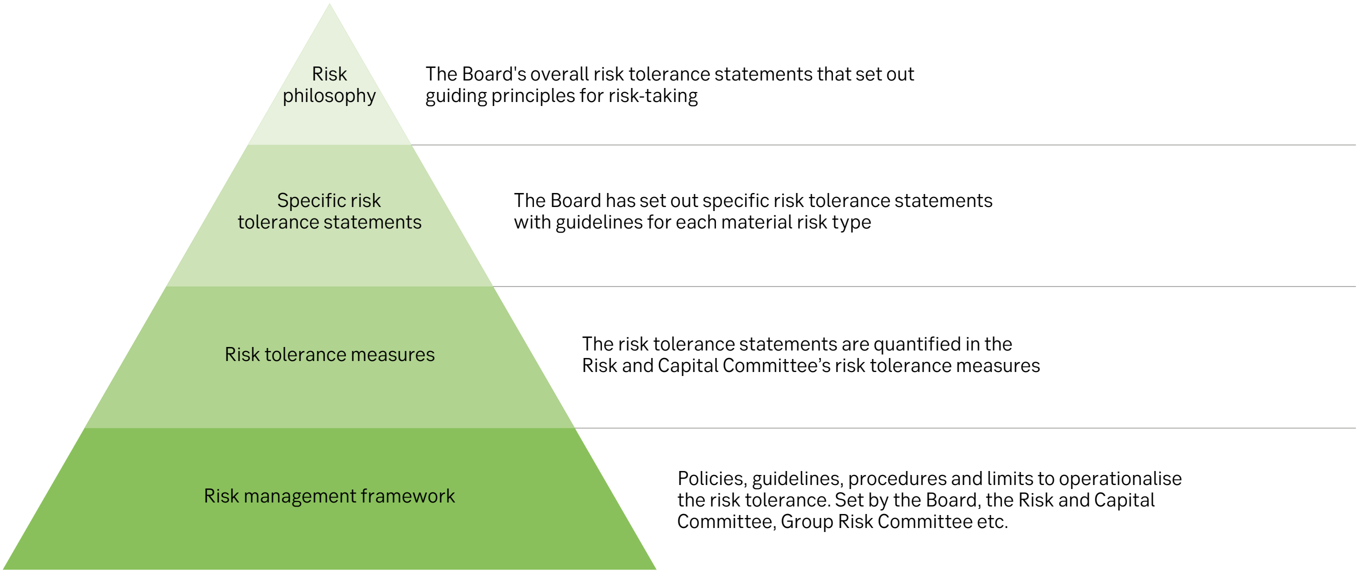
The Board's risk tolerance statements reflect the bank's risk philosophy. These statements articulate the Board's long-term view on types and levels of risk the bank is willing to accept in order to achieve its overall business objectives. The Board has also set out specific risk tolerance statements that express its expectations on management of material risk types, for instance credit risk and market risk.

To monitor that the bank operates within the Board's risk tolerance, the Board's Risk and Capital Committee has defined a number of risk tolerance measures for each material risk type that translate the statements into measurable boundaries. SEB's risk profile, in relation to these measures and statements, is regularly monitored by the Chief Risk Officer function and reported on a quarterly basis to the Group Executive Committee, the Group Risk Committee, the Board's Risk and Capital Committee and the Board.

The Board's risk tolerance is implemented through the bank's risk management framework which includes policies, instructions, limits, key risk indicators, controls, processes, and systems. The President has overall responsibility for the management of all risks within SEB and for ensuring that the risk profile is within the Board's risk tolerance and capital adequacy targets. The Chief Risk Officer has the overall responsibility for identifying, measuring, assessing, monitoring, managing, mitigating, and reporting risks.

→ For detailed information on risk, liquidity and capital management, see notes 40 and 41.

