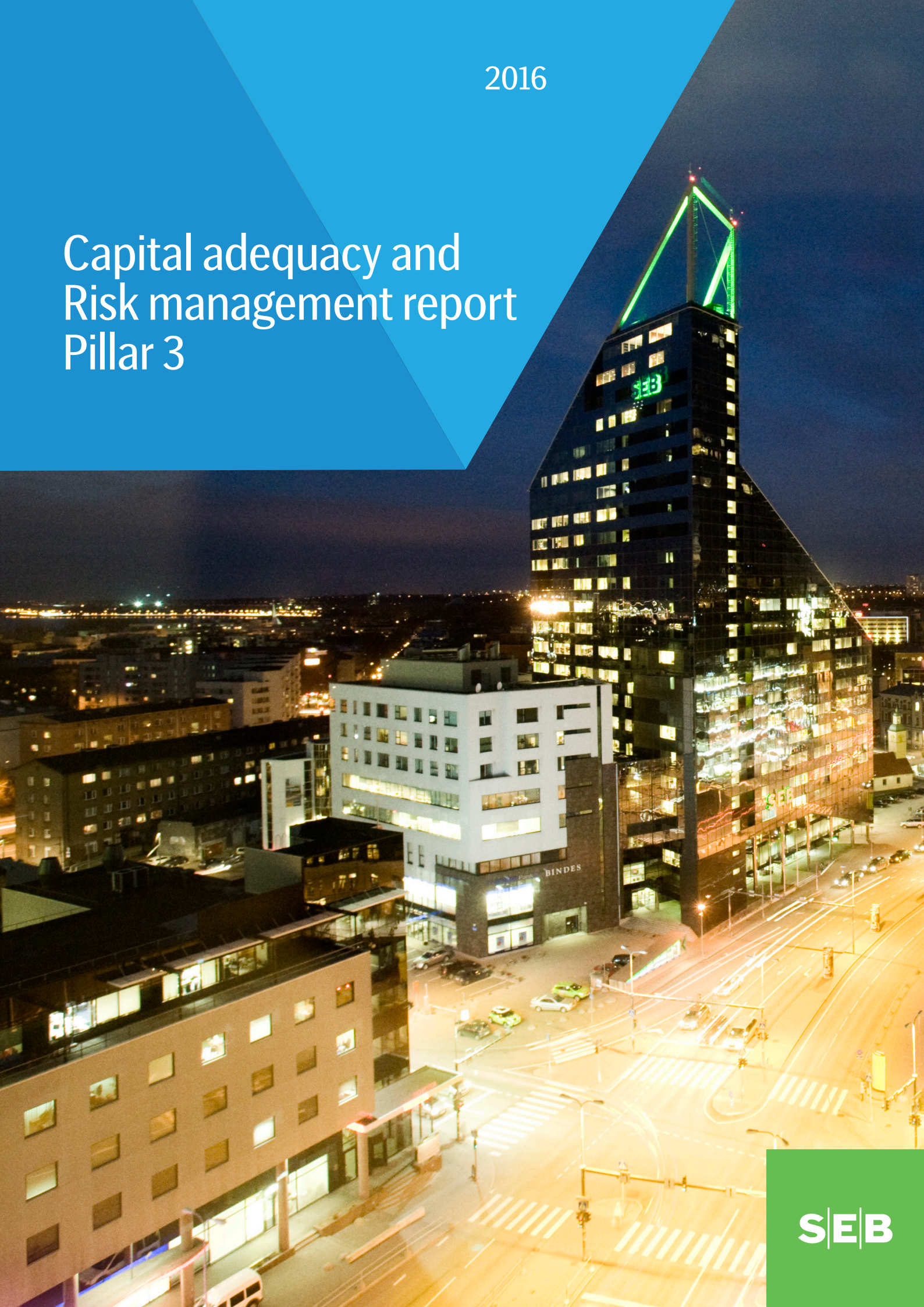
2016

Capital adequacy and Risk management report Pillar 3



SEB

Table of contents

I. About this report

SEB is committed to maintaining public transparency with regard to the development of its business, financial performance and risks. Extensive information is provided in financial reports, including SEB's Annual Report and Sustainability Report, quarterly Interim Reports and quarterly Fact Books. In this report – the Capital Adequacy and Risk Management Report (Pillar 3) – SEB provides additional detailed information on its risk management and capital adequacy.

About Pillar 3

The aim of Pillar 3 is to allow for market discipline to supplement the regulation of banks. The Basel Committee on Banking Supervision (BCBS) set out, in its Basel II framework (2004), a concept of three pillars for banking regulation:

Pillar 1 – Minimum capital requirements to meet credit, market and operational risk;
Pillar 2 – Supervisory review process, and the bank's internal process for assessing overall capital and liquidity adequacy in accordance with its risks; and
Pillar 3 – Market discipline enabled by disclosures.

Pillar 3 entails extended disclosures by banks with regard to capital adequacy and risk management, in order to allow investors and other market participants to understand the risk profiles of individual banks.

About Basel III and CRD IV / CRR

In 2010–2011, the BCBS set out Basel III, the third instalment of its recommendations on banking regulations. The Basel III standards introduced more stringent capital requirements for banks and new requirements for liquidity risk and leverage. Basel III was implemented in the European Union in revised EU legislation, comprising a Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) adopted by the European Parliament in 2013. The CRR applied throughout the EU from 1 January 2014. In Swedish law, the CRR automatically took effect upon EU adoption while the CRD IV was implemented by the Swedish Financial Supervisory Authority (SFSA) during the autumn of 2014. The major changes introduced by the CRR (EU Regulation No 575/2013) / CRD IV (Directive No 2013/36/EU) are as follows:

Definition of capital
– New rules for eligible Tier 1 and Tier 2 capital instruments
– More stringent requirements for Common Equity Tier 1 (CET1) capital
– Tier 3 capital instruments no longer eligible.

Capital requirements
– More stringent capital adequacy requirements, with transition rules for implementation in EU
– Capital buffers (counter-cyclical capital buffer, capital conservation buffer and systemic risk buffer).

Liquidity risk
– Requirements for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) with transition rules for implementation in EU
– Monitoring tools to support supervisory aspects of liquidity risk.

Counterparty credit risk
– Capital charge for credit valuation adjustments
– New collateral management requirements
– Incentives to use central clearing parties and clearing houses.

Leverage risk
– Introduction of a leverage ratio to limit the excessive indebtedness of banks and their use of off-balance sheet leverage products.

Pillar 2 & 3
– Raising standards of prudential supervision and market discipline.

In December 2016, EBA published its final report on guidelines on disclosure requirements under Part 8 of CRR, with the aim to harmonise disclosure across banks. The guidelines are expected to be adhered to as of 31 December 2017, at the latest.

Basis for SEB's Pillar 3 report

The Pillar 3 report is prepared in accordance with the requirements of EU and Swedish regulations, in particular the CRR, the European Banking Authority's (EBA) implementing technical standards (ITS) with regard to disclosure of own funds (EU Regulation No 1423/2013), and the SFSA's regulations on prudential requirements and capital buffers (FFFS 2014:12). The EBA's guidelines on disclosure requirements under Part 8 of the CRR have been partly implemented in the 2016 report.

Together with the Annual Report, this report provides information on SEB's material risks as part of the Pillar 3 framework, including details on the Group's risk profile and business volumes by customer categories and risk classes, which form the basis for the calculation of the capital requirement. The Pillar 3 report complements the Annual Report with additional information, and is intended to be read in conjunction with the Annual Report, in particular the Annual Report sections entitled Risk, Liquidity and Capital Management and Corporate Governance in SEB, as well as the Notes to the Financial Statements. Disclosures in relation to remuneration are also included in those sections of the Annual Report.

The Pillar 3 report is based upon the Group consolidated situation as of 31 December 2016. The Group consolidated situation represents the regulatory scope of consolidation according to CRR, established for the purposes of prudential supervision, and differs from the Group's consolidated financial statements as set out in the Annual Report. The relationship between the Group consolidated situation and the Group consolidated financial statements is set out in Table 3 in this report.

The Group consolidated situation is based upon its financial position established by the accounting policies of the Group, in accordance with International Financial Reporting Standards (IFRS) and interpretations of those standards as adopted by the European Commission. The significant accounting policies for the Group are presented in the Annual Report, Note 1 – Accounting Policies. The information in this report has not been subject to external audit.

II. Risk management

Managing risk is a core activity in a bank and fundamental to long-term profitability and stability. Risk is closely related to business activities and business development and, therefore, to customer needs.

Risk management framework

SEB takes risk for the purpose of creating customer value and sustainable shareholder value. This is directly dependent upon the bank's ability to evaluate, manage and price risks while maintaining adequate capital and liquidity to meet unforeseen events. To secure the bank's financial stability, risk and capital-related issues are identified, monitored and managed at an early stage. They also form an integral part of the long-term strategic and business planning process. SEB applies a robust framework for its risk management, with independent risk control, credit analysis and credit approval functions supported by advanced internal models. The cornerstones of SEB's risk and capital management include Board supervision, an explicit decision-making structure, a high level of risk awareness among staff, common definitions and principles, controlled risk-taking within established limits and a high degree of transparency in external disclosures. SEB's risk culture is based on long experience, strong customer relationships and sound banking principles, and provides a solid foundation for the bank's risk governance.

Risk tolerance

The Board of Directors is responsible for setting the maximum acceptable levels of risks to be taken by the Group. This is formulated in a risk tolerance statement, which is reviewed annually in connection with the annual approval of the bank's business plan and applies to the entire group. The Board's risk tolerance statements represent a long-term view of the boundaries within which the Board expects the bank to operate. In order to monitor that SEB operates within the Board's limits, the President and the Group Risk Committee have established a framework of risk measures for the group, divisions, and business areas within the boundaries of the Board's risk tolerance. SEB's risk profile in relation to the risk tolerance is monitored and followed up regularly by the risk organisation and is presented to the Group Risk Committee, the Group Executive Committee, the Board's Risk and Capital Committee and the Board of Directors.

Three lines of defence

As the first line of defence, the business areas are responsible for the risks that arise in their operations. Long-term customer relationships and a sound risk culture provide a solid foundation for SEB's risk-taking decisions. Initial risk assessments are made of both the customer relationship and the proposed transaction. The business units ensure that transactions are correctly priced and that the assumed risks are managed throughout the life of the transaction. Larger transactions are reviewed by one of the bank's credit committees. The business units are responsible for ensuring that the activities comply with applicable rules. They are supported by group-wide policies and instructions and a clear decision-making hierarchy.

The risk and compliance organisations constitute the second line of defence and are independent from the business. The risk organisation is responsible for identifying, measuring, controlling and reporting risk. Risks are measured both on detailed and aggregated levels. SEB has developed advanced internal measurement models for a majority of the credit portfolio as well as for market and operational risk and has approval from the SFSA to use the models for calculating capital requirements. Risks are controlled through limits on transactional, desk and portfolio levels. Asset quality is monitored and analysed continuously, for example through stress testing. The compliance organisation ensures the quality of compliance and focuses on issues such as customer protection, conduct in the financial market, prevention of money laundering and financing of terrorism, and regulatory compliance and control, under the direction of the Board and management.

The internal audit function is the third line of defence. This function regularly reviews and evaluates that SEB's risk management is adequate and effective. The internal auditors are in turn evaluated by external auditors. Based on the evaluations of the third line, the processes in the first and second lines of defence are continuously strengthened. SEB's robust governance framework, in combination with its sound risk culture and business acumen, constitute the cornerstones of an effective risk management.

Risk tolerance statements in brief

SEB shall:

- **maintain satisfactory capital strength** in order to sustain its aggregated risks, guarantee the bank's long-term survival and its position as a financial counterparty, while operating safely within regulatory requirements and meeting rating targets.
- **have a robust credit culture** based on long-term relationships, knowledge about the customers and focus on their repayment ability. This will lead to a high quality credit portfolio.
- **have a soundly structured liquidity position**, a balanced wholesale funding dependence and sufficient liquid reserves to meet potential net outflows in a stressed scenario.
- **strive to mitigate operational risks** in all business activities and maintain the bank's reputation.
- **achieve low earnings volatility** by generating revenues based on customer-driven business.

Risk governance

The *Board of Directors* defines the principles for management, reporting and control of risks in a comprehensive policy framework. The risk policies are supplemented by instructions issued by the Chief Risk Officer (CRO). Risk mandates are established by the Board and allocated by board committees and executive management committees. A comprehensive risk management governance structure ensures that policies approved by the Board of Directors are effectively complied with in all of SEB's risk-taking activities. The Board of Directors has the ultimate responsibility for the risk organisation

and for the maintenance of satisfactory internal control, including appointment of the CRO. The Board establishes the overall risk and capital policies and monitors the development of risk exposure.

The *Board's Risk and Capital Committee* (RCC), a sub-committee of the Board, works to ensure that all risks inherent in the Group's activities are identified, defined, measured, monitored and controlled in accordance with external and internal rules. RCC decides about key principles and parameters to measure and allocate risk and capital within the group and oversees the risk management system, the risk tolerance and strategy.

The *CRO* is responsible for monitoring all of the risks in the Group, and to this end manages units responsible for credit approval, risk aggregation and reporting, risk modelling and risk oversight. The risk oversight unit works closely with the business within each division and at each site while maintaining its independence as part of the risk organisation. Subordinated to the Board of Directors and the President are committees with mandates to make decisions depending upon the type of risk.

The *Group Risk Committee* (GRC) is the highest credit-granting body within the bank. However, certain matters are reserved for the Risk and Capital Committee of the Board and the Board of Directors. GRC ensures that the Board's policies for risk management and control are applied, that all material risks are identified, measured and managed in line with external and internal rules, and supports the CEO in following up adherence to the bank's risk tolerance. The committee's chairman is the CEO and vice-chairman the CRO.

The *Group Risk Measurement Committee*, a sub-committee of GRC, has been delegated the mandate to assure that all risk methods, tools and measurements are of sufficient quality and approved. The committee involves business representatives, divisional risk managers and independent risk controllers and is chaired by senior management from the risk organisation.

The *Group Asset and Liability Committee* (ALCO) is a group-wide decision-making, monitoring and consultative body that handles financial stability, the trade-off between financial reward and risk tolerance, strategic capital and liquidity issues (including internal funds transfer pricing), balance sheet structure and development and financing issues. The committee's chairman is the CEO and vice-chairman the CFO.

▸▸ *For further information about SEB's governance in general and risk governance in particular, please refer to the Annual Report – Corporate Governance. This section also provides information on the number of directorships held by Board members, the recruitment and diversity policies for the selection of Board members, as well as more information on the work of the Board's Risk and Capital Committee.*

III. Capital management

The Group's capital management seeks to balance shareholders' demand for return with the financial stability requirements of regulators, debt investors, business counterparties and other market participants, including rating agencies.

Capital management and capital adequacy

Governance

The capital policy defines how SEB's capital management should support its business goals, the bank's dividend policy and rating targets. The capital policy is established by the Board of Directors based on recommendations from the Risk and Capital Committee of the Board of Directors. The policy is reviewed yearly.

The Chief Financial Officer is responsible for the process to assess capital requirements in relation to the Group's risk profile and for proposing a strategy for maintaining the capital levels. This process, the internal capital adequacy assessment process (ICAAP), is integrated with the Group's business planning and is part of the internal governance framework and internal control systems.

Capital management

In its capital plan, SEB considers internal views on material risks and their development as well as risk measurement models, risk governance and risk mitigants. It is linked to overall business planning and establishes a strategy for maintaining appropriate capital levels. Together with continuous monitoring and reporting of the capital adequacy to the Board, this ensures that the relationship between shareholders' equity, economic capital, regulatory and rating-based requirements are managed so that the survival of the bank is not jeopardised.

SEB's capital plan covers the strategic planning horizon and projects economic and legal capital requirements, as well as available capital resources and relevant ratios. It is forward-looking, taking into account current and planned business volumes. The capital plan is stress tested for potential down-turns in the macroeconomic environment, strategic risk factors identified in the business planning, and other relevant scenarios. The capital plan is established annually, and updated as needs arise during the year. Capital is managed centrally, pursuant to an internal framework in accordance with local requirements as regards statutory and internal capital.

The ICAAP is used as input to the regulatory supervisors to annually assess SEB in accordance with the parameters of the Supervisory Review and Evaluation Process (SREP), including the bank's capital adequacy, risk measurement models and risk governance, among other things. The SFSA concluded in its latest SREP that SEB is sufficiently capitalised and adequately measures and manages risks.

Regulatory capital requirements

The regulatory capital requirements have evolved in the last few years, both in terms of which risks are covered and in terms of the capital base components. The regulatory requirement is split into Pillar 1 (general minimum requirements for all institutions) and Pillar 2 requirements (based on an individual assessment of each institution).

The components of the SFSA's estimated capital requirements for SEB as of year-end 2016, are illustrated in the table below.

Table 1. Regulatory capital requirement

31 Dec 2016	CET1	AT1	Tier 2	Total
Minimum requirement	4.5%	1.5%	2.0%	**8.0%**
Capital conservation buffer	2.5%			**2.5%**
Systemic risk buffer	3.0%			**3.0%**
Sub total excl countercyclical buffer	**10.0%**	**1.5%**	**2.0%**	**13.5%**
Countercyclical buffer	0.7%			**0.7%**
Total Pillar 1	**10.7%**	**1.5%**	**2.0%**	**14.2%**
Systemic risk requirement	2.0%			**2.0%**
Mortgage floor	1.9%	0.2%	0.3%	**2.4%**
Credit concentration risk	0.4%	0.0%	0.1%	**0.5%**
Interest rate risk in the banking book	0.4%	0.1%	0.1%	**0.6%**
Pension risk	0.6%	0.1%	0.1%	**0.8%**
Sovereign credit risk	0.1%	0.0%	0.0%	**0.1%**
Corporate exposures – PD scale	0.4%	0.1%	0.1%	**0.6%**
Corporate exposures – maturity floor	0.4%	0.0%	0.0%	**0.4%**
Total Pillar 2	**6.2%**	**0.5%**	**0.7%**	**7.4%**
TOTAL CAPITAL REQUIREMENT	**16.9%**	**2.0%**	**2.7%**	**21.6%**

There are several ongoing regulatory considerations that could have an impact on the composition and level of SEB's capital base going forward.

