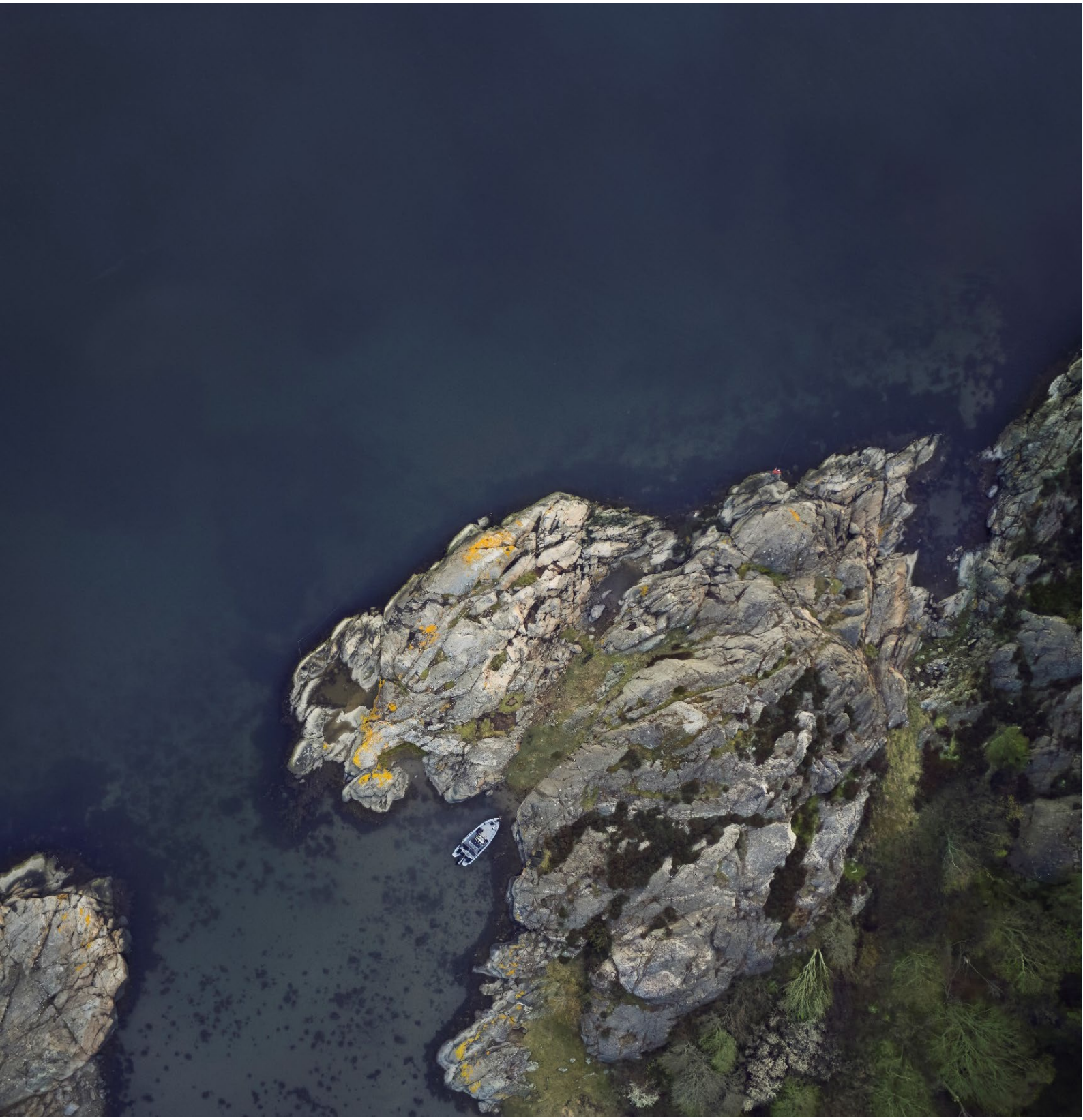
SEB net-zero aligned 2030 targets

Methodology

STOCKHOLM 26 OCTOBER 2022



Positively shaping the future.
Today and for generations to come.