The Board's risk tolerance



Risk profile

Board's risk tolerance statements in brief	Measurement	2022	2021
Credit risk and asset quality Maintain a high-quality credit portfolio through a robust credit culture based on long-term relationships, knowledge about customers and focus on debt service ability.	• Total loans, contingent liabilities and derivatives (SEK bn) • Expected credit losses in relation to total exposure (%) • Share of loans that are classified as credit-impaired (%)	3,086 0.07 0.33	2,828 0.02 0.53
Liquidity and funding risk Maintain a sound structural liquidity position, a balanced wholesale funding dependence and sufficient liquid reserves to meet potential net cash outflows in a stressed scenario.	• High-quality liquid assets in relation to the estimated net liquidity outflows over the next 30 calendar days (Liquidity Coverage Ratio) (%) • Available stable funding in relation to the amount of required stable funding over a one-year horizon (Net Stable Funding Ratio) (%)	143 109	145 111
Market risk Limit the impact of adverse developments in economic value and earnings from market risk, including valuation uncertainty, from both a short- and long-term perspective.	• Statistical measure of the largest trading loss that can be expected in a ten-day period (VaR) (SEK m)	236	138
Non-financial risk Maintain low non-financial risk and loss level through an effective internal control framework and by ensuring a structured and consistent usage of risk mitigating tools and processes for all identified non-financial risks.	• Operational losses in relation to operating income (%)	0.31	0.37
Aggregated risk and capital adequacy Maintain satisfactory capital strength to sustain aggregated risks and guarantee SEB's long-term survival and its position as a financial counterparty, while operating safely above regulatory requirements, and meeting rating targets.	• Risk-weighted business volumes (risk exposure amount) (SEK bn) • Capital in relation to the risk exposure amount (CET 1) (%) • Capital in relation to total assets (leverage ratio) (%)	859 19.0 5.0	787 19.7 5.0

Robust asset quality with few signs of deterioration

SEB has a well-balanced credit portfolio (which includes loans, contingent liabilities, and derivatives) mainly comprised of Nordic and German large corporates and Swedish households. Overall asset quality remained robust in 2022, with a low level of expected credit losses and limited inflow of new problem loans.

The impact of the weakening macroeconomic environment on debt service ability remained limited. Asset quality trends and early warning indicators such as late payments, negative risk class migration and bankruptcy statistics were closely monitored. Particular areas of attention included interest rate sensitivity and refinancing risk of the Swedish real estate portfolio as well as households' ability to cope with higher cost of living. Overall, the early warning indicators showed limited signs of deterioration. That said, rising energy prices, inflation and interest rates are pressuring both households and corporate clients, and SEB will continue to carefully follow signs of deterioration in asset quality in 2023.

Net expected credit losses (ECL) amounted to SEK 2,007m (510), corresponding to a net ECL level of 7 basis points (2). Credit-impaired loans (gross loans in Stage 3) amounted to SEK 6.8bn at year-end (9.8), corresponding to 0.33 per cent of gross lending (0.53). The Stage 3 ECL coverage ratio decreased during the year from 58 per cent to 57 per cent.

Overall, SEB is well provided for with total ECL allowances of SEK 8.6bn (8.8), of which total portfolio overlays amounted to SEK 2.2bn (1.9).

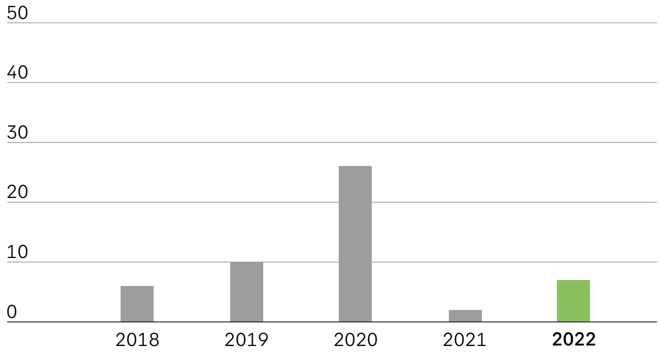
Credit portfolio development

Growth in the credit portfolio was primarily driven by FX effects and corporates. The real estate portfolio was largely unchanged while the household mortgage portfolio declined. The total credit portfolio amounted to SEK 3,086bn (2,828) by year-end.

Strong growth in the corporate segment

More than half of SEB's credit portfolio consists of exposure to corporates. SEB is unique among its peers in that its corporate portfolio consists primarily of large, investment grade corporate customers. These are mainly Nordic and German customers in a wide range of industries, of which the largest is manufacturing. In total, the corporate portfolio grew to SEK 1,687bn (1,473) in 2022. Growth was mainly driven by currency effects, large corporate demand for working capital financing and derivatives. Growth was broad-based across sectors. SEB's exposure to small and medium-sized enterprises (SMEs) accounted for 11 per cent (12) of the corporate portfolio and is mainly in Sweden. In total, the SME portfolio grew to SEK 189bn (176) during the year.