- As part of the EU Commission's proposal to amend capital rules, issued in November 2016, a minimum requirement for the leverage ratio (a non-risk based ratio between Tier 1 capital and assets) was set to 3 per cent and proposed to apply from 2021. SEB's leverage ratio was 5.1 per cent at year-end (4.9).
- The EU Commission also included a proposal for adoption of the framework for Fundamental Review of the Trading Book (FRTB), covering measuring and reporting market risk, to be applied from 2021.
- A new accounting principle, IFRS9, will be implemented in 2018, in which loan loss provisions will move from an 'incurred loss' concept to a 'probable future loss' for all exposures. Expected effects include a one-off deduction from capital when the requirement is implemented as well as increased volatility in net profit going forward. The EU Commission has proposed that the capital effect of the incremental provisions under IFRS 9 should be phased in over a five-year period.
- The EU's Bank Recovery and Resolution directive was implemented into Swedish law in February 2016. It sets the crisis management procedure for failing banks in terms of capital, bailing-in or selling assets, and using resolution funds. It also covers the bail-in tool and introduces a minimum requirements for own fund and eligible liabilities (MREL). A final proposal for a Swedish MREL framework was published by the Swedish National Debt Office (Riksgälden) in February 2017. Individual MREL requirements for Swedish banks will be communicated in the end of 2017, to be complied with as of 1 January 2018. Liabilities used to meet the MREL requirement will be required to be subordinated by the end of 2022.
- To address the issue of variability of risk-weighted exposure amounts among banks, the Basel Committee has proposed to introduce capital floors and greater restrictions on credit risk modelling parameters and assumptions as well as revisions to the standardised approach for operational risk. SEB is actively participating in discussions on this issue and promotes the internal ratings-based models.

Capitalisation targets

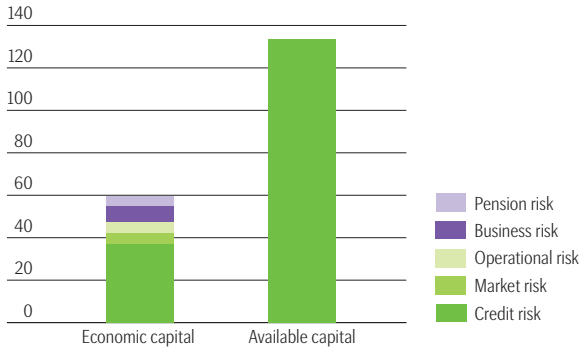
The Board of Directors sets SEB's capitalisation target to ensure that the Group's capital is sufficient to support its business strategy and risk tolerance as well as to safeguard that the bank can maintain its capital ratios above regulatory requirements also in less favourable economic conditions. Currently, the Board of Directors' capital target is to maintain a Common Equity Tier 1 (CET1) capital ratio of around 150 basis points above the CET1 capital ratio required by the SFSA (including Pillar 2 requirements), implying a capitalisation target of around 18.4 per cent as of year-end 2016.

Economic capital

SEB uses an economic capital model to internally assess the capital requirement of the Group. The model is similar to the Basel III rules for capital adequacy in that many of the underlying risk components are the same. However, it is not fully comparable with the estimated capital requirement published by the SFSA due to differences in assumptions and methodologies. The economic capital is calculated with a one-year horizon and based on a confidence level of 99.97 per cent, which is equivalent to the capital requirement for a very high debt credit rating. Diversification effects between risk types reduce the total amount of economic capital, since unexpected losses requiring capital buffers are not likely to occur simultaneously for all risk types. The shareholders' equity and other financial resources which can absorb unexpected losses are referred to as available capital.

As of 31 December 2016, the internally assessed capital requirement for the consolidated situation (i.e., excluding insurance operations) amounted to SEK 59bn (51), of which credit risk accounted for the largest part. Available capital to cover for the economic capital amounted to SEK 134bn (134), which shows that SEB is well capitalised in relation to its risks.

TABLE 2. Economic capital for the consolidated situation
Economic capital including diversification effects, SEK bn



Capital allocation and business equity

In addition to ensuring that SEB has an adequate capital buffer, capital management also ensures that capital is used where it can generate the best risk-adjusted returns. Capital is managed centrally, meeting also local requirements as regards statutory and internal capital. A clear governance process is in place for capital injections from the parent bank to subsidiaries. SEB employs an internal capital allocation framework for measuring risk and profitability. The basis for this framework, called business equity, is similar to regulatory capital models including Pillar 2 requirements and is calibrated with SEB's capital targets. The business equity framework allocates the total level of capital needed to maintain a desired capital adequacy to the business units in proportion to risks undertaken. Thus business equity is a risk measure, since individual transactions are allocated business equity in proportion to their risks.

Stress testing

SEB views the macroeconomic environment as the major driver of risk to the bank's earnings and financial stability. To arrive at an appropriate and comprehensive assessment of the bank's financial strength, both the expected development of the economy as well as stressed scenarios representing more severe conditions are taken into consideration. Stress testing is used to assess an extra safety margin over and above the formal capital model requirements, covering, for example, the potential of a sharp decline in the macroeconomic environment.

Using recession scenarios and contrasting them to the base scenario underlying the established financial plan, the stress testing framework projects the risk level in relation to available capital resources. In the stressed scenarios, projected earnings for future years are lowered, credit losses are increased (considering both collective and specific impairments), and average risk weights in credit portfolios are increased due to risk class migration. The stress testing framework uses historical experience (such as the Swedish banking crisis in the early 1990's and crises comparable to the one experienced in the Baltic countries in recent years) and internal statistics to quantify the level of stress that the base scenario should be exposed to.

SEB typically works with different stress test scenarios designed to reflect both probable and hypothetical scenarios. The probable

SEB's stress testing framework covers all main risk types:

Credit risk Key economic criteria from recession scenarios are correlated with historical observed default data used in the average through-the-cycle credit models. In the stressed scenarios, credit losses increase and average risk weights are impacted by worsening risk classes due to assumed risk class migrations. Both internal and external default and loss data are used together with historical and scenario macroeconomic data to predict the effect on the bank's existing credit portfolio considering default rates and loss levels by country and by portfolio. In this way, the sensitivity of different parts of the portfolio can be identified, enabling the bank to manage risk more effectively. The effect of large exposures is also handled by simulating the effect of default by one or more of these despite their investment grade rating.

Market risk SEB uses both historical and forward-looking scenarios to stress test its portfolios. The scenarios are reviewed regularly and are part of SEB's market risk tolerance framework. The stress tests cover the main risk factors relevant to SEB's portfolios.

Operational risk Key economic criteria from recession scenarios are correlated with historically observed operational losses both in SEB and externally to produce an expected loss for each adverse scenario. Idiosyncratic, highly unlikely scenarios, e.g. a rogue trader event, are also run as special cases to contrast their effect both during mild and severe recessions.

Business risk / funding risk Key economic criteria from recession scenarios are correlated with historically observed trading and fee income levels together with projections of likely costs. Net interest income levels are estimated using the scenario interest rate and credit spread data. Overall, the result in most scenarios is a reduction of operating profit before credit, market and operational risk losses.

scenarios have a sufficient connection with historical observation to enable calculation of the likely effect, whereas the hypothetical scenarios represent more tail events where historical data is scarce or not available. Care is taken to ensure that the economic parameters fit with each other. A full stress test contains a number of scenarios where more probable outcomes for certain parameters are combined with hypothetical events for other parameters.

Performing this kind of stress testing constitutes an important part of SEB's process for capital assessment over the long-term planning horizon. Available and required capital is computed, contingent on the stressed environment, for each year in the scenarios. This makes it possible to assess SEB's financial strength under even more adverse conditions than those assumed in financial plans.

Stress test scenarios and results are discussed in the Board's Risk and Capital Committee, the Group Risk Committee and the Group Asset and Liability Committee. The risk organisation is responsible for the stress test methodologies.

In addition to the internal stress tests, SEB's capital adequacy is regularly stress tested by regulatory supervisors and other authorities. In 2016, a comprehensive EU-wide stress test was conducted by the EBA. In the adverse scenario, SEB's CET1 capital ratio, based on the fully implemented CRD IV framework, decreased from 18.8 per cent (at 31 December 2015) to a low of 16.6 per cent at end of 2018. SEB had one of the lowest credit loss levels in EBA's adverse stress scenario and was one of two banks in Sweden that remained above regulatory capital requirements.

The IMF, the SFSA and the Swedish Central Bank also performed stress tests during the year which confirmed the strength of the Swedish banking system.

SEB's consolidated situation

SEB Group comprises banking, finance, securities and insurance companies. The parent company of SEB Group is Skandinaviska Enskilda Banken AB (publ), corporate registration number 502032-9081. The capital adequacy rules apply to each individual group company that has a licence to carry out banking, finance or securities operations as well as to the consolidated group. Group companies that carry out insurance operations have to comply with solvency requirements, but are excluded in the capital adequacy.

TABLE 3. SEB's consolidated situation

Type of entity	Ownership, %	Accounting treatment		Prudential treatment	
		Consolidation		Consolidation	
		Full	Equity method	Full	Equity method
Finance operations					
SEB Corporate Bank, PJSC, Kiev	100	✓		✓	
SEB AG, Frankfurt am Main	100	✓		✓	
SEB Bank JSC, St Petersburg	100	✓		✓	
SEB Banka, AS, Riga	100	✓		✓	
SEB bankas, AB, Vilnius	100	✓		✓	
SEB Kort Bank AB, Stockholm	100	✓		✓	
SEB Leasing Oy, Helsinki	100	✓		✓	
SEB Njord AS, Oslo	100	✓		✓	
SEB Pank, AS, Tallinn	100	✓		✓	
Skandinaviska Enskilda Banken S.A., Luxembourg	100	✓		✓	
Skandinaviska Enskilda Ltd, London	100	✓		✓	
Investment operations					
Aktiv Placering AB, Stockholm	100	✓		✓	
SEB Fondbolag Finland Ab, Helsinki	100	✓		✓	
SEB Fund Services S.A., Luxembourg	100	✓		✓	
SEB Förvaltnings AB, Stockholm	100	✓		✓	
SEB Investment Management AB, Stockholm	100	✓		✓	
SEB Kapitalförvaltning Finland Ab, Helsinki	100	✓		✓	
SEB Portföljförvaltnings AB, Stockholm	100	✓		✓	
SEB Securities Inc., New York	100	✓		✓	
SEB Strategic Investments AB, Stockholm	100	✓		✓	
Insurance operations					
SEB Life and Pension Holding AB, Stockholm	100	✓			
Repono Holding AB, Stockholm	100	✓			
Försäkringsaktiebolaget Skandinaviska Enskilda Captive, Stockholm	100	✓			
Other operations					
Baltectus B.V., Amsterdam	100	✓		✓	
Bankomat AB, Stockholm	20		✓		✓
Bankomatcentralen AB, Stockholm	28		✓		✓
BDB Bankernas Depå AB, Stockholm	20		✓		✓
BGC Holding AB, Stockholm	33		✓		✓
Domena Property Sp. Z o.o., Warsaw	100	✓		✓	
Enskilda Kapitalförvaltning SEB AB, Stockholm	100	✓		✓	
Getswish AB, Stockholm	20		✓		✓
Parkeringshuset Lasarettet HGB KB, Stockholm	99	✓		✓	
Postep Property Sp. Z o.o., Warsaw	100	✓		✓	
SEB do Brasil Representacões LTDA, Sao Paulo	100	✓		✓	
SEB Hong Kong Trade Services Ltd, Hong Kong	100	✓		✓	
SEB Internal Supplier AB, Stockholm	100	✓		✓	
Skandinaviska Kreditaktiebolaget, Stockholm	100	✓		✓	
UC AB, Stockholm	28		✓		✓

TABLE 4. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 Dec 2016, SEK m	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	*Cross reference to transitional own funds template*
Cash and cash balances with central banks	151,078	151,078	151,078					
Other lending to central banks	66,730	66,730	66,670	60				
Loans to credit institutions	50,527	50,214	49,417	797				
Loans to the public	1,453,019	1,459,381	1,389,017	63,523	6,806		35	
Financial assets at fair value through profit or loss	785,026	327,362		155,867		169,095	2,400	
Fair value changes of hedged items in a portfolio hedge	111	111				111		
Available-for-sale financial assets	35,747	38,320		38,193	127			
Assets held for sale	587	587	587					
Investments in subsidiaries and associates	1,238	11,055	7,698				3,357	
Tangible and intangible assets	20,158	4,823	1,345				3,478	
Other assets	56,425	56,057	55,861				196	
TOTAL ASSETS	**2,620,646**	**2,165,718**	**1,721,673**	**258,440**	**6,933**	**169,206**	**9,466**	
Deposits from central banks and credit institutions	119,864	110,940		737				
Deposits and borrowing from the public	962,028	971,655		739				
Liabilities to policyholders	403,831							
Debt securities issued	668,880	668,901						
of which gains or losses on liabilities valued at fair value resulting from changes in own credit standing		*115*						*a*
Financial liabilities at fair value through profit or loss	213,496	169,432		129,284				
Fair value changes of hedged items in a portfolio hedge	1,537	1,537						
Other liabilities	67,082	62,054						
Provisions	2,233	2,154						
Subordinated liabilities	40,719	40,719						
of which Additional Tier 1 instruments		*14,738*						*b*
of which Tier 2 instruments		*24,851*						*c*
TOTAL LIABILITIES	**2,479,670**	**2,027,392**		**130,760**				
TOTAL EQUITY	**140,976**	**138,326**						
of which CET1 paid-in share capital	*21,942*	*21,942*						*d*
of which retained earnings	*65,190*	*60,659*						*e*
of which accumulated other comprehensive income and other reserves	*43,226*	*44,086*						*f*
of which independently reviewed result	*10,618*	*11,639*						
TOTAL LIABILITIES AND EQUITY	**2,620,646**	**2,165,718**						

Comments

- *The difference between the accounting and regulatory scopes of consolidation is due to the insurance operations which is part of SEB Group, but excluded in the regulatory scope.*
- *The consolidated SEB Group must also comply with capital requirements concerning combined banking and insurance groups, i.e. financial conglomerates. The combined capital requirement for the SEB financial conglomerate amounted to SEK 85.2bn, while the own funds amounted to SEK 196.8bn. In these figures, SEB Life and Pension Holding AB contributed with Solvency II figures as of 31 December 2016.*

Capital position

TABLE 5. Overview of own funds and capital adequacy

SEK m	31 Dec 2016	31 Dec 2015
Own funds		
Common Equity Tier 1 capital	114,419	107,535
Tier 1 capital	129,157	121,391
Total own funds	151,491	135,782
Own funds requirement		
Risk exposure amount	609,959	570,840
Expressed as own funds requirement	48,797	45,667
Common Equity Tier 1 capital ratio	18.8%	18.8%
Tier 1 capital ratio	21.2%	21.3%
Total capital ratio	24.8%	23.8%
Own funds in relation to own funds requirement	3.10	2.97
Regulatory Common Equity Tier 1 capital requirement including buffers	10.7%	10.5%
of which capital conservation buffer requirement	*2.5%*	*2.5%*
of which systemic risk buffer requirement	*3.0%*	*3.0%*
of which countercyclical capital buffer requirement	*0.7%*	*0.5%*
Common Equity Tier 1 capital available to meet buffers [1)]	14.3%	14.3%
Transitional floor 80% of capital requirement according to Basel I		
Minimum floor own funds requirement according to Basel I	86,884	79,123
Own funds according to Basel I	151,814	135,478
Own funds in relation to own funds requirement Basel I	1.75	1.71
Leverage ratio		
Exposure measure for leverage ratio calculation	2,549,149	2,463,479
of which on balance sheet items including derivatives and securities financing transactions (SFTs)	*2,120,587*	*2,094,445*
of which off balance sheet items	*428,562*	*369,034*
Leverage ratio	5.1%	4.9%

1) CET1 ratio less minimum capital requirement of 4.5% excluding buffers. In addition to the CET1 requirements there is a total capital requirement of additional 3.5%.