SEB

SEB aims to be a leading catalyst in the sustainability transition and we have a strong ambition to accelerate the pace towards a low-carbon society. We believe we can make the greatest positive impact through global cooperation and by partnering with our customers on their transition journeys. This document describes the methodology we apply for setting net-zero aligned 2030 sector targets for our credit portfolio, in line with our sustainability strategy and our commitment to the Net-Zero Banking Alliance (NZBA).

Target setting methodology

Introduction

As a first step, SEB sets 2030 targets for financed emissions for five sectors as set forth in the below table:

Sector		Emission boundaries	Metric	2020 baseline	2030 target
Oil & Gas E&P[1] and refining		S1&2&3[2]	million tonnes CO_2e[3]	18.4	8.3 (-55%)
Power generation		S1&2	g CO_2e / kWh	123	70 (-43%)
Steel		S1&2	tonne CO_2e / tonne steel	1.40	0.98 (-30%)
Car manufacturing		S3[4]	g CO_2e / km / vehicle	153	61 (-60%)
Household mortgage - Sweden		S1&2	kg CO_2e / m^2	3.12	2.18 (-30%)

Our choice of sectors is guided by their contribution to the total financed emission profile of the bank, the quality and reliability of greenhouse gas (GHG) emission data and the existence of credible and science-based sector decarbonisation pathways. Our sector scope is aligned with the list of priority sectors included in the Guidelines for Climate Target Setting for Banks developed by the UNEP FI and the Net-Zero Banking Alliance (NZBA).

SEB is in the process of estimating financed emissions for the most relevant sectors of its credit portfolio not included in the above 2030 sector targets. SEB's total emission profile including emissions from own operations and financed emissions will be reported in connection with SEB's Annual and Sustainability Report 2022. The work will support the extension of target-setting to additional sectors in the coming 18 months.

[1]Exploration & Production

[2]Scope 3 – use of sold products

[3]Financed emissions

[4]Scope 3 – use of sold products – Tank To Wheel

Measurement of financed emissions

Financed emissions are the GHG emissions SEB finances through its credit exposure. Financed emissions are calculated by multiplying customer or property's emissions (Customer emissions) by a financing attribution factor (Attribution factor) as per the below formula.

Financed emissions = Customer emissions x Attribution factor

Customer emissions
Customer emissions capture the most material part of the value chain within a given sector and are defined as per the GHG protocol categories Scope 1, Scope 2 and Scope 3.

Customer emissions are absolute GHG emissions and do not include carbon credits. Carbon credits and carbon removal solutions may be needed in certain sectors to address unavoidable emissions. While the area is rapidly evolving, the carbon credit market is not yet mature. Significant improvements in the quality and integrity of carbon credits and their associated assurance processes are needed. We will continuously follow market development and best practices and analyse the role and contribution of carbon credits in sector decarbonisation pathways. We will transparently disclose any potential use of carbon credits in the context of future target-setting.

Emission boundaries
The emissions boundaries vary across sectors to match the nature of the activity and to be consistent with the science-based net-zero aligned decarbonisation pathways.

Sector	
Corporate	
Oil & Gas E&P and refining	Scope 1&2&3 use of sold products (Category 11)
Power generation	Scope 1&2
Steel	Scope 1&2
Car manufacturing	Scope 3 use of sold products (Category 11) - Tank To Wheel[5]
Private individuals	
Household mortgage - Sweden	Scope 1&2

Attribution factor
For the **Corporate sectors**, the Attribution factor is defined as the ratio of the Credit exposure relative to the book value of the total assets of the customer. For the Corporate sectors, Credit exposure includes the total lending commitments (defined as lending and contingent liabilities).

For the **Household mortgage sector**, the Attribution factor is defined as the ratio of the Credit exposure relative to the market value of the property financed. For the Household mortgage sector, Credit exposure is only related to lending and does not include contingent liabilities.