Credit loss development Basis points



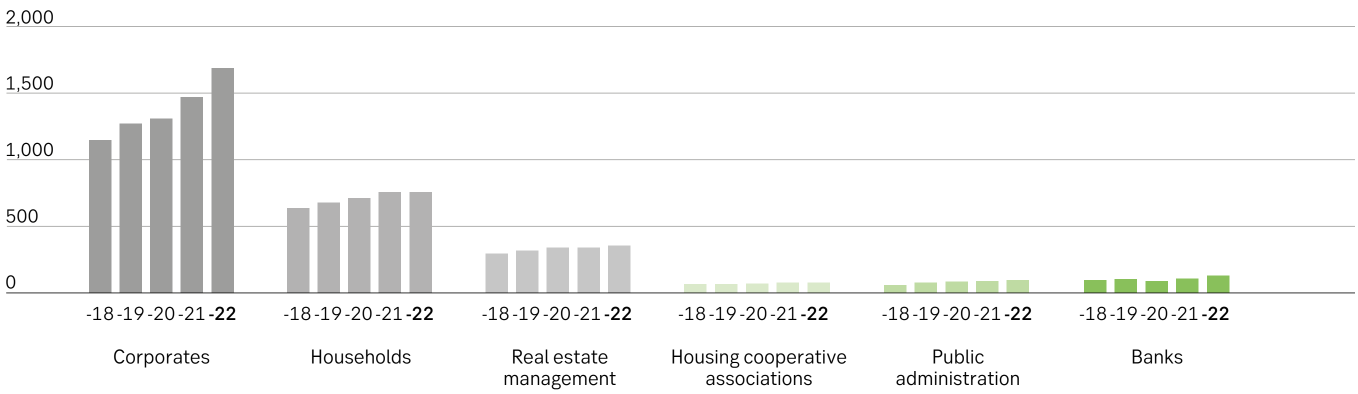
High quality Swedish household mortgage portfolio

The long-term upward trend in Swedish housing prices came to an abrupt end in 2022. Housing prices fell by around 15 per cent from the peak in March due to rapidly rising interest rates and higher energy prices combined with a more uncertain economic outlook. The existing structural housing deficit was not enough to mitigate the pressure on housing prices from the higher cost of living. SEB's Swedish household mortgage portfolio amounted to SEK 583bn at year-end (594).

The portfolio is of high quality with low credit losses. Lending decisions are based on the borrower's repayment capacity, including the ability to manage a stressed scenario with higher interest rates. Where applicable, the stressed scenario takes into account the borrower's share of the housing cooperative association's total debt.

The portfolio loan to value (LTV) ratio is sound with a weighted average max LTV of 56 per cent (50). The increase is explained by the housing price development as collateral values are automatically indexed monthly. The amortising share of the portfolio with LTV higher than 70 per cent is stable at 98 per cent.

Credit portfolio, development by customer segment SEK bn



Solid real estate portfolio

SEB's total real estate portfolio amounted to SEK 426bn at year-end (414) and includes commercial and residential real estate, and Swedish housing cooperative associations.

SEB's credit exposure to commercial real estate companies consists mainly of strong counterparties in the Nordic region with sound financing structures and diversified property portfolios. The portfolio amounted to SEK 209bn (188) at year-end, with a weighted average loan-to-value (LTV) at 45 per cent (45).

The bank's credit exposure to residential real estate management is mainly in Sweden and consists of high quality, private and publicly owned real estate companies as well as institutional investors. Demand for residential real estate in Sweden is typically stable and non-cyclical due to the structural housing deficit. In 2022, the residential real estate portfolio declined to SEK 146bn (152). Weighted average LTV for the portfolio was 46 per cent at year-end (46).

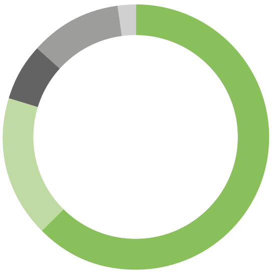
SEB also has SEK 72bn (74) in credit exposure to housing cooperative associations, a common form of multi-family home ownership in Sweden.