TABLE 6. Overview of risk exposure amount

Breakdown by risk type, SEK m	Risk exposure amount		Minimum own funds requirements
	31 Dec 2016	31 Dec 2015	31 Dec 2016
Credit risk (excluding counterparty credit risk)	443,741	404,714	35,499
of which standardised approach (SA)	*51,678*	*47,136*	*4,134*
of which foundation internal rating-based (F-IRB) approach	*119,588*	*118,065*	*9,567*
of which advanced internal rating-based (A-IRB) approach	*272,475*	*239,513*	*21,798*
Counterparty credit risk	33,895	33,714	2,712
of which mark to market	*9,288*	*11,343*	*743*
of which internal model method (IMM)	*16,720*	*15,370*	*1,338*
of which risk exposure amount for contributions to the default fund of a CCP	*69*	*91*	*6*
of which CVA	*7,818*	*6,910*	*625*
Settlement risk	0	1	0
Securitisation exposures in banking book	3,282	4,322	263
of which IRB approach	*3,066*	*4,114*	*245*
of which standardised approach	*216*	*208*	*17*
Market risk	43,213	50,619	3,457
of which standardised approach	*13,171*	*16,386*	*1,054*
of which internal model approach (IMA)	*30,042*	*34,233*	*2,403*
Large exposures			
Operational risk	47,901	47,804	3,832
of which advanced measurement approach	*47,901*	*47,804*	*3,832*
Amounts below the thresholds for deduction (subject to 250% risk weight)	23,180	20,768	1,854
Floor adjustment			
Additional risk exposure amount due to Article 3 CRR	14,747	8,898	1,180
TOTAL	**609,959**	**570,840**	**48,797**

TABLE 7. Change in risk exposure amount

31 Dec 2016, SEK bn	REA
REA as at the end of previous reporting period	**571**
Volume and mix changes	30
Currency effect	16
Risk class migration	–1
Process and regulatory changes	0
Underlying market and operational risk changes	–6
REA AS AT THE END OF CURRENT REPORTING PERIOD	**610**

Comments

- *Total risk exposure amount increased by SEK 39bn since year-end 2015. The increase was largely driven by increased corporate credit volumes and currency-related effects in the credit portfolio.*
- *Risk exposure amount for market risk declined in Q1 but was stable for the remainder of the year. Risk exposure amount for operational risk was unchanged.*
- *Additional risk exposure amount was established in Q4 2015 in agreement with the SFSA as a measure of prudence. This item increased by SEK 6bn to SEK 15bn.*

TABLE 8. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
31 Dec 2016, SEK m	Exposure value for standard-ised approach	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for standard-ised approach	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-sation exposures	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
Breakdown by country												
Sweden	37,009	985,472	2,911				13,681	170		**13,852**	37.8%	1.5%
Germany	5,882	97,898	112				3,728	8		**3,736**	10.2%	
Norway	6,660	102,556	185				2,923	6		**2,929**	8.0%	1.5%
Lithuania	3,619	55,926					2,165			**2,165**	5.9%	
Finland	1,113	70,469	269				1,974	18		**1,992**	5.4%	
Denmark	2,517	56,282	276				1,928	22		**1,950**	5.3%	
Estonia	3,353	44,231	1				1,583			**1,583**	4.3%	
Latvia	1,570	26,293					1,193			**1,193**	3.3%	
Other	15,921	276,393	503		959	6,060	6,929	41	263	**7,232**	19.8%	
TOTAL	**77,644**	**1,715,520**	**4,257**		**959**	**6,060**	**36,104**	**265**	**263**	**36,632**	**100.0%**	

TABLE 9. Amount of institution-specific countercyclical capital buffer

31 Dec 2016, SEK m	
Total risk exposure amount	609,959
Institution-specific countercyclical buffer rate	0.7%
Institution-specific countercyclical buffer requirement	4,209

Comments

- *As of year-end 2016, SEB's countercyclical buffer rate amounted to 0.7 per cent and the countercyclical buffer capital requirement amounted to SEK 4.2bn.*
- *The countercyclical buffers in Sweden and Norway are currently 1.5 per cent of the relative exposures in these countries. The SFSA has proposed that the countercyclical buffer for Sweden should be increased to 2 per cent as of 19 March 2017. The countercyclical buffer for Norwegian credit exposures will be further increased to 2 per cent in Q4 2017.*

TABLE 10. Transitional own funds Disclosure according to Article 5 in EU Regulation No 1423/2013

SEK m		31 Dec 2016	31 Dec 2015	Amounts Subject to Pre- Regulation (EU) N° 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) N° 575/2013	*BS Cross reference*
Common Equity Tier 1 (CET1) capital: instruments and reserves					
1	Capital instruments and the related share premium accounts	21,942	21,942		*d*
	of which: share capital	*21,942*	*21,942*		
2	Retained earnings	60,659	49,196		*e*
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	44,086	52,640		*f*
3 a	Funds for general banking risk				
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1				
5	Minority Interests (amount allowed in consolidated CET1)				
5 a	Independently reviewed interim profits net of any foreseeable charge or dividend	–14	4,212		
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**126,673**	**127,990**		
Common Equity Tier 1 (CET1) capital: regulatory adjustements					
7	Additional value adjustments (negative amount)	–1,169	–937		
8	Intangible assets (net of related tax liability) (negative amount)	–6,835	–11,942		
9	Empty Set in the EU				
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–208	–501		
11	Fair value reserves related to gains or losses on cash flow hedges	–2,400	–3,210		
12	Negative amounts resulting from the calculation of expected loss amounts	–381	–571		
13	Any increase in equity that results from securitised assets (negative amount)				
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–115	–145		*a*
15	Defined-benefit pension fund assets (negative amount)	–920	–2,927		
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–191	–179		
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)				
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				
20	Empty Set in the EU				
20 a	Exposure amount of the following items which qualify for a RW of 1.250%, where the institution opts for the deduction alternative	–35	–43		
20 b	*of which qualifiying holdings outside the financial sector (negative amount)*				
20 c	*of which: securitisation positions (negative amount)*	*–35*	*–43*		
20 d	*of which: free deliveries (negative amount)*				
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)				
22	Amount exceeding the 17,65% threshold (negative amount)				
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*				
24	Empty Set in the EU				
25	*of which: deferred tax assets arising from temporary differences*				
25 a	Losses for the current financial year (negative amount)				
25 b	Foreseeable tax charges relating to CET1 items (negative amount)				
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatent				
26 a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468				
	Of which : ... filter for unrealised gain 1				
	Of which : ... filter for unrealised gain 2				
26 b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR				
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)				
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**–12,254**	**–20,455**		
29	**Common Equity Tier 1 (CET1) capital**	**114,419**	**107,535**		

TABLE 10. Continued Transitional own funds Disclosure according to Article 5 in EU Regulation No 1423/2013

	SEK m	31 Dec 2016	31 Dec 2015	Amounts Subject to Pre- Regulation (EU) N° 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) N° 575/2013	*BS Cross reference*
	Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	9,959	9,258		
31	*of which: classified as equity under applicable accounting standards*				
32	*of which: classified as liabilities under applicable accounting standards*	*9,959*	*9,258*		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	4,779	4,598		
	Public sector capital injections grandfathered until 1 january 2018				
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties				
35	*of which: instruments issued by subsidiaries subject to phase out*				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**14,738**	**13,856**		
	Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)				
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)				
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)				
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)				
41 a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013				
41 b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013				
41 c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR				
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)				
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**		
44	**Additional Tier 1 (AT1) capital**	**14,738**	**13,856**		*b*
45	**Tier 1 capital (T1 = CET1 + AT1)**	**129,157**	**121,391**		
	Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	24,851	16,091		*c*
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2				
	Public sector capital injections grandfathered until 1 January 2018				
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties				
49	*of which: instruments issued by subsidiaries subject to phase out*				
50	Credit risk adjustments	58	875		
51	**Tier 2 (T2) capital before regulatory adjustments**	**24,909**	**16,966**		

TABLE 10. Continued Transitional own funds Disclosure according to Article 5 in EU Regulation No 1423/2013

	SEK m	31 Dec 2016	31 Dec 2015	Amounts Subject to Pre- Regulation (EU) N° 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) N° 575/2013	*BS Cross reference*
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)				
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)				
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)				
54 a	*of which new holdings not subject to transitional arrangements*				
54 b	*of which holdings existing befor 1 January 2013 and subject to transitional arrangements*				
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–2,575	–2,575		
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)				
56 a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013				
56 b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013				
56 c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–2,575**	**–2,575**		
58	**Tier 2 (T2) capital**	**22,334**	**14,391**		
59	**Total capital (TC = T1 + T2)**	**151,491**	**135,782**		
59 a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)				
	of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)				
	of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)				
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)				
60	**Total risk weighted assets**	**609,959**	**570,840**		
	Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	18.8%	18.8%		
62	Tier 1 (as a percentage of risk exposure amount)	21.2%	21.3%		
63	Total capital (as a percentage of risk exposure amount)	24.8%	23.8%		
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	10.7%	10.5%		
65	*of which : capital conservation buffer requirements*	*2.5%*	*2.5%*		
66	*of which : countercyclical buffer requirements*	*0.7%*	*0.5%*		
67	*of which : systemic risk buffer requirements*	*3.0%*	*3.0%*		
67 a	*of which : Global Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII) buffer*				
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.3%	14.3%		
69	(Non relevant in EU regulation)				
70	(Non relevant in EU regulation)				
71	(Non relevant in EU regulation)				
	Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)				
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	6,653	6,210		
74	Empty Set in the EU				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	208	501		

TABLE 10. Continued Transitional own funds Disclosure according to Article 5 in EU Regulation No 1423/2013

SEK m		31 Dec 2016	31 Dec 2015	Amounts Subject to Pre- Regulation (EU) N° 575/2013 Treatment or Prescribed Residual Amount of Regulation (EU) N° 575/2013	*BS Cross reference*
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach				
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)				
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	2,522	2,326		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)					
80	Current cap on CET1 instruments subject to phase out arrangements				
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)				
82	Current cap on AT1 instruments subject to phase out arrangements	8,402	9,803		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)				
84	Current cap on T2 instruments subject to phase out arrangements				
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)				

TABLE 11. Non-deducted participations in insurance undertakings

31 Dec 2016, SEK m	Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk weighting)	6,653
Total risk exposure amount	16,633

TABLE 12. Capital instruments' main features Disclosure according to Article 3 in EU Regulation No 1423/2013

31 Dec 2016						
1	Issuer	Skandinaviska Enskilda Banken AB (publ)	Skandinaviska Enskilda Banken AB (publ)	Skandinaviska Enskilda Banken AB (publ)	Skandinaviska Enskilda Banken AB (publ)	Skandinaviska Enskilda Banken AB (publ)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	XS0828014133	XS1072796870	XS1511589605	XS1136391643	XS0337453202
3	Governing law(s) of the instrument	English and Swedish Law	English and Swedish Law	English and Swedish Law	English and Swedish Law	English and Swedish Law
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Additional Tier 1	Ineligible
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Dated Subordinated Notes	Dated Subordinated Notes	Dated Subordinated Notes	Additional Tier 1 Notes	Capital Contribution Notes
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	SEK 7,168m	SEK 9,558m	SEK 8,124m	SEK 9,959m	SEK 4,779m
9	Nominal amount of instrument	EUR 750m	EUR 1,000m	EUR 850m	USD 1,100m	EUR 500m
9 a	Issue price	99,698%	99,361%	99%	100%	100%
9 b	Redemption price	100%	100%	100%	N/A	100%
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	2012-09-12	2014-05-28	2016-10-31	2014-11-13	2007-12-21
12	Perpeptual or dated	Dated	Dated	Dated	Perpetual	Perpetual
13	Original maturity date	2022-09-12	2026-05-28	2028-10-31	N/A	N/A
14	Issuer call subjet to prior supervisory approval	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	2017-09-12, 100%. In addition Tax/Regulatory call	2021-05-28, 100%. In addition Tax/Regulatory call	2023-10-31, 100%. In addition Tax/Regulatory call	2020-05-13 or at any time thereafter. At Prevailing Pricipal Amount	2017-12-21, 100%. In addition Tax/Regulatory call
16	Subsequent call dates, if applicable	N/A	N/A	N/A	At any time thereafter. At Prevailing Principal Amount.	21 Mar, 21 Jun, 21 Sep and 21 Dec in each year after the first call.

TABLE 12. Continued Capital instruments' main features Disclosure according to Article 3 in EU Regulation No 1423/2013

31 Dec 2016						
Coupons / dividends						
17	Fixed or floating dividend/coupon	Fixed, Annually Payments in arrear	Fixed, Annually Payments in arrear	Fixed, Annually Payments in arrear	Fixed, Semi-annually Payments in arrear	Fixed to Floating
18	Coupon rate and any related index	4.00% pa. If not called then new fixed rate set to Euro Swap Rate+-Reset margin that is 3.10%pa.	2.50% pa. If not called then new fixed rate set to Euro Swap Rate+-Reset margin that is 3.10%pa.	1.375% pa. If not called then new fixed rate set to Euro Swap Rate+Reset margin that is 1.35%pa.	5.75% pa. If not called then new fixed rate set to USD Mid-Swap Rate for the relevant 5 Year period+Reset margin that is 3.85%pa.	7.0922% pa to call date. If not called then rate set to 3M Euroibor+Reset margin that is 3.40%pa.
19	Existence of a dividend stopper	No	No	No	No	Yes
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Mandatory	Mandatory	Mandatory	Fully discretionary	Partially discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Fully discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	N/A	N/A	N/A	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	Yes	Yes
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	5.125% for the Bank and 8% for the Group	When equity is less than half of the registered share capital or in case of Regulatory breach
32	If write-down, full or partial	N/A	N/A	N/A	Full	Partial
33	If write-down, permanent or temporary	N/A	N/A	N/A	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	Discreationary out of Net Profit subject to MDA	Shareholders resolution regarding Reconversion and Reinstatement made out of unappropriated earnings
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Senior Debt	Tier 2	Tier 2
36	Non-compliant transitioned features	No	No	No	No	Yes
37	If yes, specifiy non-compliant features					Instrument issued according to earlier rules. Conditions do not include CET1 trigger or full discretion on interest payments. Write down/up do not meet CRDIV/CRR requirements.

N/A inserted if the question is not applicable.

TABLE 13. Leverage ratio Disclosure according to Regulation (EU) 2016/200

SEK m		31 Dec 2016
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		**Applicable amount**
1	Total assets as per published financial statements	2,620,646
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–454,928
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	
4	Adjustments for derivative financial instruments	–1,439
5	Adjustment for securities financing transactions (SFTs)	29,958
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	428,562
EU-6 a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	
EU-6 b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	
7	Other adjustments	–73,650
8	**Leverage ratio total exposure measure**	**2,549,149**

Table LRCom: Leverage ratio common disclosure		**CRR leverage ratio exposures**
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,878,886
2	(Asset amounts deducted in determining Tier 1 capital)	–9,466
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**1,869,420**
	Derivatives exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	88,796
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	58,709
EU-5 a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	18,550
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–9,227
11	**Total derivatives exposures (sum of lines 4 to 10)**	**156,828**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	86,213
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	8,126
EU-14 a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15 a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**94,339**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	1,091,353
18	(Adjustments for conversion to credit equivalent amounts)	–662,791
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**428,562**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19 a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19 b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
	Capital and total exposure measure	
20	Tier 1 capital	129,157
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,549,149
	Leverage ratio	
22	Leverage ratio	5.1%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	

TABLE 13. Continued Leverage ratio Disclosure according to Regulation (EU) 2016/200

SEK m		31 Dec 2016
Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		**CRR leverage ratio exposures**
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,878,886
EU-2	Trading book exposures	150,782
EU-3	Banking book exposures, of which:	1,728,104
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	317,351
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	
EU-7	Institutions	45,757
EU-8	Secured by mortgages of immovable properties	784,229
EU-9	Retail exposures	62,371
EU-10	Corporate	447,184
EU-11	Exposures in default	8,642
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	62,570

Comments

- *SEB's leverage ratio increased to 5.1 per cent (4.9) as of year-end.*
- *The leverage ratio is one of the capital adequacy measures assessed by SEB in its capital planning to ensure that the bank does not take on excessive leverage.*

Capital position of significant subsidiaries

The table below shows own funds, risk exposure amounts and key ratios for subsidiaries within SEB Group that are considered significant and are of material significance in their local markets according to Article 13 of Regulation (EU) No 575/2013 (CRR). Information specified in articles 437, 438, 440, 442, 450, 451 and 453 of CRR can be found in the local reporting on the web site for respective subsidiary.

TABLE 14. Capital position of significant subsidiaries

	SEB AG Germany[2]		SEB Pank AS Estonia[2]		SEB Banka AS Latvia[2]		SEB bankas AB Lithuania[2]	
	www.seb.de		www.seb.ee		www.seb.lv		www.seb.lt	
SEK m	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Own funds								
Common Equity Tier 1 capital	19,160	17,811	8,502	7,807	3,495	3,593	6,283	6,360
Tier 1 capital	19,160	17,811	8,502	7,807	3,495	3,593	6,283	6,360
Total own funds	19,300	17,956	8,502	7,807	3,495	3,593	6,354	6,584
Own funds requirement								
Risk exposure amount	77,131	79,973	23,188	20,002	17,553	15,702	32,603	29,178
Expressed as own funds requirement	6,170	6,398	1,855	1,600	1,404	1,256	2,608	2,334
Common Equity Tier 1 capital ratio	24.8%	22.3%	36.7%	39.0%	19.9%	22.9%	19.3%	21.8%
Tier 1 capital ratio	24.8%	22.3%	36.7%	39.0%	19.9%	22.9%	19.3%	21.8%
Total capital ratio	25.0%	22.5%	36.7%	39.0%	19.9%	22.9%	19.5%	22.6%
Own funds in relation to own funds requirement	3.13	2.81	4.58	4.88	2.49	2.86	2.44	2.82
Regulatory Common Equity Tier 1 capital requirement incl. buffers	5.2%	4.5%	10.0%	9.0%	7.0%	7.0%	9.0%	7.0%
of which capital conservation buffer requirement	*0.6%*		*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
of which systemic risk buffer requirement			*3.0%*	*2.0%*				
of which countercyclical capital buffer requirement	*0.08%*							
of which: Global Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII) buffer							*2.0%*	
Common Equity Tier 1 capital available to meet buffer[1]	20.3%	17.8%	32.2%	34.5%	15.4%	18.4%	14.8%	17.3%
Transitional floor 80% of capital requirement according to Basel I								
Minimum floor own funds requirement according to Basel I	7,757	7,414	2,439	2,182	1,405	1,331	3,173	2,659
Own funds according to Basel I	19,287	17,977	8,569	7,743	3,516	3,703	6,626	6,726
Own funds in relation to own funds requirement Basel I	2.5	2.4	3.5	3.5	2.5	2.8	2.1	2.5
Leverage ratio								
Exposure measure for leverage ratio calculation	232,759	278,470	59,607	52,489	36,538	35,685	78,225	72,166
of which on balance sheet items incl. derivatives and SFTs	*189,894*	*203,390*	*55,093*	*48,053*	*33,928*	*33,508*	*72,471*	*64,756*
of which off balance sheet items	*42,865*	*75,080*	*4,514*	*4,436*	*2,610*	*2,177*	*5,754*	*7,410*
Leverage ratio	8.2%	6.4%	14.3%	14.9%	9.6%	10.1%	8.0%	8.8%

1) CET1 ratio less minimum capital requirement of 4.5% excluding buffers. In addition to the CET1 requirements there is a total capital requirement of additional 3.5%.
2) Data not audited for 2016.