Base year
2020 is the base year for all the 2030 sector targets. 2020 financed emissions are calculated based on Credit exposure and Customer emissions as per year end 2020.

[5]Tank To Wheel (TTW) emissions, also known as tailpipe emissions, capture the emissions from fuel that are generated while driving over the lifetime of a light duty vehicle (200,000 km lifetime mileage)

Target metrics

Overview

SEB considers two types of metrics when setting 2030 sector targets: absolute financed emissions and emission intensity. The absolute financed emissions metric refers to the total financed emissions within the emission boundaries defined for the sector. The emission intensity metric is expressed as a ratio of absolute financed emissions over a unit of financed output.

Emission intensity metrics are calculated as the sum of the financed emissions divided by the sum of the financed volumes of output. Financed volumes of output are calculated by multiplying the volumes of output by the attribution factor.

Metrics and units

Sectors	Metric	Unit
Corporate		
Oil & Gas E&P and refining	Absolute financed emissions	million tonnes CO_2e
Power generation	Emission intensity metric	g CO_2e / kWh
Steel	Emission intensity metric	tonne CO_2e / tonne steel
Car manufacturing	Emission intensity metric	g CO_2e / km / new light duty vehicle sold (WLTP[6])
Private individuals		
Household mortgage - Sweden	Emission intensity metric	kg CO_2e / m^2

The absolute financed emissions metric is the most appropriate for the Oil & Gas E&P and refining sector. It recognises the fact that the sector can only marginally reduce its emission intensity over time and captures the necessary reduction in absolute production needed to reach the target in the Paris Agreement.
Financed emission intensity metrics are relevant for sectors where the key driver of emission reduction is a transition to lower carbon emitting processes through investments in new technology rather than the absolute reduction in the sector output volumes.

[6]Worldwide harmonised Light vehicles Test Procedure

Oil & Gas E&P and refining

Sector boundaries

The sector includes customers active within the exploration and production of oil and natural gas (E&P) and the production of refined petroleum products and biofuel (refining). It also includes customers with material E&P operations integrated into a diversified business model across the oil and natural gas value chain.

The total lending commitment to the sector amounted to SEK 43.6bn as per December 31, 2020, accounting for 3.3% of the Corporate credit portfolio and 1.7% of the total Credit portfolio.

Baseline

Oil & Gas E&P and refining – YE 2020	**Total**	o/w Scope 1&2	o/w Scope 3
Financed emissions, million tonnes CO_2e	**18.4**	0.9	17.5

Financed emissions related to customers' Scope 1 and 2 are primarily based on reported emissions. Financed emissions related to customers' Scope 3 use of sold products are based on reported or modelled emissions. Modelled emissions are estimated by multiplying reported annual oil and natural gas production volumes by the applicable combustion-related emission factors.

Financed emissions for the Oil & Gas E&P and refining sector are based on lending commitments of SEK 41.6bn, accounting for 95% of the total lending commitment to the sector.

SEB 2030 target and benchmark

The extraction and combustion of oil and natural gas as a source of energy must be gradually reduced and replaced as part of an orderly transition to a low-carbon society and to reach the target in the Paris Agreement. According to the IEA scenario Net Zero by 2050 – A Roadmap for the Global Energy Sector (IEA NZE 2050), demand for oil and natural gas shall decrease by 16% respectively 13% by 2030 compared to 2020. Looking at the emissions related to the combustion of oil and natural gas, **the IEA NZE 2050 scenario assumes that a 23% reduction is required by 2030 compared to 2020**.

SEB recognises the necessity for society to rapidly decrease its dependency on oil and oil-related products. **In 2019 SEB defined a risk appetite** in absolute terms for its credit exposure to the E&P and oilfield services sectors. The risk appetite level is revised downwards on an annual basis. **In 2021 SEB updated its sector policy on fossil fuels** and adopted a strategy which involves a gradual shift away from companies without a credible transition plan (Scope 1&2&3) aligned with the Paris Agreement. **In 2021 SEB presented an updated sustainability strategy** that outlines SEB's role in the transition towards a sustainable society. As part of the Brown metric[7], SEB introduced a goal to **reduce its fossil fuel credit exposure in the energy portfolio by 45 to 60%** by 2030 compared with a 2019 baseline.