The higher interest rate environment and cost inflation has negatively impacted the market outlook for both commercial and residential real estate, putting pressure on property values and cash flows. The effect for the commercial segment will be partly offset by inflation-linked rental contracts, but a prolonged economic downturn could lead to increased vacancies and reduced income. The outlook varies between the different sub-segments, with for example retail-related properties and hotels expected to be impacted by reduced household consumption. The office segment may also be subject to higher vacancies following the continued trend with a more hybrid way of working and cost inflation. Moreover, certain residential and commercial real estate companies may face challenges related to refinancing of bond maturities in the coming years, unless capital market conditions improve.

Asset quality in the real estate portfolio remained robust in 2022 with limited credit losses. Driven by the challenges in the sector, a portfolio overlay of SEK 0.3bn was made as a precaution, despite most companies being able to navigate the new interest rate environment.

SEB manages its exposure to the real estate sector through a group-wide risk tolerance level for the commercial real estate portfolio, divisional volume growth limits and a strict real estate credit policy.

Credit portfolio, distribution by geography[1)] Per cent



	Per cent
Sweden	62
Other Nordic countries	17
Baltic countries	7
Germany and the UK	11
Other	2

1) Distribution based on SEB's operations

Stable Baltic credit portfolio

SEB's Baltic credit portfolio consists mainly of corporate and household exposures. Lithuania is SEB's largest market in terms of credit exposure in the Baltic countries, followed by Estonia and Latvia.

In 2022, the Baltic economies were challenged by exceptionally high inflation as well as elevated energy prices. Asset quality remained stable with low credit losses. Overall, the effects from geopolitical uncertainty and elevated inflation have been limited. The credit portfolio grew in all segments, particularly in household mortgages, and increased to SEK 226bn (194). This corresponds to 7.7 per cent of the total non-bank credit portfolio, which is well within the risk tolerance level.

Increased market risk in volatile financial markets

Market risk arises in SEB's customer-driven trading activity as well as within the treasury function, which is responsible for the Group's funding and liquidity management. The risk in trading is measured as Value at Risk (VaR), which estimates the bank's expected maximum loss during a period of ten trading days, with a probability of 99 per cent. Interest rate risk in the banking book (IRRBB) is the risk of loss or reduction in economic value or earnings, arising as a result of interest rate repricing mismatches between assets and liabilities.

The uncertainty caused by Russia's invasion of Ukraine and increased inflationary pressure, led to elevated financial market volatility throughout the year. Interest rates increased, credit spreads widened, commodity prices moved extensively, and the global equity markets fell sharply. The volatility was managed by reducing risk in certain portfolios while at the same time supporting customer needs.

As a result of the extreme market volatility, SEB's market risk increased and average VaR (which is based on changes in market risk factors over the past twelve months) increased to SEK 236m (138).

Stable risks in the insurance business

SEB's life insurance business consists mainly of unit-linked products, where the market risk remains with the customer. In 2022, unit-linked products accounted for 71 per cent of total premium income (77). In addition to unit-linked products, SEB also offers risk insurance in Sweden and the Baltics, and traditional life insurance in Sweden.

The traditional life insurance portfolios expose SEB to market risk due to the guaranteed elements of the products. However, the difference between the value of the assets and the guaranteed commitments serves as a buffer against earnings volatility. During 2022, this buffer decreased slightly due to weaker financial markets, only partially offset by new business volumes.

The share of alternative investments has proportionately increased during the year as valuations of traditional investment classes have decreased. The share of alternative investments in the traditional insurance investment portfolios is expected to continue to be material at around 50 per cent (40). Alternative investments generally increase the overall risk level, as valuation, market, liquidity, and non-financial risks are deemed higher relative to traditional investment asset classes. These risks are primarily mitigated by high level of diversification within the asset class as well as a strong governance and valuation process structure.

Operational resilience in a challenging environment

SEB strives to mitigate non-financial risks in its daily business and processes by continuously developing and improving governance and risk practices. In 2022, net operational losses from incidents remained low at SEK 237m (219).