IV. Credit risk

Credit risk is the risk of loss due to the failure of an obligor to fulfil its obligations towards SEB. The definition also comprises counterparty risk derived from the trading operations, country risk and settlement risk.

Risk management

The predominant risk in SEB is credit risk, which arises from lending activities and through commitments to customers, including large companies, small and medium-sized companies, financial institutions, public sector entities and private individuals. In addition to the credit portfolio, SEB's credit exposure consists of debt instruments and repos.

Credit risk policy and approval process

The overriding principle of SEB's credit granting is that all lending is based on credit analysis and proportionate to the customer's cash flow and ability to repay. It is required that the customer is known to the bank and the purpose of the loan shall be fully understood in order that the customer's character and repayment capacity can be evaluated.

A credit approval is based on an evaluation of the customer's creditworthiness and the type of credit. Relevant factors include the customer's current and anticipated financial position and protection provided by covenants and collateral. A credit approval takes the proposed transaction into account as well as the customer's total business with the bank. The process differs depending on the type of customer, the customer's risk level, and the size and type of transaction. Independent and professional credit analysis is particularly important for large corporate customers. For households and small businesses, the credit approval process is often based on credit scoring systems. Every credit decision of significance requires approval from an independent credit officer.

Credit decisions are taken based on a hierarchical structure, with the Group Risk Committee being the highest credit granting body, with limited exceptions. Below the Group Risk Committee are Divisional Credit Committees, and in turn local credit committees depending on the location of the customer, with small approval authorities for certain specified bank officers. The approval mandates for each level are set on a risk adjusted basis using both quantitative and qualitative criteria.

SEB's credit policies reflect the bank's corporate sustainability strategy as described in the Corporate Sustainability Policy, the Environmental Policy and the Credit Policy on Corporate Sustainability, with emphasis on opportunities as well as risks relating to environmental, social and governance aspects. SEB's position statements on climate change, child labour and access to fresh water as well as a number of industry sector policies shall be considered in the credit granting process and are also used in customer dialogues.

Limits and monitoring

In order to manage the credit risk for each individual customer or customer group, a limit is established, reflecting the maximum exposure that SEB is willing to accept on the customer. Limits are also established for total exposure in countries in certain risk classes, certain customer segments and for settlement risks in trading operations.

SEB continuously reviews the quality of its credit exposures. All total limits and risk classes are reviewed at least annually by a credit approval body (a credit committee consisting of at least two bank officers as authorised by the Group's Credit Instruction, adopted by the Board). High-risk exposures (risk classes 13–16) are subject to more frequent reviews, including analysis of performance, outlook, debt service capacity and possible need for provisions. The objective is to identify, at an early stage, credit exposures with an elevated risk of loss to SEB, and to work together with the customer towards a constructive solution that enables the customer to meet its financial obligations and SEB to reduce or avoid credit losses.

Loans where the contractual terms have been amended in favour of the customer due to the customer's financial difficulties are referred to as forborne loans. Forbearance measures range from amortisation holidays (the most common measure) to refinancing with new terms and debt forgiveness. Changes in contractual terms may be so significant that the loan is also considered impaired. Both forbearance measures and the classification of the loan as being forborne or not are required to be approved by a relevant credit approval body.

In its core markets, SEB maintains permanent local workout teams that are engaged in problem exposures. These are supplemented by a Special Credits Management, a group function with global responsibility for managing problem exposures.

Impairment provisioning process and non-performing loans

Provisions are made for incurred credit losses on individually assessed impaired loans and for portfolio assessed loans.

Individually assessed impaired loans

Loans to corporate, real estate and institutional borrowers are primarily individually assessed and specific provisions are made for the incurred credit loss on identified impaired loans (individually assessed impaired loans). A loan is deemed impaired if there is objective evidence that one or more loss events have occurred and if the effects of those events impact estimated future cash flows. Loss events indicating objective evidence of impairment of individually assessed assets are when scheduled payments are past due by more than 90 days, or if the counterparty is expected to be in default or any other combination of events that are deemed so negative that there will be a probable payment default in the foreseeable future. The debt instrument is impaired if the cash flows including the value of the collateral does not cover outstanding exposure. Loans are not classified as impaired if the value of the collateral covers principal and interest with a margin determined by SEB to be satisfactory.

All customers with loans that SEB considers impaired belong to risk class 16. The impairment affects all the customer's loans from SEB, unless specific circumstances call for a different evaluation. One example would be specifically pledged collateral covering both principal and interest.

A collective provision is made on loans that have not been deemed to be impaired on an individual basis, that is, impairments which are "incurred but not yet identified". Loans with similar credit risk characteristics are grouped together and assessed collectively for impairment. SEB's internal risk classification system constitutes one of the components forming the basis for determining the total amount of the collective provision. Collective provisions represent an interim step pending the identification of specific losses on individual loans.

Portfolio assessed loans
Valuations of loans to private individuals and small enterprises are to a large extent made on a portfolio basis. Different models are then applied to different loan categories where the individual loans are of limited value and share similar risk characteristics. Examples of such categories are credit card exposures, retail mortgage loans and consumer loans. The collective provisions for portfolio assessed loans are based on historical lending loss experience and on an assessment of probable future lending loss trends for the group of loans in question.

▸▸ *For further description of the different categories of impaired loans, refer to note 1 and note 19 of the Annual Report.*

Credit portfolio analysis and stress tests

The risk organisation regularly reviews and assesses the aggregate credit portfolio and its asset quality based on industry, geography, risk class, product type, size and other parameters. Thorough analysis is made on risk concentrations in geographic and industry sectors as well as towards large customers, both in respect of direct and indirect exposures and in the form of collateral, guarantees and credit derivative protection. The analysis of the credit risk profile is presented to the Group Risk Committee, the Risk and Capital Committee and the Board on a quarterly basis.

Stress tests of the credit portfolio, including reverse stress tests, are performed regularly as a part of SEB's annual internal capital adequacy assessment process. Specific analyses and stress tests of certain sectors or sub-portfolios are performed as required. These portfolio reviews are presented to the Group Risk Committee, and, when relevant, to the Risk and Capital Committee of the Board.

Credit exposure and asset quality development

The credit risk tables in this section include exposure amounts for off-balance sheet items based on application of relevant credit conversion factors. The exposure amounts include counterparty credit risk. The tables do not include exposures that are reported according to trading book rules.

TABLE 15. Overview of credit risk exposure

31 Dec 2016, SEK m	Original exposure pre CCF post CRM	EAD post CRM and post CCF	Average EAD for the year	REA	Minimum own funds requirement [1]	Average risk weight (%) [2]
Institutions	130,725	115,713	114,579	26,254	2,100	22.7
Corporates	1,261,302	1,071,207	1,023,938	335,413	26,833	31.3
of which large corporates	*958,195*	*783,811*	*753,273*	*247,046*	*19,764*	*31.5*
of which SME corporates	*261,047*	*248,450*	*227,942*	*69,382*	*5,551*	*27.9*
of which specialised lending	*42,060*	*38,946*	*42,723*	*18,985*	*1,519*	*48.7*
Retail exposures	583,540	561,609	555,563	55,617	4,449	9.9
of which secured by immovable property	*508,681*	*495,156*	*489,526*	*34,079*	*2,726*	*6.9*
of which qualifying revolving retail exposures [3]						
of which retail SME	*5,719*	*6,436*	*5,971*	*4,723*	*378*	*73.4*
of which other retail exposures	*69,140*	*60,017*	*60,066*	*16,815*	*1,345*	*28.0*
Securitisation positions	6,060	6,060	6,899	3,066	246	50.6
IRB approach	**1,981,627**	**1,754,589**	**1,700,979**	**420,350**	**33,628**	**24.0**
Central governments or central banks	270,622	265,095	263,778	1,801	144	0.7
Regional governments or local authorities	89,963	74,787	82,156	51	4	0.1
Other	99,113	92,605	92,341	50,898	4,072	55.0
Standardised approach	**459,698**	**432,487**	**438,275**	**52,750**	**4,220**	**12.2**
TOTAL	**2,441,325**	**2,187,076**	**2,139,254**	**473,100**	**37,848**	**21.6**
31 Dec 2015, SEK m						
Institutions	110,512	98,464	143,418	22,701	1,816	23.1
Corporates	1,123,810	953,763	964,358	307,618	24,609	32.3
of which large corporates	*863,154*	*705,946*	*711,425*	*227,836*	*18,227*	*32.3*
of which SME corporates	*211,407*	*201,118*	*211,065*	*57,177*	*4,574*	*28.4*
of which specialised lending	*49,249*	*46,699*	*41,868*	*22,605*	*1,808*	*48.4*
Retail exposures	560,449	539,937	543,298	53,163	4,253	9.8
of which secured by immovable property	*485,247*	*475,158*	*475,910*	*32,784*	*2,623*	*6.9*
of which qualifying revolving retail exposures	*808*	*584*	*641*	*248*	*20*	*42.5*
of which retail SME	*4,683*	*5,173*	*5,511*	*3,255*	*260*	*62.9*
of which other retail exposures	*69,711*	*59,022*	*61,236*	*16,876*	*1,350*	*28.6*
Securitisation positions	8,854	8,854	10,255	4,114	329	46.5
IRB approach	**1,803,625**	**1,601,018**	**1,661,329**	**387,596**	**31,007**	**24.2**
Central governments or central banks	194,535	178,750	252,836	1,425	114	0.8
Regional governments or local authorities	98,431	90,444	93,668	51	4	0.1
Other	101,707	92,533	93,953	46,768	3,742	50.5
Standardised approach	**394,673**	**361,727**	**440,457**	**48,244**	**3,860**	**13.3**
TOTAL	**2,198,298**	**1,962,745**	**2,101,786**	**435,840**	**34,867**	**22.2**

1) Own funds requirement 8% of risk exposure amount according to Regulation (EU) No 575/2013 (CRR).
2) Average risk weights include defaults, repos and securities lending.
3) Reported as other retail exposures from 1 January 2016.

Comments

- *The total EAD grew by SEK 215bn or 10 per cent during 2016, driven by growth in most asset classes, particularly in the corporate segments, while the retail exposures grew more moderately.*
- *Counterparty credit risk accounts for approximately 6 per cent of the aggregate credit risk RWA above and is further detailed in the section Counterparty Credit Risk below.*

TABLE 16. EAD by exposure class and geography

31 Dec 2016, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Institutions	15,768	4,754	6,116	1,385	17	90	1,644	4,234	81,705	**115,713**
Corporates	469,142	51,203	85,251	69,130	23,973	17,104	33,971	95,575	225,858	**1,071,207**
of which large corporates	*296,162*	*48,950*	*73,598*	*61,998*	*10,126*	*7,023*	*15,978*	*84,114*	*185,862*	***783,811***
of which SME corporates	*163,130*	*1,346*	*7,407*	*4,458*	*12,967*	*10,042*	*14,075*	*8,906*	*26,119*	***248,450***
of which specialised lending	*9,850*	*907*	*4,246*	*2,674*	*880*	*39*	*3,918*	*2,555*	*13,877*	***38,946***
Retail exposures	482,741	4,764	17,352	1,699	20,248	9,153	22,031	263	3,358	**561,609**
of which secured by immovable property	*444,445*	*116*	*514*	*43*	*18,683*	*6,945*	*20,974*	*256*	*3,180*	***495,156***
of which qualifying revolving retail exposures[1]										
of which retail SME	*1,110*	*1,140*	*1,161*	*743*	*610*	*1,213*	*447*		*12*	***6,436***
of which other retail exposures	*37,186*	*3,508*	*15,677*	*913*	*955*	*995*	*610*	*7*	*166*	***60,017***
Securitisation positions									6,060	**6,060**
IRB approach	**967,651**	**60,721**	**108,719**	**72,214**	**44,238**	**26,347**	**57,646**	**100,072**	**316,981**	**1,754,589**
Central governments or central banks	71,281	5,699	1,545	5,118	4,027	3,873	6,190	45,191	122,171	**265,095**
Regional governments or local authorities	28,043	79	26	5,260	782	62	476	39,692	367	**74,787**
Other	38,309	3,207	6,670	1,182	3,366	1,569	3,665	8,132	26,505	**92,605**
Standardised approach	**137,633**	**8,985**	**8,241**	**11,560**	**8,175**	**5,504**	**10,331**	**93,015**	**149,043**	**432,487**
TOTAL	**1,105,284**	**69,706**	**116,960**	**83,774**	**52,413**	**31,851**	**67,977**	**193,087**	**466,024**	**2,187,076**

31 Dec 2015, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Institutions	12,174	4,548	5,789	2,430	12	8	1,270	9,124	63,109	**98,464**
Corporates	418,950	43,530	74,673	65,542	22,158	15,383	30,898	91,939	190,690	**953,763**
of which large corporates	*269,276*	*41,832*	*67,219*	*56,359*	*9,835*	*5,916*	*13,643*	*75,651*	*166,215*	***705,946***
of which SME corporates	*137,483*	*830*	*4,876*	*5,237*	*11,167*	*9,430*	*8,224*	*11,479*	*12,392*	***201,118***
of which specialised lending	*12,191*	*868*	*2,578*	*3,946*	*1,156*	*37*	*9,031*	*4,809*	*12,083*	***46,699***
Retail exposures	468,948	4,300	14,993	1,569	18,128	8,587	19,756	334	3,322	**539,937**
of which secured by immovable property	*429,469*	*116*	*481*	*18*	*16,602*	*6,504*	*18,838*	*261*	*2,869*	***475,158***
of which qualifying revolving retail exposures					*84*	*498*			*2*	***584***
of which retail SME	*764*	*723*	*938*	*636*	*601*	*1,154*	*355*		*2*	***5,173***
of which other retail exposures	*38,715*	*3,461*	*13,574*	*915*	*841*	*431*	*563*	*73*	*449*	***59,022***
Securitisation positions									8,854	**8,854**
IRB approach	**900,072**	**52,378**	**95,455**	**69,541**	**40,298**	**23,978**	**51,924**	**101,397**	**265,975**	**1,601,018**
Central governments or central banks	33,723	513	7,911	4,733	7,307	9,343	12,773	29,131	73,316	**178,750**
Regional governments or local authorities	30,562	47	11	4,879	896	77	842	52,535	595	**90,444**
Other	33,370	3,112	6,768	1,674	3,346	1,706	3,938	14,139	24,480	**92,533**
Standardised approach	**97,655**	**3,672**	**14,690**	**11,286**	**11,549**	**11,126**	**17,553**	**95,805**	**98,391**	**361,727**
TOTAL	**997,727**	**56,050**	**110,145**	**80,827**	**51,847**	**35,104**	**69,477**	**197,202**	**364,366**	**1,962,745**

1) Reported as other retail exposures from 1 January 2016.

Comments

- *As of year-end 2016, 51 per cent (51) of SEB's EAD was in Sweden.*
- *In 2016, EAD in Sweden increased by SEK 98bn or 10 per cent, mainly driven by volume growth in the corporate segment. Denmark reported the largest increase of EAD in percentage terms, +24 per cent, also driven by growth in the corporate segment.*
- *US, Luxembourg, UK, the Netherlands and Switzerland together constitute more than 60 per cent of the EAD in the category Other in the table above. This category together increased by SEK 102bn or 28 per cent.*

TABLE 17. EAD by industry and geography for IRB corporates

31 Dec 2016, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Business and household services	62,302	10,126	14,787	5,865	1,507	2,314	2,604	26,002	33,074	**158,581**
Construction	10,491	1,298	3,497	1,804	483	293	976	957	1,995	**21,794**
Finance and insurance	23,869	214	3,918	3,548	383	4	194	11,652	28,647	**72,429**
Manufacturing	59,319	13,879	13,973	21,819	2,810	2,097	3,822	19,552	42,386	**179,657**
Transportation	6,081	6,337	1,700	2,230	782	2,373	2,546	4,801	8,588	**35,438**
Wholesale and retail	21,711	8,353	3,926	831	5,168	2,129	10,059	2,637	19,080	**73,894**
Agriculture, forestry and fishing	7,234	90		54	1,491	1,726	1,125	35	127	**11,882**
Mining, oil and gas extraction	2,957	0	11,569	718	932	50	106	1	27,043	**43,376**
Electricity, gas and water supply	13,170	917	5,074	17,940	2,204	1,061	3,707	11,962	4,522	**60,557**
Shipping	2,168	3,379	8,627	162	632	15	1	44	46,115	**61,143**
Public administration	755	25	1,196	238			1	0	1,738	**3,953**
Commercial real estate management	97,057	6,460	16,317	12,450	7,443	4,437	8,735	12,869	8,074	**173,842**
Residential real estate management	90,505		197			274		4,925	976	**96,877**
Housing co-operative associations	52,274						5		22	**52,301**
Other	19,249	125	470	1,471	138	331	90	138	3,471	**25,483**
TOTAL IRB CORPORATES	**469,142**	**51,203**	**85,251**	**69,130**	**23,973**	**17,104**	**33,971**	**95,575**	**225,858**	**1,071,207**

31 Dec 2015, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Business and household services	51,895	7,701	10,751	4,219	1,531	2,172	1,937	22,676	21,668	**124,550**
Construction	8,517	1,322	727	1,577	573	293	727	1,534	2,101	**17,371**
Finance and insurance	24,214	266	4,752	2,615	263	8	41	7,760	24,398	**64,317**
Manufacturing	61,350	12,498	12,969	21,966	3,112	1,887	3,960	17,880	35,719	**171,341**
Transportation	5,863	7,192	2,813	2,626	835	1,481	2,161	7,085	10,232	**40,288**
Wholesale and retail	20,162	5,110	3,048	1,492	4,122	1,836	9,251	3,919	14,627	**63,567**
Agriculture, forestry and fishing	6,587	65		52	1,365	1,365	774	58	21	**10,287**
Mining, oil and gas extraction	2,294		12,274	535	1,024	119	23		22,363	**38,632**
Electricity, gas and water supply	12,761	1,063	4,695	16,723	2,431	1,242	3,165	9,366	4,411	**55,857**
Shipping	3,120	3,721	8,182	371	684	22	126	33	43,607	**59,866**
Public administration	447	26	968	255			2	2	387	**2,087**
Commercial real estate management	83,399	4,527	12,906	11,544	6,103	4,216	8,595	15,630	8,656	**155,576**
Residential real estate management	73,379		174	349		347		5,791	54	**80,094**
Housing co-operative associations	48,371						6		24	**48,401**
Other	16,591	39	414	1,218	115	395	130	205	2,422	**21,529**
TOTAL IRB CORPORATES	**418,950**	**43,530**	**74,673**	**65,542**	**22,158**	**15,383**	**30,898**	**91,939**	**190,690**	**953,763**

Geographical distribution according to obligor's domicile.