SEB sets a target to reduce its financed emissions in the Oil & Gas E&P and refining sector **by 55% by 2030 from a 2020 baseline**. The Oil & Gas E&P and refining sector is the largest contributor to SEB's total financed emissions. By setting a reduction target well ahead of the reduction level indicated by the IEA NZE 2050 scenario, SEB strengthens its ambition to accelerate the pace towards a low-carbon society.

[7]Carbon Exposure Index – "The Brown" – https://sebgroup.com/sustainability/our-strategy/ambitions-and-goals

Power generation

Sector boundaries

The sector includes the Power generation – conventional / mixed and Power generation – renewables sub-sectors as per SEB's credit portfolio breakdown[8]. The Power generation – conventional / mixed sub-sector consists of customers with diversified production mix including renewable and/or non-renewable sources.

The total lending commitment to the sector amounted to SEK 94.5bn as per December 31, 2020, accounting for 7.2% of the Corporate credit portfolio and 3.6% of the total Credit portfolio.

Baseline

Power generation – YE 2020	**Total**	o/w Scope 1&2	o/w Scope 3
Financed emissions, million tonnes CO_2e	2.1	2.1	na
Financed energy production, TWh	16.9	na	na
Financed emissions / Financed production in g CO_2e / kWh	**123**	123	na

Financed emissions for the Power generation – conventional / mixed sub-sector are based on reported Customer emissions. Financed emissions for the Power generation – renewables sector are modelled emissions based on the annual production volumes multiplied by a SEB estimated emission intensity of 5 g CO_2e / kWh.

Financed emissions for the Power generation sector are based on lending commitments of SEK 77.8bn, accounting for 82% of the total lending commitment to the sector.

SEB 2030 target and benchmark

According to the IEA NZE 2050 scenario, emissions derived from the production of electricity and heat accounted for 40% of the world total emissions in 2020. Decarbonising the power generation sector is key to impactfully address climate change and achieve net-zero emissions by 2050. The IEA NZE 2050 scenario assumes that the world average emission intensity of electricity generation shall decrease **from 438 g CO_2e / kWh in 2020 to 138 g CO_2e / kWh in 2030 (-68%)**.

SEB's credit exposure to the Power generation sector is almost exclusively towards customers with operations in SEB's home markets (the Nordic countries, the Baltic countries, Germany, and the United Kingdom). The IEA NZE 2050 scenario does not publish further geographic granularity that would better match SEB's exposure to the sector.

The One Earth Climate Model (OECM)[9] has developed a net-zero pathway for the European power generation sector. The OECM assumes that the average emission intensity of electricity generation in Europe shall decrease **from 267 g CO_2e / kWh in 2020 to 92 g CO_2e / kWh in 2030 (-66%)**.

SEB sets a target to reduce the emission intensity in the Power generation sector **from 123 g CO_2e / kWh in 2020 to 70 g CO_2e / kWh in 2030 (-43%)**. The targeted 2030 emission intensity of 70 g CO_2e / kWh is 49% lower than the IEA NZE 2030 world emission intensity and 24% lower than the OECM 2030 emission intensity for Europe.

[8]Breakdown of SEB's corporate and real estate credit portfolio reflecting the sector's carbon footprint – SEB Annual and Sustainability Report 2020 page 54

[9]Model developed by the University of Technology Sydney (UTS) and commissioned by the UN-convened Net-Zero Asset Owner Alliance, which is part of the Glasgow Financial Alliance for Net Zero

Steel

Sector boundaries
The sector includes customers active within the production of carbon and stainless steel. Customers active within the extraction of iron ore and/or the production of processed iron ore products are not included.

The total lending commitment to the sector amounted to SEK 10.9bn as per December 31, 2020, accounting for 0.8% of the Corporate credit portfolio and 0.4% of the total Credit portfolio.