The geopolitical tension increased focus on non-financial risks, in particular operational resilience, cyber security, and sanctions screening. Several actions to improve internal processes and system infrastructure were taken in response to the situation. The bank's crisis management plans were activated and business processes, geographical concentration risks and staff relocation abilities were evaluated based on different scenarios to secure the bank's operational resilience. Information security and cyber risk processes were reviewed and an extensive scenario analysis including disruptions to the bank's technical infrastructure was conducted.

Complexity in the sanctions screening area increased rapidly following Russia's invasion of Ukraine. The EU, US and many other countries responded by imposing sanctions on an unprecedented scale. To mitigate the risk of breaches, SEB established a sanctions response team, including senior representatives from the business as well as Group Compliance and the CRO function, to support in decision-making and facilitate swift escalation to relevant committees when needed.

The level of cyber threat has also been elevated during the year as cyberattacks have been part of the warfare. SEB has managed this risk by enhancing its threat intelligence and teaming up with strategic partners to strengthen the bank's defence. Neither SEB nor any of its critical outsourcing partners experienced any material cyberattacks in 2022.

During the year, SEB continued to develop its risk management framework for non-financial risks to more expressly address emerging risks, including cyber, third party, financial crime and data management risks. In 2023, the implementation of the group-wide cloud strategy will accelerate technology development in line with SEB's 2030 strategy.

Financial crime prevention

By being active in the financial markets with a diverse and global offering, SEB is exposed to the risk of being used for money laundering and terrorist financing ("financial crime"). Financial crime constitutes a serious threat against the financial system, and by extension also against the public sector and society at large. SEB works actively to prevent such risks in line with both applicable rules and regulations, as well as the bank's own instructions and guidelines. Knowledge, awareness, and a strong risk culture are firmly embedded in the entire organisation, from the Board of Directors to individual employees.

SEB continuously develops its ability to detect, deter, prevent, and report suspected financial crime. The work is led by the Financial Crime Prevention function to ensure holistic governance. During 2022, the work to further enhance procedures, processes, and system support as well as reinforcing controls, continued. In addition, a number of key specialists were recruited.

One of the most important preventive activities is the customer due diligence process. In this process, information is gathered to understand the business relationship and manage potential risks associated with the customer. All customers are reviewed in this process, which is repeated on a regular basis. The process is risk-based, and additional controls are performed on customers operating in areas where the bank identifies a higher risk, for example customers with connections to high-risk countries.

Another important activity is transaction monitoring, which is used to detect suspicious transactions and behaviours. Suspicious activities are reported to the relevant authorities. In such cases, SEB will also consider limiting – and under certain circumstances terminating – the business relationship. In 2022, SEB reported more than 5,400 Suspicious Activity Reports to the authorities in the countries where it operates.

SEB also performs sanctions screening to prevent payments to and from persons or entities subject to financial sanctions. The US and EU imposed extensive sanctions regimes as a reaction to Russia's invasion of Ukraine. In order to ensure compliance SEB has developed its screening capabilities.

External cooperation is an essential part of the work to prevent financial crime. The cooperation against money laundering between the Swedish Police and the large Swedish banks, SAMLIT, has continued during the year with the aim to increase information sharing between the public and private sectors.

Fraud is a key funding source for other criminal activities and SEB's work to detect and prevent all types of fraud, internal as well as external, is continuously developed and adapted to new criminal behaviours. In 2022, SEB and other large Swedish banks launched a new fraud prevention partnership which is aimed at reducing fraud in Swedish society.

Employees are continuously trained to strengthen their awareness of financial crime. SEB's Code of Conduct and core values, mandatory trainings and dialogues on ethical and value-related dilemmas strengthen employees' awareness of the importance of their conduct. Employees are urged to report unethical or illegal incidents, if needed through an independent, external whistleblowing procedure. See p. 48.

Sustainability risks in credit analysis and customer due diligence

As a bank, SEB plays an important role in society by providing credit and managing financial assets in ways that promote sustainable economic growth and prosperity. SEB considers sustainability risks in the credit granting process and the extent to which such risks can impact the customer's ultimate repayment capacity. SEB also considers how such risks can impact SEB's ambition to be a sustainable bank. Tools for identifying, measuring, assessing, monitoring, managing, mitigating and reporting sustainability risks are developed continuously.