Comments

- *In 2016, within IRB corporates, EAD in the industry segments commercial and residential real management increased by SEK 35bn in aggregate, business and household services increased by SEK 34bn, and wholesale and retail increased by SEK 10bn.*
- *Manufacturing remains the largest industry segment at 17 per cent (18) of IRB corporates, followed by commercial real estate at 16 per cent (16) and business and household services at 15 per cent (13).*

TABLE 18. EAD by remaining maturity

31 Dec 2016, SEK m	< 3 months	3 < 6 months	6 < 12 months	1 < 5 years	5 years <	Total
Institutions	62,426	8,093	12,980	25,453	6,761	**115,713**
Corporates	149,373	75,656	132,166	570,137	143,875	**1,071,207**
of which large corporates	*103,582*	*49,634*	*77,835*	*457,417*	*95,343*	***783,811***
of which SME corporates	*45,199*	*25,793*	*53,600*	*95,786*	*28,072*	***248,450***
of which specialised lending	*592*	*229*	*731*	*16,934*	*20,460*	***38,946***
Retail exposures	57,811	52,193	149,526	245,424	56,655	**561,609**
of which secured by immovable property	*52,950*	*50,198*	*101,915*	*239,752*	*50,341*	***495,156***
of which qualifying revolving retail exposures[1]						
of which retail SME	*231*	*208*	*4,559*	*956*	*482*	***6,436***
of which other retail exposures	*4,630*	*1,787*	*43,052*	*4,716*	*5,832*	***60,017***
Securitisation positions				3,362	2,698	**6,060**
IRB approach	**269,610**	**135,942**	**294,672**	**844,376**	**209,989**	**1,754,589**
Central governments or central banks	223,341	2,485	3,773	27,878	7,618	**265,095**
Regional governments or local authorities	4,649	6,367	10,669	35,593	17,509	**74,787**
Other	22,988	3,421	11,405	44,638	10,153	**92,605**
Standardised approach	**250,978**	**12,273**	**25,847**	**108,109**	**35,280**	**432,487**
TOTAL	**520,588**	**148,215**	**320,519**	**952,485**	**245,269**	**2,187,076**

31 Dec 2015, SEK m	< 3 months	3 < 6 months	6 < 12 months	1 < 5 years	5 years <	Total
Institutions	50,274	6,973	13,024	20,228	7,965	**98,464**
Corporates	133,583	75,603	118,745	494,612	131,220	**953,763**
of which large corporates	*94,781*	*50,749*	*73,979*	*393,745*	*92,692*	***705,946***
of which SME corporates	*36,936*	*24,178*	*42,951*	*78,982*	*18,071*	***201,118***
of which specialised lending	*1,866*	*676*	*1,815*	*21,885*	*20,457*	***46,699***
Retail exposures	57,945	42,262	134,404	252,254	53,072	**539,937**
of which secured by immovable property	*53,256*	*40,064*	*89,836*	*246,154*	*45,848*	***475,158***
of which qualifying revolving retail exposures	*62*	*63*	*102*	*357*		***584***
of which retail SME	*280*	*226*	*3,430*	*806*	*431*	***5,173***
of which other retail exposures	*4,347*	*1,909*	*41,036*	*4,937*	*6,793*	***59,022***
Securitisation positions				4,178	4,676	**8,854**
IRB approach	**241,802**	**124,838**	**266,173**	**771,272**	**196,933**	**1,601,018**
Central governments or central banks	137,072	3,925	2,694	23,665	11,394	**178,750**
Regional governments or local authorities	10,394	9,040	10,251	39,854	20,905	**90,444**
Other	25,460	6,255	9,399	38,016	13,403	**92,533**
Standardised approach	**172,926**	**19,220**	**22,344**	**101,535**	**45,702**	**361,727**
TOTAL	**414,728**	**144,058**	**288,517**	**872,807**	**242,635**	**1,962,745**

1) Reported as other retail exposures from 1 January 2016.

Comments

- *In 2016, the maturity profile of SEB's credit exposure was stable. 44 per cent (44) of the credit exposure had a remaining maturity of between 1 and 5 years as of year-end.*
- *EAD with maturity <3 months increased by SEK 97bn in 2016 due to volume increase in central banks, and EAD with a maturity between 1 and 5 years increased by SEK 80bn due to volume increase in the large corporate portfolio.*

TABLE 19. Average risk weight by exposure class and geography

31 Dec 2016, %	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Institutions	21.6	19.8	19.9	17.4	40.7	61.9	15.4	25.6	23.3	**22.7**
Corporates	22.8	37.6	30.8	32.7	61.8	65.3	59.2	43.5	32.2	**31.3**
of which large corporates	*25.4*	*38.2*	*29.7*	*33.0*	*63.8*	*62.9*	*56.9*	*43.0*	*29.4*	***31.5***
of which SME corporates	*16.9*	*38.3*	*35.4*	*26.5*	*60.5*	*66.9*	*61.7*	*41.8*	*40.4*	***27.9***
of which specialised lending	*41.0*	*5.7*	*42.6*	*35.7*	*56.9*	*91.4*	*59.5*	*67.4*	*54.4*	***48.7***
Retail exposures	7.1	67.5	36.0	71.7	14.1	29.5	22.3	8.7	8.8	**9.9**
of which secured by immovable property	*5.7*	*8.5*	*12.4*	*11.9*	*11.3*	*26.3*	*21.2*	*8.4*	*7.8*	***6.9***
of which qualifying revolving retail exposures[1]										
of which retail SME	*89.0*	*68.5*	*152.6*	*84.2*	*25.7*	*22.6*	*24.5*		*138.6*	***73.4***
of which other retail exposures	*21.0*	*69.2*	*28.1*	*64.3*	*59.7*	*60.5*	*59.4*	*22.1*	*18.9*	***28.0***
Securitisation positions									50.6	**50.6**
IRB approach	**14.9**	**38.5**	**31.0**	**33.3**	**39.9**	**52.9**	**43.8**	**42.7**	**30.0**	**24.0**
Central governments or central banks	0.0	0.0	0.0	0.0	0.7	1.6	6.3	0.0	1.1	**0.7**
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.0	**0.1**
Other	81.7	56.2	60.1	87.4	63.4	66.2	56.8	52.3	34.3	**55.0**
Standardised approach	**22.5**	**20.1**	**48.6**	**8.9**	**26.5**	**20.0**	**24.0**	**4.6**	**2.7**	**12.2**
TOTAL	**15.9**	**36.2**	**32.3**	**30.0**	**37.8**	**47.2**	**40.8**	**24.3**	**21.5**	**21.6**

31 Dec 2015, %	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Institutions	25.0	15.3	16.1	19.8	54.2	40.0	15.9	20.9	24.4	**23.1**
Corporates	24.0	36.1	33.8	33.6	59.7	67.5	63.7	44.2	31.5	**32.3**
of which large corporates	*26.7*	*36.7*	*34.0*	*34.0*	*61.9*	*70.8*	*60.9*	*43.3*	*28.3*	***32.3***
of which SME corporates	*17.3*	*34.7*	*33.3*	*29.2*	*57.2*	*65.5*	*70.4*	*40.8*	*55.9*	***28.4***
of which specialised lending	*40.2*	*5.8*	*27.7*	*33.1*	*65.0*	*71.0*	*61.6*	*66.1*	*50.6*	***48.4***
Retail exposures	7.2	68.0	32.6	71.1	15.1	30.4	24.2	10.6	9.9	**9.8**
of which secured by immovable property	*5.6*	*20.6*	*11.5*	*10.2*	*12.3*	*29.8*	*23.2*	*9.0*	*8.7*	***6.9***
of which qualifying revolving retail exposures					*23.8*	*45.6*		*35.0*	*28.2*	***42.5***
of which retail SME	*83.6*	*62.7*	*119.5*	*83.8*	*26.9*	*21.7*	*26.4*		*133.5*	***62.9***
of which other retail exposures	*22.9*	*70.7*	*27.3*	*63.5*	*60.9*	*46.3*	*57.0*	*39.6*	*17.0*	***28.6***
Securitisation positions									46.5	**46.5**
IRB approach	**15.3**	**36.9**	**32.5**	**33.9**	**39.6**	**54.2**	**47.5**	**42.1**	**30.1**	**24.2**
Central governments or central banks	0.0	0.0	0.0	0.0	0.4	1.6	1.9	0.0	1.4	**0.8**
Regional governments or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.5	**0.1**
Other	81.2	63.2	49.5	92.0	58.7	69.6	59.5	24.6	37.3	**50.5**
Standardised approach	**36.5**	**53.5**	**22.8**	**13.6**	**17.2**	**12.0**	**14.7**	**3.6**	**10.3**	**13.3**
TOTAL	**17.7**	**38.0**	**31.2**	**31.1**	**34.7**	**40.8**	**39.2**	**23.4**	**24.7**	**22.2**

1) Reported as other retail exposures from 1 January 2016.

Comments

- *The changes in average risk weights between the periods set out in the table above reflect volume shifts and changes in credit quality.*
- *See table 7 for comments on changes in SEB's risk exposure amount.*

TABLE 20. Exposure weighted average PD and LGD by exposure class and geography for IRB corporates

	Sweden		Denmark		Norway		Finland		Estonia		Latvia		Lithuania		Germany		Other		Total	
31 Dec 2016, %	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Institutions	0.1	38.9	0.1	38.8	0.1	37.8	0.2	28.9	0.1	45.0	0.2	45.0	0.0	40.9	0.1	40.8	0.3	42.4	**0.2**	**41.1**
Corporates	0.6	22.8	0.6	31.6	0.9	26.2	0.4	29.9	1.7	39.5	3.2	40.2	3.6	39.6	0.8	42.6	1.2	28.5	**0.9**	**28.5**
of which large corporates	*0.4*	*25.9*	*0.5*	*31.9*	*0.9*	*26.3*	*0.4*	*30.2*	*0.7*	*40.1*	*1.3*	*42.3*	*1.6*	*39.8*	*0.5*	*43.0*	*1.1*	*27.6*	***0.7***	***30.0***
of which SME corporates	*0.8*	*16.5*	*3.9*	*20.1*	*0.7*	*24.6*	*0.3*	*25.5*	*2.8*	*38.9*	*5.2*	*37.9*	*6.0*	*39.4*	*4.8*	*37.3*	*2.6*	*35.2*	***1.7***	***23.0***
of which specialised lending	*0.4*	*23.3*	*0.1*	*9.4*	*0.8*	*26.7*	*0.3*	*24.2*	*3.4*	*36.3*	*15.7*	*44.3*	*8.0*	*37.5*	*1.5*	*45.0*	*5.6*	*30.5*	***3.2***	***29.2***
Retail exposures	0.6	12.6	5.5	68.5	2.0	50.2	5.1	65.6	2.8	15.2	7.3	21.6	5.5	17.5	2.2	8.1	1.7	11.6	**1.1**	**15.1**
of which secured by immovable property	*0.5*	*10.4*	*5.1*	*7.0*	*4.5*	*8.8*	*3.5*	*11.8*	*2.8*	*12.5*	*7.7*	*16.8*	*5.3*	*16.6*	*2.2*	*7.5*	*1.7*	*10.4*	***0.9***	***10.8***
of which qualifying revolving retail exposures[1)]																				
of which retail SME	*10.2*	*62.8*	*1.3*	*99.7*	*10.9*	*87.7*	*2.5*	*99.7*	*2.7*	*27.5*	*4.4*	*26.2*	*7.1*	*26.1*			*8.0*	*67.4*	***6.0***	***60.3***
of which other retail exposures	*2.3*	*37.7*	*6.3*	*64.8*	*1.5*	*49.2*	*6.2*	*54.2*	*3.3*	*46.8*	*8.2*	*46.6*	*11.1*	*41.3*	*2.2*	*28.5*	*1.3*	*32.7*	***2.6***	***43.5***
TOTAL IRB APPROACH	**0.6**	**18.6**	**0.9**	**34.2**	**1.0**	**30.7**	**0.5**	**30.5**	**2.2**	**29.7**	**4.4**	**34.6**	**4.4**	**31.6**	**0.8**	**42.6**	**1.2**	**32.1**	**1.0**	**25.6**

	Sweden		Denmark		Norway		Finland		Estonia		Latvia		Lithuania		Germany		Other		Total	
31 Dec 2015, %	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Institutions	0.1	41.5	0.1	25.7	0.1	23.0	0.1	37.3	0.1	45.0	0.1	45.0	0.0	41.0	0.1	39.5	0.4	40.8	**0.3**	**39.6**
Corporates	0.6	23.8	0.6	30.7	0.9	26.6	0.4	30.8	1.7	39.5	6.1	40.1	4.4	41.6	1.7	42.5	1.3	27.3	**1.1**	**28.7**
of which large corporates	*0.4*	*27.1*	*0.5*	*31.0*	*0.9*	*26.9*	*0.4*	*30.8*	*1.0*	*40.2*	*4.2*	*42.4*	*1.0*	*41.6*	*1.2*	*43.0*	*1.0*	*27.2*	***0.8***	***30.3***
of which SME corporates	*1.1*	*16.5*	*5.4*	*18.6*	*1.2*	*22.8*	*0.3*	*30.8*	*2.5*	*38.5*	*7.7*	*38.0*	*10.4*	*41.6*	*5.6*	*37.9*	*5.0*	*28.4*	***2.4***	***22.3***
of which specialised lending	*0.5*	*24.4*	*0.1*	*9.6*	*0.3*	*24.0*	*0.3*	*22.8*	*5.0*	*39.3*	*16.2*	*44.4*	*15.5*	*38.2*	*1.8*	*44.8*	*1.9*	*32.0*	***3.9***	***31.1***
Retail exposures	0.7	12.7	6.2	67.2	1.5	49.6	5.3	64.4	3.4	15.5	10.1	22.4	6.9	17.7	2.6	9.4	1.5	12.5	**1.2**	**15.2**
of which secured by immovable property	*0.5*	*10.3*	*4.7*	*10.0*	*3.1*	*9.4*	*2.7*	*11.4*	*3.4*	*12.6*	*10.7*	*17.4*	*6.6*	*16.8*	*2.6*	*7.2*	*1.6*	*9.4*	***1.0***	***10.7***
of which qualifying revolving retail exposures									*1.7*	*46.2*	*3.7*	*61.6*					*32.3*	*39.3*	***3.4***	***58.1***
of which retail SME	*8.3*	*62.6*	*1.6*	*99.3*	*4.3*	*87.8*	*2.4*	*99.8*	*3.1*	*27.9*	*6.4*	*24.8*	*8.3*	*25.4*			*6.7*	*77.8*	***5.0***	***57.1***
of which other retail exposures	*2.5*	*37.9*	*6.8*	*64.5*	*1.4*	*48.9*	*6.2*	*54.4*	*3.9*	*46.8*	*20.6*	*35.3*	*16.8*	*39.7*	*1.8*	*47.7*	*0.8*	*32.4*	***2.7***	***43.1***
TOTAL IRB APPROACH	**0.6**	**19.2**	**1.0**	**32.7**	**1.0**	**30.4**	**0.5**	**31.3**	**2.4**	**30.2**	**7.3**	**34.6**	**7.1**	**32.3**	**1.5**	**42.3**	**1.1**	**30.6**	**1.1**	**25.5**

1) Reported as other retail exposures from 1 January 2016.

Geographical distribution according to obligor's domicile.
Defaulted exposures are excluded in tables above.