Baseline

Steel – YE 2020	**Total**	o/w Scope 1&2	o/w Scope 3
Financed emissions, million tonnes CO_2e	0.77	0.77	na
Financed production, million tonnes steel	0.55	na	na
Financed emissions / Financed production in tonne CO_2e / tonne steel	**1.40**	1.40	na

Financed emissions are exclusively based on reported Scope 1 and 2 customer emissions.
Financed emissions for the Steel sector are based on lending commitments of SEK 9.6bn, accounting for 88% of the total lending commitment to the sector.

SEB 2030 target and benchmark
According to the World Steel Association[10], emissions derived from the production of steel represented between 7% and 9% of the world total emissions in 2020. Steel is an important material for construction, equipment and machinery, and capital goods. As the need for buildings and renewable energy-related infrastructure continues to grow globally, reducing steel-related emissions is crucial to meet the ambition of the Paris Agreement. Steel is often referred to as a hard to abate sector meaning that the technology needed to reach zero emissions is not readily available today. In the short-term, emission reduction will be driven by an optimisation of existing production capacity while medium to long-term solutions rely on maximising scrap use and a combination of breakthrough technologies including DRI-Electric Arc Furnace (EAF) and CCUS[11].

The IEA NZE 2050 scenario only covers direct emissions associated with the production of steel (Scope 1) and does not distinguish emission reduction pathways between Basic Oxygen Furnace (BOF) and EAF, which are the two main steel production processes.

SEB used analyses and forecasts developed by the Sustainable Steel Principles[12] Working Group to construct a net-zero aligned benchmark covering Scope 1 and 2 emissions and reflecting our customers' production processes mix between BOF and EAF. The net-zero aligned benchmark is based on assumptions from the IEA NZE 2050 scenario complemented by selected inputs from the Mission Possible Partnership's Technology Moratorium scenario (MPP TM). The benchmark assumes that the world average emission intensity of steel production shall decrease **from 1.67 CO_2e / tonne steel in 2020 to 1.17 CO_2e / tonne steel in 2030 (-30%).**

SEB sets a target to reduce the emission intensity in the Steel sector **from 1.40 tonne CO_2e / tonne steel in 2020 to 0.98 tonne CO_2e / tonne steel in 2030 (-30%)**.

[10] PowerPoint Presentation (worldsteel.org)

[11] Carbon Capture, Utilisation and Storage

[12] sustainable_steel_principles_framework.pdf (climatealignment.org)

Car manufacturing

Sector boundaries
The sector includes customers active within the manufacturing of light duty vehicles[13].

The total lending commitment to the sector amounted to SEK 17.5bn as per December 31, 2020, accounting for 1.3% of the Corporate credit portfolio and 0.7% of the total Credit portfolio.

Baseline

Car manufacturing – YE 2020	**Total**	o/w Scope 1&2	o/w Scope 3 Tank To Wheel
Financed emissions, million tonnes CO_2e	**0.85**	na	0.85
Financed sold volumes, million vehicles	**0.03**	na	na
Lifetime mileage, thousand kilometres	**200**	na	na
Financed emissions / Financed sold volumes in g CO_2e / km / vehicle sold	**153**	na	153

Financed emissions related to customers' Scope 3 use of sold products Tank To Wheel are based on reported or modelled emissions. Modelled emissions are estimated based on reported powertrain and model mix volumes multiplied by the estimated emission intensity factors for the corresponding powertrain or model type.

Financed emissions for the Car manufacturing sector are based on lending commitments of SEK 17.5bn, accounting for 99.8% of the total lending commitment to the sector.

SEB 2030 target and benchmark
According to the IEA NZE 2050 scenario, emissions related to the use of passenger cars accounted for 34% of the world total transport related emissions, equalling 8% of the world total emissions in 2020. Transport modes have different decarbonisation pathways because technology maturity varies between them. While electrification technology is now mature for light duty vehicles, major breakthroughs are still needed for shipping, aviation and to a lesser extent heavy trucks to reduce their emissions.