→ For more information on SEB's sustainability management see p. 32 and for specific information on climate-related risk management, see p. 58.

Liquidity management

A well-balanced liquidity and funding strategy

Access to the liquidity and funding markets is vital in all circumstances. SEB's liquidity and funding strategy is managed from three perspectives:

1) optimising the liquidity structure of the balance sheet to ensure that less-liquid assets are matched with stable funding,
2) monitoring wholesale funding dependence, and
3) ensuring that the bank has sufficient liquidity reserves to withstand a severely stressed scenario.

SEB benefits from maintaining a diversified and strong funding base and liquidity position.

In 2022, funding markets were impacted by rising interest rates and higher volatility. SEB's funding activity increased compared to previous years, mainly to meet regulatory requirements. The bank issued an equivalent of SEK 130bn (75) of long-term funding, including two green senior non-preferred bonds and SEK 5bn in Additional Tier 1 capital. At year-end, total long-term funding amounted to SEK 474bn (474).

Short-term funding in the form of commercial paper and certificates of deposit amounted to SEK 353bn at year-end (288).

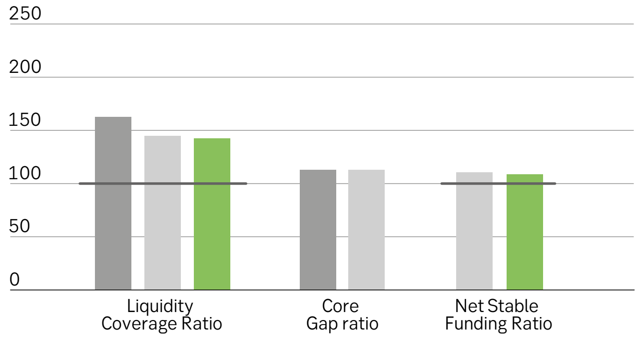
SEB manages its assets and liabilities in line with the Net Stable Funding Ratio (NSFR) regulatory requirement of at least 100 per cent. At year-end, SEB's NSFR was 109 per cent (111), above the minimum regulatory requirement as well as the Board's risk tolerance for a sound structural liquidity risk position.

At the end of 2022, SEB's liquid assets amounted to SEK 695bn (672). The size and composition of liquid assets are continuously assessed against estimated needs.

The Liquidity Coverage Ratio (LCR) measures to what extent SEB's liquid assets are sufficient to cover short-term cash outflows in a short-term stressed scenario. At the end of 2022, SEB's LCR was 143 per cent (145), in compliance with the minimum requirement of 100 per cent. SEB also met the minimum LCR requirement for individual currencies, including EUR, USD and other significant currencies.

A strong credit rating is important as it impacts the cost of wholesale funding. SEB is rated AA–/Aa3/A+ with stable outlook by Fitch, Moody's and S&P respectively and there were no changes during the year.

Liquidity Coverage Ratio, Core Gap Ratio and Net Stable Funding Ratio[1)] Per cent



● 2020 ● 2021 ● 2022
— Liquidity Coverage Ratio requirement/ Net Stable Funding ratio requirement

1) Core Gap Ratio presented until 2021 when Net stable funding ratio was required according to CRR2.

Rating

Fitch rates SEB's long-term senior unsecured debt at AA- with stable outlook. The rating is based on SEB's low risk appetite, stable and well-executed strategy, and robust asset quality and capitalisation. The rating was affirmed in July 2022.

Since October 2021, Moody's rates SEB's long-term senior unsecured debt at Aa3 with stable outlook reflecting the bank's strong asset quality and solid capitalisation, which is expected to demonstrate continued resilience despite a less favourable macroeconomic outlook.

S&P rates SEB's long-term senior unsecured debt at A+ with stable outlook. The rating is based on the stable and low-risk operating environment in Sweden, the bank's stable and well-diversified revenue base and leading position among large Nordic corporates, robust capitalisation and resilient earnings, despite expected increasing pressure on revenues and asset quality in the economic environment. The rating was affirmed in July 2022.

Moody's		S&P global		Fitch	
Short[1)]	Long[2)]	Short[1)]	Long[2)]	Short[1)]	Long[2)]
P–1	Aaa	A–1+	AAA	F1+	AAA
P–2	Aa1	A–1	AA+	F1	AA+
P–3	Aa2	A–2	AA	F2	AA
	Aa3	A–3	AA–	F3	AA–
	A1		A+		A+
Outlook stable		Outlook stable		Outlook stable	

1) Short-term debt and commercial paper.
2) Long-term senior unsecured debt.