TABLE 21. Non-performing loans and reserves

SEK m	31 Dec 2016	31 Dec 2015
Performing loans	1,500,692	1,408,779
Individually assessed impaired loans	5,037	4,900
Portfolio assessed loans, past due > 60 days	2,597	2,922
Portfolio assessed loans, restructured	9	205
Non-performing loans	7,643	8,027
Loans prior to reserves	**1,508,335**	**1,416,806**
Specific reserves for individually assessed loans	–1,928	–2,044
Collective reserves for individually assessed loans	–1,539	–1,304
Collective reserves for portfolio assessed loans	–1,322	–1,530
Specific and collective reserves	**–4,789**	**–4,878**
TOTAL	**1,503,546**	**1,411,928**
Specific and collective reserves	–4,789	–4,878
Contingent liabilities reserves	–44	–81
TOTAL RESERVES	**–4,833**	**–4,959**
Gross level of impaired loans	0.33%	0.35%
Net level of impaired loans	0.21%	0.20%
Specific reserve ratio for individually assessed impaired loans	38.3%	41.7%
Total reserve ratio for individually assessed impaired loans	68.8%	68.3%
Reserve ratio for collectively assessed loans	50.7%	48.9%
NPL coverage ratio	63.2%	61.8%
NPL per cent of lending	0.5%	0.6%

TABLE 22. Individually assessed impaired loans by industry and geography

31 Dec 2016, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Banks										
Finance and insurance		7								**7**
Wholesale and retail	40	12				3	108	3	62	**228**
Transportation	33				28	99	93	5		**258**
Shipping	1196					62			76	**1,334**
Business and household services	503				2		35			**540**
Construction	28					4	74	6		**112**
Manufacturing	161		15		15	18	224	33		**466**
Agriculture, forestry and fishing					52	21	31			**104**
Mining, oil and gas extraction						16				**16**
Electricity, water and gas supply	577							24		**601**
Other	145							1		**146**
Corporates	**2,683**	**19**	**15**		**97**	**223**	**565**	**72**	**138**	**3,812**
Commercial real estate management	173				8	116	287	390		**974**
Residential real estate management	14				65	12		1		**92**
Housing co-operative associations Sweden										
Property Management	**187**				**73**	**128**	**287**	**391**		**1,066**
Public Administration										
Household mortgage			1				29			**30**
Other		1	61			57	10			**129**
Households		**1**	**62**			**57**	**39**			**159**
TOTAL INDIVIDUALLY ASSESSED IMPAIRED LOANS	**2,870**	**20**	**77**		**170**	**408**	**891**	**463**	**138**	**5,037**

The geographical distribution is based on where the loan is booked. Amounts before provisions for credit losses.

TABLE 22. Continued Individually assessed impaired loans by industry and geography

31 Dec 2015, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Banks	**1**									**1**
Finance and insurance		7								**7**
Wholesale and retail	44					31	130	288		**493**
Transportation	49					7	12	5		**73**
Shipping	1019					60	124		74	**1,277**
Business and household services	183				4	6	81	2		**276**
Construction	8				17	9	71	9		**114**
Manufacturing	164		4		42	25	234	44		**513**
Agriculture, forestry and fishing					52	15	32			**99**
Mining, oil and gas extraction						13	5			**18**
Electricity, water and gas supply								29		**29**
Other	161			1				4		**166**
Corporates	**1,628**	**7**	**4**	**1**	**115**	**166**	**689**	**381**	**74**	**3,065**
Commercial real estate management	153				92	342	512	528		**1,627**
Residential real estate management						29				**29**
Housing co-operative associations Sweden										
Property Management	**153**				**92**	**371**	**512**	**528**		**1,656**
Public Administration										
Household mortgage			1				41			**42**
Other		1	54			68	13			**136**
Households		**1**	**55**			**68**	**54**			**178**
TOTAL INDIVIDUALLY ASSESSED IMPAIRED LOANS	**1,782**	**8**	**59**	**1**	**207**	**605**	**1,255**	**909**	**74**	**4,900**

The geographical distribution is based on where the loan is booked. Amounts before provisions for credit losses.

TABLE 23. Portfolio assessed loans

31 Dec 2016, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Corporates	**18**	**7**	**31**	**13**	**22**	**42**	**30**			**163**
Household mortgage, past due > 60 days	179				138	363	553			**1,233**
Household mortgage, restructured							9			**9**
Other	709	186	120	47	12	75	52			**1,201**
Households	**888**	**186**	**120**	**47**	**150**	**438**	**614**			**2,443**
TOTAL PORTFOLIO ASSESSED LOANS	**906**	**193**	**151**	**60**	**172**	**480**	**644**			**2,606**

31 Dec 2015, SEK m	Sweden	Denmark	Norway	Finland	Estonia	Latvia	Lithuania	Germany	Other	Total
Corporates	**23**	**9**	**32**	**55**	**22**	**60**	**28**			**229**
Household mortgage, past due > 60 days	215				161	498	575			**1,449**
Household mortgage, restructured						1	204			**205**
Other	763	203	114	1	12	100	51			**1,244**
Households	**978**	**203**	**114**	**1**	**173**	**599**	**830**			**2,898**
TOTAL PORTFOLIO ASSESSED LOANS	**1,001**	**212**	**146**	**56**	**195**	**659**	**858**			**3,127**

The geographical distribution is based on where the loan is booked.

TABLE 24. Past due loans that are not impaired

31 Dec 2016, SEK m	Corporates	Households	Other	Total
< 30 days	3,967	1,609	21	**5,597**
31 – 60 days	836	671	11	**1,518**
>60 days[1)]	517	286		**803**
TOTAL	**5,320**	**2,566**	**32**	**7,918**

31 Dec 2015, SEK m	Corporates	Households	Other	Total
< 30 days	3,071	1,764	24	**4,859**
31 – 60 days	463	744	1	**1,208**
>60 days[1)]	411	94	1	**506**
TOTAL	**3,945**	**2,602**	**26**	**6,573**

1) Excluding portfolio assessed loans past due more than 60 days which are included in table 23.

TABLE 25. Change of reserves for impaired loans and portfolio assessed loans

	Loans to credit institutions		Loans to the public		Total	
Specific loan loss reserves[1)]	**2016**	2015	**2016**	2015	**2016**	2015
Opening balance	0	–1	–2,044	–2,833	**–2,044**	**–2,834**
Reversals for utilisation		1	584	1,300	**584**	**1,301**
Provisions			–734	–1,058	**–734**	**–1,058**
Reversals			338	507	**338**	**507**
Exchange rate differences			–72	40	**–72**	**40**
Closing balance	**0**	**0**	**–1,928**	**–2,044**	**–1,928**	**–2,044**
Collective loan loss reserves[2)]						
Opening balance	–7	–7	–2,827	–3,316	**–2,834**	**–3,323**
Net provisions	7		35	436	**42**	**436**
Exchange rate differences			–69	53	**–69**	**53**
Closing balance	**0**	**–7**	**–2,861**	**–2,827**	**–2,861**	**–2,834**
Contingent liabilities reserves						
Opening balance			–81	–87	**–81**	**–87**
Net provisions			43	3	**43**	**3**
Reversal for utilisation				5		**5**
Exchange rate differences			–6	–2	**–6**	**–2**
Closing balance			**–44**	**–81**	**–44**	**–81**
TOTAL	**0**	**–7**	**–4,833**	**–4,952**	**–4,833**	**–4,959**

1) Specific reserves for individually appraised loans.
2) Collective reserves for individually appraised loans, reserves for loans assessed on a portfolio basis and country risk reserves.

Credit risk mitigation and collateral

Depending on the creditworthiness of the customer, as well as the nature and complexity of the transaction, collateral and netting agreements can be used to a varying extent to mitigate the credit risk. In the selection of a particular credit risk mitigation technique, consideration is given to its suitability for the product and customer in question, its legal enforceability, and on the experience and capacity to manage and control the particular technique. The most important credit risk mitigation techniques are pledges, guarantees and netting agreements. The most common types of pledges are real estate, floating charges and financial securities.

For large corporate customers, credit risk is commonly mitigated through the use of restrictive covenants in the credit agreements, including negative pledges. Independent and professional credit analysis is particularly important for this customer segment. A credit analysis function within the Large Corporates & Financial Institutions division provides independent analysis and credit opinions to business units throughout the bank where relevant as well as to the credit committees.

Banks, securities firms and insurance companies are typically counterparties in more sophisticated risk mitigation transactions, such as credit derivatives. SEB's credit policy requires the credit derivative counterparty to be of high credit quality. Close-out netting agreements are widely used for derivative, repo and securities lending transactions (while on-balance sheet netting is a less frequent practice). See also the section Counterparty Credit Risk below.

All non-retail collateral values are reviewed at least annually by the relevant credit committees. Collateral values for watch-listed engagements are reviewed on a more frequent basis. The general rule is that the value of the collateral shall be calculated on the basis of the estimated market value of the asset with a conservative discount. The market value shall be documented by an independent external valuation or, when applicable, by a well justified internal estimate.

The general control process for various credit risk mitigation techniques includes credit review and approval requirements, specific credit product policies and credit risk monitoring and control. The value of both the exposure and the mitigating collateral are monitored on a regular basis. The frequency depends on the type of counterparty, the structure of the transaction and the type of collateral. The control process does differ among instruments and business units. For example, within the Large Corporate & Financial Institutions division there is a collateral management unit responsible for the daily collateralisation of exposures in trading products, i.e., foreign exchange and derivatives contracts, repos and securities lending transactions.

TABLE 26. Credit risk mitigation

31 Dec 2016, SEK m	EAD	Protection via guarantees and credit derivatives	Protection via pledged collaterals	Of which, financial collaterals
Institutions	115,713	3,563	8,612	6,990
Corporates	1,071,207	50,101	462,103	28,976
of which large corporates	*783,811*	*33,889*	*286,389*	*26,802*
of which SME corporates	*248,450*	*16,212*	*169,163*	*1,513*
of which specialised lending	*38,946*		*6,551*	*661*
Retail exposures	561,609	2,600	497,294	172
of which secured by immovable property	*495,156*	*2,395*	*495,156*	*33*
of which qualifying revolving retail exposures[1]				
of which retail SME	*6,436*	*199*	*1,779*	*118*
of which other retail exposures	*60,017*	*6*	*359*	*21*
Securitisation positions	6,060			
IRB approach	**1,754,589**	**56,264**	**968,009**	**36,138**
Central governments or central banks	265,095	10,628	8	8
Regional governments or local authorities	74,787	19,973	602	602
Other	92,605	20	16,487	4,907
Standardised approach	**432,487**	**30,621**	**17,097**	**5,517**
TOTAL	**2,187,076**	**86,885**	**985,106**	**41,655**

31 Dec 2015, SEK m	EAD	Protection via guarantees and credit derivatives	Protection via pledged collaterals	Of which, financial collaterals
Institutions	98,464	3,597	14,907	13,024
Corporates	953,763	44,172	415,896	27,498
of which large corporates	*705,946*	*32,413*	*256,998*	*26,302*
of which SME corporates	*201,118*	*11,759*	*148,416*	*374*
of which specialised lending	*46,699*		*10,482*	*822*
Retail exposures	539,937	2,673	477,174	159
of which secured by immovable property	*475,158*	*2,498*	*475,158*	*19*
of which qualifying revolving retail exposures	*584*		*1*	
of which retail SME	*5,173*	*171*	*1,658*	*127*
of which other retail exposures	*59,022*	*4*	*357*	*13*
Securitisation positions	8,854			
IRB approach	**1,601,018**	**50,442**	**907,977**	**40,681**
Central governments or central banks	178,750	12,184	228	228
Regional governments or local authorities	90,444	23,229	621	621
Other	92,533	503	16,901	4,320
Standardised approach	**361,727**	**35,916**	**17,750**	**5,169**
TOTAL	**1,962,745**	**86,358**	**925,727**	**45,850**

The table comprises only those mitigation arrangements that are eligible in capital adequacy reporting.

1) Reported as other retail exposures from 1 January 2016.

Comments

- *The table above shows credit risk mitigation techniques for SEB's credit exposures including counterparty credit risk. The risk mitigation techniques for counterparty credit risk are further detailed in the section Counterparty Credit Risk below.*
- *There were no significant changes in SEB's use of credit risk mitigation techniques in 2016. About 45 per cent (47) of EAD was covered by collateral and around 4 per cent (4) was covered by guarantees as of year-end. The corresponding figures for the IRB portfolio were 55 per cent (57) and 3 per cent (3).*

Measurement of credit risk

Internal risk classification system

SEB's Risk Class Assignment (RCA) system is a central part of the bank's credit risk assessment of corporates, property management, financial institutions and specialised lending (Basel non-retail).

SEB's RCA system is based on both qualitative and quantitative risk analysis and assesses the counterparty's financial risk and business risk profile, including environmental, social and governance aspects. Understanding repayment capacity by combining financial analysis and an assessment of ownership and management, and thorough knowledge of the customer's business model are key components of SEB's credit culture. In the RCA system, the obligor's risk profile is assessed against a set of descriptive definitions. Financial ratios, peer group comparison and scoring tools, external rating information and through-the-cycle analysis are used to enhance the risk assessment of obligors. The result of the RCA system is reviewed by SEB's credit granting authorities in conjunction with review of the obligor and facilities in each credit application. On a yearly basis, all RCA systems are reviewed and validated from a quantitative and qualitative perspective, including a use test.

Scoring systems

For the Basel retail segment, consisting of mainly mortgages and other retail exposures (private individuals and small businesses), SEB uses credit scoring systems when granting a credit and for estimating the probability of default for the customer. The customer is allocated to a PD pool of customers with similar PD. The most important factors of the credit scoring systems are measures of payment behaviour based on internal data for existing customers. New customers without a history in the bank are scored using publicly available information and well tested risk indicators. SEB uses local, customised credit scoring models for different regions and product segments, as both data accessibility and customer characteristics normally vary by country and product. For IRB Advanced segments, the LGD and CCF are also modelled on both internal and external data.

The risk classes provided by SEB's RCA system and credit scoring systems are directly used in every credit risk decision as well as in the following areas:

1. setting of delegated credit approval limits
2. defining credit policy boundaries
3. credit portfolio monitoring and management
4. credit loss forecasting and provisioning
5. as an input to credit facility pricing
6. as an input to calculation of SEB's economic capital
7. as an input to calculation of SEB's risk-weighted exposure amount and regulatory capital.

Credit risk estimation

Credit risk is calculated for all assets, both in the banking book and the trading book. The methodology for calculating capital requirements and expected loss using the IRB approach addresses risk parameters including Probability of Default (PD), Exposure at Default (EAD), Maturity (M) and Loss Given Default (LGD).

Probability of default

The probability of default (PD), or the risk that a counterparty defaults on its payment obligations, is measured through SEB's RCA and credit scoring systems.

For all non-retail portfolios, SEB has developed an internal risk classification system to assess the risk of default on payment obligations (PD). As of December 31, 2015, SEB received approval for a significant change of this risk classification system. An equivalent approval for SEB AG was granted in July 2016 and for the Baltic subsidiaries approval is still pending. The amended risk classification system aims to improve accuracy, transparency and objectivity while maintaining SEB's strong risk assessment culture. Further enhancements of the risk classification system include a fully digitised process and improvements for data gathering, storing and reporting.

The risk classification system includes specific rating tools and PD scales for significant segments e.g. Large Corporates, Property Management, and Small and Medium-sized Enterprises (SMEs). This enables more accurate assessment of each segment based on SEB's portfolio history. The segments are measured on a scale of 1-16 including three watch list risk classes and one risk class for defaulted counterparties (risk class 16). The SME segments are measured on a scale of 12 risk classes and have a separate nomenclature of A1-D2 plus watch list and default. For each segment, SEB makes individual one-year, through-the-cycle PD estimates, which are based on up to 20 years of internal default history, and external data.

The segment-specific rating scales are mapped onto a universal risk class scale covering 24 risk classes, each with different through-the-cycle PD intervals. The risk class scale is shown below by PD interval and an approximate relation to two rating agencies' rating scales. Such relation is based on similarity between the method and the definitions used by SEB and these agencies to rate obligors. The mapping is based on SEB's PD scale and S&P's published long-term default history per rating grade, which leads to a reasonable correspondence between SEB's mapping of risk classes onto the S&P's rating scale.

TABLE 27. Structure of risk class scale in PD dimension

	Lower PD	Moody's	S&P
Investment grade	0.00%	Aaa	AAA
	0.01%	Aa	AA
	0.02%	Aa	AA
	0.03%	A	A
	0.06%	A	A
	0.08%	A	A
	0.12%	Baa	BBB
	0.17%	Baa	BBB
	0.24%	Baa	BBB
	0.33%	Baa	BBB
	0.46%	Ba	BB
	0.64%	Ba	BB
	0.89%	Ba	BB
	1.24%	Ba	BB
	1.74%	B	B
	2.43%	B	B
	3.41%	B	B
	5%	B	B
Watch list	7%	B	B
	9%	Caa	CCC
	13%	Caa	CCC
	22%	C	C
	40%	C	C
	100%	Default	Default

For the Basel retail segment, the PD values are organised in PD pools to build pools of counterparties with a similar risk behavior. All PD pools are adjusted through-the-cycle and show historically differentiated patterns of default, e.g., worse risk class pools display higher default ratios than better risk class pools in both good and bad times, similar to the non-retail RCA system.

Exposure at default
EAD is measured in nominal terms for loans, bonds and leasing contracts; as a percentage of committed amounts for credit lines, letters of credit, guarantees and other off-balance sheet exposures; and, through current market values plus an amount for possibly increased exposure in the future, net of any eligible collateral, in the case of derivative contracts, repos and securities lending.

Loss Given Default
LGD represents an estimation of loss on an outstanding exposure in case of default, and takes into account collateral provided and other loss mitigants. It is based on internal and external historical experience for at least seven years and the specific details of each relevant transaction. LGD estimates are set to reflect the conditions in a severe economic downturn, which, for the Nordic portfolios, means that they are adjusted to the early 1990´s economic downturn.