Electrification plays a central role in decarbonising light duty vehicles in the IEA NZE 2050 scenario. By 2030, BEV, PHEV and FCEV[14] account for 64% of global new sales of passenger cars. The IEA NZE 2050 scenario does not specifically model the tailpipe emission intensity development for new sales of passenger cars; it only provides a pathway for the overall global fleet with a 46% reduction in tailpipe emission intensity by 2030 compared to 2020. SEB used the IEA NZE 2050 assumptions to construct a net-zero aligned tailpipe emission reduction benchmark for new sales of passenger cars. The benchmark assumes that the world average tailpipe emission intensity shall decrease **from 173 g CO_2e / km / vehicle sold in 2020 to 69 g CO_2e / km / vehicle sold in 2030 (-60%)**.

SEB sets a target to reduce the emission intensity in the Car manufacturing sector **from 153 g CO_2e / km / vehicle sold in 2020 to 61 g CO_2e / km / vehicle sold in 2030 (-60%)**.

[13]Passenger cars and light commercial vehicles

[14]Battery Electric Vehicle (BEV), Plug-in Hybrid Vehicle (PHEV), Fuel Cell Electric Vehicle (FCEV)

Household mortgage – Sweden

Sector boundaries

The sector covers SEB's Household mortgage portfolio in Sweden as reported in SEB's external disclosures. The credit exposure in scope is only related to lending and does not include contingent liabilities.

The total lending to the sector amounted to SEK 511bn as per December 31, 2020, accounting for 19.7% of the total Credit portfolio.

Baseline

Household mortgage – Sweden – YE 2020	**Total**	Single-family houses	Tenant-owned apartments
Lending, SEKbn	**511**	332	179
Financed emissions, thousand tonnes CO_2e	**52**	35	16
Financed area, million m^2	**16.5**	12.5	4.1
Financed emissions / Financed area in kg CO_2e / m^2	**3.12**	2.8	3.9

Financed emissions are calculated by multiplying Customer emissions by an Attribution factor. For the household mortgage sector, Customer emissions are the property emissions and are defined as the sum of heating emissions and tenant electricity emissions i.e., they cover the utilisation phase of the property and do not include embodied emissions resulting from the construction of the property and the material use. Robust methods and data are today lacking to precisely measure embodied emissions. The Attribution factor is calculated as the ratio of the lending exposure relative to the market value of the property at reporting date.

Two different methodologies are used to estimate property emissions depending on the availability of energy label data for the specific property financed.

Properties with energy label

Heating emissions are estimated based on property specific information collected from the National Board of Housing, Building and Planning's (Boverket) Energy Performance Certificate (EPC) database. The property specific information includes the type of property, the heated floor area in m^2, the energy label (A to G), the energy performance in kWh / m^2 and the type of heating source (electricity, district heating, biofuel, etc).

Heating emissions are calculated by multiplying the heated floor area by the energy performance and the emission factor specific for the type of heating source. In cases where the property uses a combination of heating sources, an equal distribution is assumed. For single-family houses, the heated floor area is collected from Boverket's EPC database. For tenant-owned apartments the heated floor area is either collected from internal sources or, if not available proxied by the Swedish average[15] of 67 m^2.

[15]Statistics Sweden and SEB

For multi-dwelling properties, heating emissions are distributed between the housing cooperative (29%) and the tenant-owned apartments (71%) to avoid double counting. The distribution factor is based on the estimated energy use within multi-dwelling properties.

EMISSION FACTORS – HOUSEHOLD MORTGAGE – SWEDEN

	g CO_2e / kWh	**Source**
Electricity	8.8	European Environmental Agency
District heating	46.1	Energiföretagen 2021
Oil	267.3	Naturvårdsverket
Natural gas	204.8	Naturvårdsverket
Biofuel and geothermal[16]	0	GHG protocol

Tenant electricity emissions are calculated by multiplying the tenant electricity consumption by the emission factor of electricity. Tenant electricity consumption is estimated based on data collected from the Swedish Energy Agency (Energimyndigheten).