Capital management

The capital position continues to be strong

Despite a strong risk culture and risk management, unexpected losses can occur in banking. SEB's capital management is designed to ensure that the bank has sufficient capital to absorb such unexpected losses. The Board of Directors sets SEB's capital target taking into consideration financial stability requirements by the regulators, debt investors and business counterparties, as well as the Board's view on capital need and credit rating ambitions. These requirements must be balanced with the shareholders' required rate of return.

Capital requirements applied for Swedish banks are based on the EU Banking package transposed into Swedish law. The Common Equity Tier 1 (CET 1) capital requirements consist of four main parts, as follows.

Common Equity Tier 1 (CET 1) capital – requirement and outcome

as percentage of total risk-weighted exposure amount

	2022	2021
Pillar 1 minimum requirement	4.5	4.5
Pillar 2 requirements (P2R)	1.4	1.2
Combined buffer requirement	7.4	6.6
Pillar 2 guidance (P2G)	1.0	1.5
Total requirement and P2G	14.2	13.8
Common Equity Tier 1 (CET 1) capital ratio	19.0	19.7

SEB's CET 1 capital ratio at year-end was 19.0 per cent (19.7), implying a buffer of 470 basis points above the regulatory requirement and Pillar 2 Guidance. The risk exposure amount increased to SEK 859bn (787) primarily as a result of growth in the corporate credit portfolio, market risk and foreign exchange effects. Net profit was strong in 2022, which contributed to an increase in CET 1 capital to SEK 163bn (155).

As part of the 2022 Supervisory Review and Evaluation Process (SREP), the Swedish FSA communicated a Pillar 2 Guidance (P2G) of 1.0 (1.5) per cent for the group. Furthermore, the leverage ratio P2G was set at 0.45 per cent (0.45) of the leverage exposure – on top of the minimum 3 per cent requirement for the leverage ratio. SEB's leverage ratio was 5.0 per cent (5.0) at the end of 2022.

The capital requirements from the Swedish FSA for Swedish banks are higher than common EU levels, and Swedish banks are well capitalised compared to banks elsewhere in Europe, both from a risk-based and non-risk-based perspective.

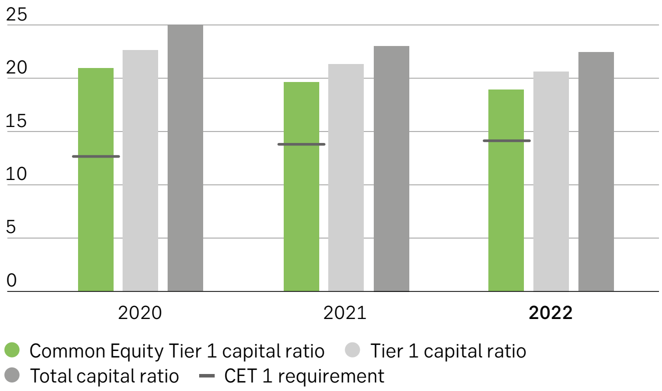
→ For information on the Board's capital-related financial targets, see p. 73.

Finalisation of the Basel III framework

In 2017 the Basel Committee presented a framework for revisions to the Basel III framework (referred to as Basel IV) with the objective to reduce excessive variability of risk-weighted assets (RWA) among banks. For that purpose, the Committee proposed an output floor implying that RWA calculated by applying internal models cannot in aggregate fall below 72.5 per cent of the RWA calculated by the standardised approaches. Compared to the original Basel standard the proposal includes several improvements in relation to the output floor, making the rules more suitable for the European banking sector.

In 2021, the European Commission released a proposal for implementation of Basel IV into EU legislation. The new rules are proposed to be implemented by 1 January 2025 with a five-year gradual phase-in of the output floor of 72.5 per cent until 1 January 2030. The removal of internal model for operational risk, restrictions on the use of internal models for credit risk and changed methods for market risk are expected requirement changes.

Capital adequacy Per cent



Development of risk exposure amount (REA) SEK bn