Maturity
M is calculated as the effective maturity of every transaction. In the case of simple term loan contracts with bullet repayment, M is the contractual repayment date. For amortising loans, M is shortened to reflect the reducing balance over time.

The risk parameters calculated for regulatory capital reporting are also used for stress testing and in SEB's economic capital methodology for credit risk. Here, risk estimates are combined in a portfolio model which also considers risk concentration to industrial and geographic sectors as well as large individual exposures.

As a member of the Global Credit Data Consortium (former PECDC – Pan-European Credit Data Consortium), SEB participates in a data-sharing program where comparison of historical PD, EAD and LGD experience is possible with a large number of global banks. Pooled data is also used for estimating parameters for low default portfolios such as large corporates and banks.

Validation of rating systems

The performance of the risk rating and scoring systems is regularly reviewed according to group instructions. The validation is performed in order to secure that SEB's RCA system is working satisfactorily and that it is used in accordance with external regulations and internal rules and instructions. The validation is performed by a unit within the risk organisation, which is independent of those responsible for risk class assignment of counterparties as well as those developing the models.

IRB approval and implementation plan

SEB was first approved to report legal capital adequacy using the IRB approach for its main non-retail and retail mortgage portfolios in February 2007, when the Basel II framework came into force in Sweden. Since then, a number of portfolios and countries have been added and, as of 31 December 2016, 89 per cent of the credit risk-weighted exposure amount was covered by the IRB approach.

For the parent company, the bank operates with an IRB-Advanced approval for all major portfolios. In the Baltic subsidiaries, SEB holds IRB-Advanced approval for all major retail portfolios and IRB-Foundation approval for the corporate portfolio. In SEB AG, the bank holds an IRB-Foundation approval for the corporate portfolio while smaller insignificant portfolios are being reported under the standardised approach.

The remaining retail corporate portfolios and other smaller portfolios are being reported under the standardised approach. Currently, the only significant portfolios reported under the standardised approach are the bank's sovereign and municipal exposures. IRB applications for these portfolios are currently being assessed by the SFSA.

TABLE 28. Exposure by model

	A-IRB			F-IRB			Standardised		
31 Dec 2016, SEK m	EAD	REA	Portfolios	EAD	REA	Portfolios	EAD	REA	Portfolios
SEB AB (publ)	1,253,143	247,291	Retail, corporate & institutions	52,747	12,105	Corporate & institutions	223,137	23,293	Sovereign and municipal exposures, Retail Corporate
Baltic subsidiaries	51,771	10,547	Retail exposures	75,575	46,090	Corporate & institutions	23,376	5,820	Sovereign and municipal exposures
SEB AG				129,185	57,979	Corporate & institutions	81,892	5,800	Sovereign and municipal exposures
Other subsidiaries	45,057	14,637	Retail, corporate & institutions	10,101	3,414	Corporate & institutions	74,570	16,765	Other
TOTAL	**1,349,971**	**272,475**		**267,608**	**119,588**		**402,975**	**51,678**	

Credit risk exposures under IRB approaches

The following tables show credit risk exposures under IRB approaches excluding counterparty credit risk.

TABLE 29. IRB approach – Credit risk exposures by exposure class and PD range

31 Dec 2016, SEK m	PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF (%)	EAD post CRM and post- CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)	EL	Value adjustments and Provisions
F-IRB Corporate	0.03 to <0.12	45,979	60,929	70	84,579	0.1	2,236	35.7	6.0	14,439	17.1	17	22
	0.12 to <0.46	78,787	48,563	71	107,667	0.3	21,826	38.5	4.6	47,958	44.5	120	136
	0.46 to <1.74	44,374	14,647	72	54,177	1.0	20,541	39.4	3.6	41,636	76.9	222	113
	1.74 to <7.00	7,419	2,260	66	8,815	2.7	7,425	39.2	2.5	8,620	97.8	95	52
	7.00 to <9.00	362	176	75	492	8.0	240	39.1	0.7	664	135.0	15	2
	9.00 to <22.00	2,346	244	66	2,492	13.5	817	38.2	1.8	3,856	154.7	126	19
	22.00 to <100.00	446	14	63	451	25.0	186	41.7	1.7	876	194.2	47	5
	100.00 (Default)	2,503	178	56	2,600	100.0	505	41.4	2.4	14	0.5	1,072	1,031
Sub-total		**182,216**	**127,011**	**71**	**261,273**	**1.6**	**53,776**	**37.8**	**4.7**	**118,063**	**45.2**	**1,714**	**1,380**
F-IRB Institution	0.03 to <0.12	10,320	2,172	50	4,598	0.0	682	40.8	4.0	892	19.4	0	
	0.12 to <0.46	1,067	858	68	1,629	0.2	116	29.3	0.6	531	32.6	1	
	0.46 to <1.74	34	18	67	46	1.1	27	6.5	0.8	8	17.4	0	
	1.74 to <7.00	55	1	45	55	2.9	18	45.0	0.1	79	143.6	1	
	7.00 to <9.00												
	9.00 to <22.00												
	22.00 to <100.00	5	11	20	7	25.0	9	31.9	0.6	15	214.3	1	
	100.00 (Default)												
Sub-total		**11,481**	**3,060**	**57**	**6,335**	**0.1**	**852**	**37.6**	**3.1**	**1,525**	**24.1**	**3**	**0**
A-IRB Corporate	0.03 to <0.12	111,457	176,284	61	212,288	0.1	10,937	28.2	10.7	31,658	14.9	40	129
	0.12 to <0.46	271,454	107,638	62	334,237	0.3	38,877	21.3	3.3	79,175	23.7	194	324
	0.46 to <1.74	149,070	36,324	62	170,560	0.9	34,065	19.9	2.9	65,748	38.5	299	269
	1.74 to <7.00	11,004	1,063	63	11,641	3.0	9,928	24.3	2.6	8,134	69.9	89	33
	7.00 to <9.00	5,981	1,788	48	6,727	8.0	609	17.0	2.3	4,423	65.7	91	18
	9.00 to <22.00	2,670	115	71	2,738	14.3	508	26.6	1.3	3,356	122.6	107	27
	22.00 to <100.00												
	100.00 (Default)	2,899	323	43	3,022	100.0	494	21.8	2.2	8,241	272.7	820	947
Sub-total		**554,535**	**323,536**	**61**	**741,213**	**0.9**	**95,418**	**23.0**	**5.3**	**200,735**	**27.1**	**1,640**	**1,747**
A-IRB Institution	0.03 to <0.12	23,898	14,140	54	31,015	0.1	3,563	43.2	9.4	5,597	18.0	8	
	0.12 to <0.46	7,741	5,143	66	10,313	0.2	4,539	44.7	4.1	3,947	38.3	10	
	0.46 to <1.74	4,353	1,346	45	4,673	0.8	857	45.8	1.9	4,153	88.9	16	
	1.74 to <7.00	489	975	41	638	2.1	287	56.0	0.5	984	154.2	7	
	7.00 to <9.00	44	78	54	65	8.0	93	56.0	18.7	162	249.2	3	
	9.00 to <22.00	329	629	24	440	12.0	311	54.8	0.6	1,214	275.9	29	
	22.00 to <100.00		77	10	8	25.0	41	56.0	0.1	26	325.0	1	
	100.00 (Default)	10	2	30	10	100.0	47	41.9	0.0	55	550.0	0	
Sub-total		**36,864**	**22,390**	**57**	**47,162**	**0.3**	**9,738**	**44.1**	**7.3**	**16,138**	**34.2**	**74**	
A-IRB Retail Mortgage	0.03 to <0.12	152,993	2,353	100	154,560	0.1	201,305	7.0	1.5	2,541	1.6	10	3
	0.12 to <0.46	250,703	23,070	100	263,188	0.2	382,715	11.3	2.5	13,235	5.0	64	23
	0.46 to <1.74	56,621	5,183	100	59,805	0.8	119,772	15.7	10.6	10,492	17.5	75	105
	1.74 to <7.00	10,186	393	98	10,437	4.0	14,602	12.7	3.5	3,964	38.0	53	15
	7.00 to <9.00	1,434	6	93	1,439	7.9	3,911	15.8	21.1	972	67.6	18	9
	9.00 to <22.00	2,604	6	100	2,608	14.9	5,311	13.6	8.7	1,980	75.9	56	51
	22.00 to <100.00	1,325	28	100	1,342	43.3	1,903	8.3	1.3	641	47.8	48	1
	100.00 (Default)	1,777			1,777	100.0	4,152	1.1	9.8	254	14.3	401	469
Sub-total		**477,643**	**31,039**	**100**	**495,156**	**0.9**	**733,671**	**10.5**	**3.3**	**34,079**	**6.9**	**725**	**676**
A-IRB Other Retail	0.03 to <0.12	7,185	29,064	80	30,537	0.1	101,271	42.0	1.3	2,452	8.0	9	7
	0.12 to <0.46	7,149	2,427	74	8,956	0.3	70,735	53.3	3.8	2,475	27.6	13	13
	0.46 to <1.74	10,733	7,512	72	16,171	0.8	199,718	45.3	1.9	7,057	43.6	60	37
	1.74 to <7.00	4,483	1,325	98	5,775	3.0	162,334	55.5	2.9	4,583	79.4	96	33
	7.00 to <9.00	1,234	533	93	1,729	7.4	8,263	50.1	1.8	1,402	81.1	64	10
	9.00 to <22.00	939	334	108	1,300	14.1	5,762	63.7	1.6	1,639	126.1	111	6
	22.00 to <100.00	628	125	141	804	37.3	39,198	59.9	2.1	1,291	160.6	185	6
	100.00 (Default)	1,160	6	102	1,167	100.0	12,319	4.3	0.6	624	53.5	534	494
Sub-total		**33,511**	**41,326**	**80**	**66,439**	**3.2**	**599,600**	**45.7**	**1.9**	**21,523**	**32.4**	**1,072**	**606**

TABLE 29. Continued **IRB approach – Credit risk exposures by exposure class and PD range**

31 Dec 2015, SEK m	PD scale	Original on-balance sheet gross exposure	Off- balance sheet exposures pre CCF	Average CCF (%)	EAD post CRM and post- CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)	EL	Value adjustments and Provisions
F-IRB Corporate	0.03 to <0.12	42,280	38,122	69	70,362	0.0	1,636	33.1	5.3	10,398	14.8	11	16
	0.12 to <0.46	85,990	59,514	72	122,132	0.3	20,156	40.1	5.0	56,873	46.6	141	126
	0.46 to <1.74	29,001	10,708	72	36,217	1.2	18,189	39.3	3.3	29,111	80.4	169	88
	1.74 to <7.00	7,841	3,583	67	10,066	2.9	7,766	40.1	2.5	10,252	101.8	118	45
	7.00 to <9.00	1	1	75	2	8.0	6	39.6	0.3	2	100.0	0	
	9.00 to <22.00	3,332	1,094	81	4,120	13.0	979	40.6	3.1	7,036	170.8	217	24
	22.00 to <100.00	800	45	65	827	25.0	189	40.7	1.1	1,719	207.9	84	6
	100.00 (Default)	5,002	131	54	5,071	100.0	891	44.0	1.4	158	3.1	2,111	1,307
Sub-total		**174,247**	**113,198**	**71**	**248,797**	**2.8**	**49,812**	**38.1**	**4.6**	**115,549**	**46.4**	**2,851**	**1,612**
F-IRB Institution	0.03 to <0.12	14,605	2,527	48	8,195	0.0	631	37.0	1.3	1,472	18.0	1	
	0.12 to <0.46	882	614	67	1,136	0.2	120	30.8	1.2	409	36.0	1	
	0.46 to <1.74	1,439	15	50	1,446	0.5	23	11.5	9.0	362	25.0	1	
	1.74 to <7.00	114	25	43	123	2.2	45	44.6	0.4	181	147.2	1	
	7.00 to <9.00												
	9.00 to <22.00	2			2	14.1	4	45.0	0.0	4	200.0	0	
	22.00 to <100.00	32	296	50	180	25.0	9	8.3	1.0	88	48.9	4	
	100.00 (Default)												
Sub-total		**17,074**	**3,477**	**51**	**11,082**	**0.6**	**832**	**32.7**	**2.3**	**2,516**	**22.7**	**8**	**0**
A-IRB Corporate	0.03 to <0.12	86,887	153,501	57	172,324	0.1	10,873	26.2	7.7	24,658	14.3	31	86
	0.12 to <0.46	252,082	100,148	59	310,467	0.3	40,859	20.3	2.7	75,567	24.3	189	271
	0.46 to <1.74	118,481	33,932	55	138,374	0.9	23,288	17.4	2.9	52,403	37.9	252	183
	1.74 to <7.00	10,380	2,585	59	11,785	2.8	14,325	26.7	2.7	8,962	76.0	99	31
	7.00 to <9.00	26	13	62	34	8.0	43	22.6	0.4	17	50.0	1	
	9.00 to <22.00	3,101	310	68	3,300	10.3	718	21.7	2.0	3,883	117.7	106	20
	22.00 to <100.00	687	13	40	692	24.6	135	29.5	8.1	1,171	169.2	51	23
	100.00 (Default)	2,240	308	36	2,346	93.8	469	24.4	2.1	7,629	325.2	465	696
Sub-total		**473,884**	**290,810**	**58**	**639,322**	**0.8**	**90,710**	**21.4**	**4.1**	**174,290**	**27.3**	**1,194**	**1,310**
A-IRB Institution	0.03 to <0.12	21,093	9,400	49	25,929	0.0	3,831	40.1	10.2	3,810	14.7	6	
	0.12 to <0.46	7,763	3,230	50	8,411	0.2	4,564	45.7	3.2	4,329	51.5	9	
	0.46 to <1.74	1,717	902	44	2,082	1.1	704	35.4	2.6	2,108	101.3	9	
	1.74 to <7.00	625	527	34	731	2.1	371	52.4	0.4	1,173	160.4	9	
	7.00 to <9.00												
	9.00 to <22.00	162	566	32	241	13.4	385	52.3	4.1	729	302.5	20	
	22.00 to <100.00												
	100.00 (Default)	14	5	21	15	98.1	46	39.1	0.0	73	486.2	0	1
Sub-total		**31,374**	**14,630**	**49**	**37,409**	**0.3**	**9,901**	**41.4**	**8.0**	**12,222**	**32.7**	**53**	**1**
A-IRB Retail Mortgage	0.03 to <0.12	156,672	2,146	93	158,059	0.1	209,564	6.5	1.4	2,703	1.7	11	3
	0.12 to <0.46	234,208	18,491	93	244,822	0.2	368,021	10.4	2.2	12,520	5.1	61	22
	0.46 to <1.74	51,346	4,228	94	54,268	0.8	112,936	14.0	9.9	9,416	17.4	68	97
	1.74 to <7.00	9,917	389	89	10,179	3.6	15,662	11.1	3.6	3,665	36.0	49	16
	7.00 to <9.00	1,639	13	75	1,645	7.2	4,726	15.3	19.2	1,185	72.1	22	10
	9.00 to <22.00	2,727	15	100	2,737	13.6	6,070	13.4	9.3	2,219	81.1	64	64
	22.00 to <100.00	1,331	20	60	1,344	38.6	2,172	7.9	1.3	661	49.2	50	1
	100.00 (Default)	2,103	3	25	2,104	94.5	4,751	1.4	9.1	415	19.7	506	619
Sub-total		**459,943**	**25,305**	**93**	**475,158**	**0.9**	**723,902**	**9.5**	**3.0**	**32,784**	**6.9**	**831**	**832**
A-IRB Other Retail	0.03 to <0.12	7,290	29,809	75	29,637	0.1	110,184	38.9	1.1	2,285	7.7	8	9
	0.12 to <0.46	6,237	2,255	76	7,961	0.2	68,259	45.6	3.6	2,095	26.3	11	13
	0.46 to <1.74	11,136	7,317	69	16,186	0.7	206,159	40.4	1.9	7,168	44.3	61	48
	1.74 to <7.00	5,072	1,139	80	5,980	2.4	181,465	42.8	3.1	4,157	69.5	84	34
	7.00 to <9.00	1,292	430	94	1,695	6.5	10,287	41.5	2.0	1,325	78.2	61	12
	9.00 to <22.00	987	257	125	1,308	13.3	6,614	61.9	1.8	1,621	123.9	107	7
	22.00 to <100.00	614	23	299	683	30.9	41,247	47.8	2.7	930	136.2	121	9
	100.00 (Default)	1,286	3	98	1,269	77.3	14,163	2.1	0.4	636	50.1	537	562
Sub-total		**33,914**	**41,233**	**75**	**64,719**	**2.7**	**638,378**	**40.4**	**1.8**	**20,217**	**31.2**	**990**	**694**

TABLE 30. IRB approach – Effect on REA of credit derivatives used as CRM techniques

SEK m	31 Dec 2016 Pre-credit derivatives REA	31 Dec 2016 Actual REA	31 Dec 2015 Pre-credit derivatives REA	31 Dec 2015 Actual REA
Exposures under Foundation IRB	**119,588**	**119,588**	**118,065**	**118,065**
Institutions	1,525	1,525	2,516	2,516
Corporates				
Large corporates	73,395	73,395	72,728	72,728
SME corporates	37,970	37,970	31,333	31,333
Specialised lending	6,698	6,698	11,488	11,488
Exposures under Advanced IRB	**272,475**	**272,475**	**239,513**	**239,513**
Institutions	16,138	16,138	12,222	12,222
Corporates				
Large corporates	160,191	160,191	139,977	139,977
SME corporates	29,414	29,414	24,224	24,224
Specialised lending	11,131	11,131	10,088	10,088
Retail				
Secured by real estate SME	259	259	272	272
Secured by real estate non-SME	33,820	33,820	32,511	32,511
Qualifying revolving[1]			248	248
Other SME	4,722	4,722	3,255	3,255
Other non-SME	16,800	16,800	16,716	16,716
TOTAL	**392,063**	**392,063**	**357,578**	**357,578**

1) Reported as other retail exposures from 1 January 2016.