TENANT ELECTRICITY CONSUMPTION

	kWh / m^2
Single-family houses	35
Tenant-owned apartments	36[17]

Properties with valid energy label accounted for 49% of the total properties and 52% of the credit exposure within the Household mortgage – Sweden portfolio at year end 2020. The proportion of properties with valid energy label varies significantly between single-family houses (24%) and tenant-owned apartments (88%).

KEY METRICS – PROPERTIES WITH ENERGY LABEL

Properties with energy label – YE 2020	**Total**	Single-family houses	Tenant-owned apartments
Lending, SEKbn	**266**	110	156
Financed emissions, thousand tonnes CO_2e	**25**	10	14
Financed area, million m^2	**7.4**	3.9	3.6
Financed emissions / Financed area in kg CO_2e / m^2	**3.3**	2.7	4.0

Properties without energy label

[16]For properties with geothermal heating source, an additional annual electricity consumption of 5 000 kWh has been included in the heating emissions

[17]Calculated as 71% of 51 kWh / m^2

For properties without energy label, property emissions are estimated based on the average emissions for the property type (single-family house or tenant-owned apartment) calculated with the data collected from the Boverket's EPC database.

Financed emissions are calculated by multiplying the estimated property emissions by the Attribution factor.

KEY METRICS – PROPERTIES WITHOUT ENERGY LABEL

Properties without energy label – YE 2020	**Total**	Single-family houses	Tenant-owned apartments
Lending, SEKbn	**244**	221	23
Financed emissions, thousand tonnes CO_2e	**27**	25	2
Financed area, million m^2	**9.1**	8.6	0.5
Financed emissions / Financed area in kg CO_2e / m^2	**3.0**	2.9	3.7

SEB 2030 target and benchmark

Emissions coming from the utilisation phase account for a sizeable share of the total lifecycle emissions for a property; from around 50% for highly energy-efficient properties up to 80% for the less energy efficient[18]. Emissions from the utilisation phase are directly influenced by the energy efficiency of the property, the type of heating source and the country specific emission intensity of electricity and district heating.

According to data modelled by the Carbon Risk Real Estate Monitor (CRREM), the emission intensity of residential properties in Sweden was among the lowest in the world in 2020 at 7.8 kg CO_2e / m^2 for single-family houses and 7.6 kg CO_2e / m^2 for multi-dwelling properties.

The 1.5C aligned decarbonisation pathways developed by CRREM indicate that, by 2030, the emission intensity shall decrease to 5.2 kg CO_2e / m^2 for single-family houses (-34%) and to 4.9 kg CO_2e / m^2 for multi-dwelling properties (-35%). The average emission intensities modelled by CRREM are significantly higher than SEB levels and may not be fully comparable due to differences in methodologies. Given the lack of benchmark that would cohere with our estimations and the low baseline levels for Sweden and SEB, we believe that a 30% reduction target by 2030 compared to 2020 constitutes an actionable and credible net-zero aligned decarbonisation pathway.

SEB sets a target to reduce the emission intensity in the Household mortgage – Sweden sector **from 3.12 kg CO_2e / m^2 in 2020 to 2.18 kg CO_2e / m^2 in 2030 (-30%)**.

Next steps

The 2030 targets are an important part of SEB's goal to reach a net-zero credit portfolio by 2050 or sooner. We have now developed a methodology that helps us to define our baseline and to measure progress towards that goal. We have started to integrate our 2030 targets in our decision-making and governance and have come far in that process. Moving forward and in line with our commitment to the NZBA we plan to set additional targets for other carbon-intensive sectors. We also plan to refine our methodology as data availability and quality improve and updated climate scenarios and decarbonisation pathways are developed.

[18]Röck et al (2020) Embodied GHG emissions of buildings – The hidden challenge for effective climate change mitigation; Applied Energy https://www.sciencedirect.com/science/article/pii/S0306261919317945

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