TABLE 31. IRB approach – Back-testing of PD

Segment	Non-Retail 31 Dec 2016	Non-Retail 31 Dec 2015[3]	Retail Sweden[1] 31 Dec 2016	Retail Sweden[1] 31 Dec 2015[3]	Retail Baltic[1] 31 Dec 2016	Retail Baltic[1] 31 Dec 2015[3]
ODF (counterparty weighted)	0.23%	0.57%	0.12%	0.13%	1.05%	1.26%
ODF (exposure weighted)	0.19%	0.29%	0.10%	0.10%	0.99%	1.74%
PD (counterparty weighted)	1.05%	1.23%	0.48%	0.45%	1.45%	1.65%
PD (exposure weighted)	0.52%	0.55%	0.49%[2]	0.49%[2]	1.46%	1.61%

1) Retail mortgage
2) Regulatory floor on mortage portfolio of 0.49.
3) New methodology used in 2016, data for 2015 was restated for comparability.

Comments

- *A comparison of PDs of the IRB models for the main credit portfolios – non-retail, retail Sweden and retail Baltic – against actual observed default frequencies (ODF) indicates conservative estimates for probability of default.*
- *The portfolios reported decreased ODFs in 2016.*

Credit risk exposures under standardised approach

The standardised approach is used for calculating risk-weighted exposure amounts to central governments, central banks, regional government and local authorities and for a number of minor portfolios. According to the regulation, either the rating from an export credit agency (such as the Swedish Export Credits Guarantee Board) shall be used, or, where not available, the country rating from eligible credit assessment agencies such as Moody's, S&P, Fitch and DBRS. In no case has it been necessary to apply an issue rating where an issuer rating was missing. Following regulation, local authorities, e.g. In Sweden and Germany, are risk-weighted based on the rating of the corresponding central government, and not on the local authorities' own rating.

TABLE 32. Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects

	Exposures before CCF and CRM		Exposures post-CCF and CRM			
31 Dec 2016, SEK m	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	REA	Average risk weight (%)
Central governments or central banks	253,422	11,490	256,088	5,963	1,600	0.6
Regional governments or local authorities	61,534	21,506	62,203	6,329	51	0.1
Public sector entities	2,209	11	2,208	6	29	1.3
Multilateral development banks	1	10	6	3		0.0
International organisations	194		194			0.0
Institutions	3,007	189	1,882	55	981	32.0
Corporates	16,278	2,597	14,928	780	16,115	94.5
Retail	24,000	6,984	22,980	2,770	16,173	60.4
Secured by mortgages on immovable property	11,240	587	11,240	272	3,803	33.0
Exposures in default	280	11	280	6	384	134.4
Items associated with particularly high risk	985		985		1,477	150.0
Claims in the form of CIU	66		66		66	100.0
Equity exposures	2,119		2,243		2,119	100.0
Other items	11,456	0	11,488		8,879	77.5
TOTAL	**386,791**	**43,385**	**386,791**	**16,184**	**51,678**	**12.8**

	Exposures before CCF and CRM		Exposures post-CCF and CRM			
31 Dec 2015, SEK m	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	REA	Average risk weight (%)
Central governments or central banks	165,473	11,478	167,355	6,748	1,217	0.7
Regional governments or local authorities	79,349	25,819	78,896	4,771	51	0.1
Public sector entities	1,999	56	1,999	28	5	0.2
Multilateral development banks	1	5	4	1		0.0
International organisations						
Institutions	2,335	77	1,964	27	887	37.6
Corporates	15,201	2,867	13,753	879	15,066	93.7
Retail	22,051	7,111	21,180	2,552	14,804	60.2
Secured by mortgages on immovable property	12,097	844	12,097	392	4,159	33.3
Exposures in default	376	9	376	3	520	137.2
Items associated with particularly high risk	1,215		1,215		1,823	150.0
Claims in the form of CIU	56		56		56	100.0
Equity exposures	2,182		2,182		2,182	19.0
Other items	9,461	5	10,717	6	6,366	67.3
TOTAL	**311,796**	**48,271**	**311,794**	**15,407**	**47,136**	**14.0**

TABLE 33. Standardised approach – exposures by asset classes and risk weights

31 Dec 2016, SEK m	Risk weight												
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Deducted	Total credit exposures amount (post CCF and post-CRM)	Of which unrated
Central governments and central banks	258,286		2,595		178		992					262,051	
Regional governments or local authorities	68,275		257									68,532	
Public sector entities	2,155				59							2,214	
Multilateral development banks	9											9	
International organisations	194											194	
Institutions	214		1,059		3		661					1,937	1,730
Corporates	499		7		15		15,184	3				15,708	14,819
Retail	1,691					24,059						25,750	25,738
Secured by mortgages on immovable property				11,512								11,512	11,512
Exposures in default							87	197				286	286
Items associated with particularly high risk								985				985	985
Claims in the form of CIU							66					66	66
Equity exposures							2,242					2,243	2,236
Other items	2,049	100	151		371		7,353		1,312	153		11,488	11,488
TOTAL	**333,372**	**100**	**4,069**	**11,512**	**626**	**24,059**	**26,585**	**1,186**	**1,312**	**153**		**402,975**	**68,860**

31 Dec 2015, SEK m	Risk weight												
Exposure classes	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Deducted	Total credit exposures amount (post CCF and post-CRM)	Of which unrated
Central governments and central banks	171,399		1,358		908		331	107				174,103	
Regional governments or local authorities	83,414		253									83,667	
Public sector entities	2,016		1		10							2,027	
Multilateral development banks	5											5	
International organisations													
Institutions	350		1,034		3		602	2				1,991	1,551
Corporates	535		6		14		13,912	165				14,632	13,648
Retail	1,582					22,150						23,732	23,731
Secured by mortgages on immovable property				12,458	31							12,489	12,488
Exposures in default							99	280				379	379
Items associated with particularly high risk								1,215				1,215	1,215
Claims in the form of CIU							56					56	56
Equity exposures							2,182					2,182	2,157
Other items	2,296	94	205		5		6,244		1,110	768		10,723	9,466
TOTAL	**261,597**	**94**	**2,857**	**12,458**	**971**	**22,150**	**23,426**	**1,769**	**1,110**	**768**		**327,201**	**64,692**

Equity exposures not included in the trading book

Investments in associates held by SEB's venture capital unit have been designated as at fair value through profit or loss, in accordance with IAS 28. Therefore, these holdings are accounted for under IAS 39. All financial assets within the bank's venture capital business are managed and evaluated on a fair value basis in accordance with documented risk management and investment strategies.

Fair values for investments listed in an active market are based on quoted market prices. If the market for a financial instrument is not active, fair value is established by using valuation techniques based on discounted cash flow analysis, valuation with reference to financial instruments that are substantially the same, or valuation with reference to observable market transactions in the same financial instrument.

Strategic investments in associates on group level are accounted for using the equity method. Some entities where the bank has an ownership of less than 20 per cent have been classified as investments in associates. The reason is that the bank is represented in the board of directors and participating in the policy-making processes of those entities.

Equity instruments measured at cost do not have a quoted market price in an active market. Further, it has not been possible to reliably measure the fair values of those equity instruments. Most of these investments are held for strategic reasons and are not intended to be sold in the near future.

In capital adequacy reporting, the holdings detailed below are reported following the standardised approach.

TABLE 34. Equity exposures not included in the trading book

31 Dec 2016, SEK m	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses
Associates (venture capital holdings)	1,009	1,009	36	122	–8
Associates (strategic investments)	229	229			5
Other strategic investments	3,003	3,003	1,756	17	70
Seized shares	46	46			
TOTAL	**4,287**	**4,287**	**1,792**	**139**	**67**

31 Dec 2015, SEK m	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses
Associates (venture capital holdings)	958	958	58	–10	10
Associates (strategic investments)	223	223			
Other strategic investments	2,329	2,329	1,934	38	430
Seized shares	39	39			
TOTAL	**3,549**	**3,549**	**1,992**	**28**	**440**

▸▸ *Further information regarding accounting principles and valuation methodologies can be found in the Annual Report Note 1 and Note 21. Further information regarding SEB's investments in associates can be found in the Annual Report Note 24.*

Counterparty credit risk

Management of counterparty credit risk

Counterparty credit risk arises when SEB enters into derivative contracts with a counterparty for instruments like futures, swaps or options. The purpose for entering into derivatives contracts is primarily to support corporate customers and financial institutions in their management of financial exposures. This is managed within the LC&FI division. The Treasury function also uses derivatives to protect cash flows and fair values of financial assets and liabilities in SEB's own book from market fluctuations. The counterparty credit risk in derivatives contracts is the risk of a counterparty not living up to its contractual obligations where SEB has a claim on the counterparty.

Limits for counterparty exposures are set in the regular credit process. The risk organisation identifies, measures, reports and follows up on SEB's counterparty credit risk. The risk is measured daily and reported monthly to the Group Risk Committee and the Risk and Capital Committee of the Board. Counterparty credit risk is monitored through a number of risk measures, including potential future exposure, nominal, tenor and settlement exposure measures. In addition, stress tests and sensitivity analyses are conducted to estimate effects of tail events, to stress test limits and understand sensitivities in the portfolio.

Wrong way risk (WWR) arises when the size of the exposure to a counterparty is negatively correlated with the counterparty's credit quality. There are two types of WWR, general and specific WWR. SEB has processes in place to identify and monitor counterparties and transactions where the WWR is inherent. Specific WWR is considered in the credit review process and is measured daily.

Settlement risk is measured for foreign exchange (FX) transactions. The amount at risk is equal to the FX settlement amount. FX settlement risk is taken into account by all decision-making bodies that decide on counterparty limits for instruments which imply FX settlement risk. FX settlement limits are in place for all counterparties trading in instruments with FX settlement risk.

Measurement of counterparty credit risk

Since the market value of a derivative fluctuates during the term to maturity, the uncertainty of future market conditions must be taken into account when measuring the credit exposure of derivatives. For risk management purposes, the potential future exposure (PFE) is calculated either through simulation using an internal model method or by applying a standard add-on to the current market value. The add-on depends on product type and time to maturity which reflects potential market movements for the specific contract.

For calculation of regulatory capital for counterparty credit risk, SEB uses the internal model method (IMM) for repos, interest rate derivatives and FX derivatives for the parent company, which was approved by the SFSA in December 2015. The internal model method takes close-out netting agreements and collateral agreements into account. The setup of the internal model automatically detects specific wrong-way risk transactions and collateral, the exposures of which are calculated gross. The internal models are regularly validated and back-tested.

For other derivatives (mainly equities) in the parent company and for other legal entities of the Group, SEB uses the standardised approach. SEB currently uses the Current Exposure Method (also referred to as mark to market method) to set the standard add-ons.

TABLE 35. Analysis of counterparty credit risk exposure by approach

31 Dec 2016, SEK m	Replacement cost/Current market value	Potential future exposure	Effective expected positive exposure (EEPE)	Multiplier	EAD post CRM	REA
Mark to market	–6,701	38,392			42,764	6,192
Internal Model Method (for derivatives and SFTs)			62,891	1.4	88,047	16,720
of which Securities Financing Transactions			*274*	*1.4*	*384*	*10*
of which derivatives & Long Settlement Transactions			*62,616*	*1.4*	*87,663*	*16,710*
Financial collateral comprehensive method (for SFTs)					28,693	3,165
TOTAL						**26,077**

Credit valuation adjustment and Debit valuation adjustment
Counterparty credit risk in derivative contracts affects the bank's profit and loss through credit/debit valuation adjustments (CVA/DVA), reflecting the credit risk associated with the derivative positions. These adjustments depend on market risk factors such as interest rate, FX and credit spreads. SEB uses the standardised approach to calculate the regulatory capital requirement for CVA.

TABLE 36. Credit valuation adjustment (CVA) capital charge

	31 Dec 2016		31 Dec 2015	
SEK m	Exposure value	REA	Exposure value	REA
All portfolios subject to the Standardised Method	41,589	7,818	41,243	6,910
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	**41,589**	**7,818**	**41,243**	**6,910**

TABLE 37. IRB approach – CCR exposures by portfolio and PD scale

		31 Dec 2016							31 Dec 2015						
SEK m	PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)
F-IRB Corporates	0.03 to <0.12	9,628	0.1	1,223	34.2	0.8	1,033	10.7	11,646	0.1	2,127	32.3	1.3	1,661	14.3
	0.12 to <0.46	4,371	0.2	1,487	28.2	2.4	1,292	29.6	7,699	0.3	1,953	36.1	1.9	3,084	40.1
	0.46 to <1.74	683	1.0	378	35.7	2.2	466	68.2	508	1.3	401	25.5	3.3	276	54.3
	1.74 to <7.00	134	3.8	60	34.8	0.8	125	93.3	230	3.9	48	44.9	0.5	287	124.8
	7.00 to <9.00														
	9.00 to <22.00	11	14.9	7	45.0	2.4	20	181.8	85	12.1	14	45.0	5.2	182	214.1
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**14,827**	**0.2**	**3,155**	**32.5**	**1.3**	**2,936**	**19.8**	**20,168**	**0.3**	**4,543**	**33.8**	**1.6**	**5,490**	**27.2**
F-IRB Institutions	0.03 to <0.12	6,935	0.0	1,734	23.5	3.2	795	11.5	31,459	0.0	12,088	31.3	2.3	4,572	14.5
	0.12 to <0.46	2,935	0.3	500	6.0	0.3	102	3.5	4,272	0.2	1,299	14.4	0.7	763	17.9
	0.46 to <1.74	248	0.9	144	0.0	1.2	0	0.0	239	1.1	200	11.3	0.5	71	29.7
	1.74 to <7.00	10	2.0	5	0.0	0.2	0	0.0	2	2.0	2	0.0	0.2	0	0.0
	7.00 to <9.00														
	9.00 to <22.00														
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**10,128**	**0.1**	**2,383**	**17.8**	**2.3**	**897**	**8.9**	**35,972**	**0.1**	**13,589**	**29.1**	**2.1**	**5,406**	**15.0**
F-IRB TOTAL		**24,955**	**0.2**	**5,538**	**26.5**	**1.7**	**3,834**	**15.4**	**56,140**	**0.1**	**18,132**	**30.8**	**1.9**	**10,897**	**19.4**

TABLE 37. Continued IRB approach – CCR exposures by portfolio and PD scale

		31 Dec 2016							31 Dec 2015						
SEK m	PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	REA	Average risk weight (%)
A-IRB Corporates	0.03 to <0.12	32,630	0.1	6,471	30.0	4.1	3,789	11.6	25,100	0.1	5,012	31.2	4.1	3,478	13.9
	0.12 to <0.46	15,089	0.3	5,894	36.7	4.1	5,885	39.0	14,417	0.3	6,090	37.4	3.2	5,558	38.6
	0.46 to <1.74	4,434	0.8	2,570	39.7	4.0	3,090	69.7	5,138	0.9	2,233	30.2	3.1	2,627	51.1
	1.74 to <7.00	1,134	2.5	708	19.6	2.3	661	58.3	940	3.7	910	24.8	3.5	672	71.5
	7.00 to <9.00	606	8.0	163	9.0	1.4	210	34.7	1	7.0	38	57.0	0.4	0	0.0
	9.00 to <22.00	4	11.0	18	8.0	1.3	2	50.0	17	12.1	57	21.3	0.9	16	94.6
	22.00 to <100.00														
	100.00 (Default)	12	100.0	23	37.0	0.7	57	475.0	23	100.0	28	33.0	0.7	97	421.6
Sub-total		**53,909**	**0.3**	**15,847**	**32.0**	**4.0**	**13,694**	**25.4**	**45,636**	**0.3**	**14,368**	**33.0**	**3.7**	**12,448**	**27.3**
A-IRB Institutions	0.03 to <0.12	45,446	0.0	9,147	39.9	1.6	4,925	10.8	12,836	0.0	1,218	41.7	1.0	2,020	15.7
	0.12 to <0.46	6,355	0.3	1,320	42.0	0.6	2,517	39.6	1,096	0.3	536	42.9	0.4	478	43.6
	0.46 to <1.74	286	1.1	230	42.6	0.7	251	87.7	59	0.9	65	41.0	0.1	48	81.2
	1.74 to <7.00								10	2.0	7	41.0	0.0	12	120.0
	7.00 to <9.00														
	9.00 to <22.00														
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**52,087**	**0.1**	**10,697**	**40.1**	**1.5**	**7,693**	**14.8**	**14,001**	**0.1**	**2,174**	**41.8**	**1.0**	**2,558**	**18.3**
A-IRB TOTAL		**105,996**	**0.2**	**26,544**	**36.1**	**2.8**	**21,387**	**20.2**	**59,637**	**0.3**	**16,194**	**35.0**	**3.1**	**15,006**	**25.2**

TABLE 38. Standardised approach – CCR exposures by regulatory portfolio and risk weights

	Risk weight							
31 Dec 2016, SEK m	0%	2%	20%	50%	75%	100%	Total	Of which unrated
Central governments or central banks	5,247		111	346		6	**5,710**	
Regional governments or local authorities	6,923						**6,923**	
Public sector entities								
Multilateral development banks	2,665						**2,665**	
International organisations								
Institutions		2,490	1,741			12	**4,243**	3,706
Corporates		7,950				1,046	**8,996**	7,611
Retail					16		**16**	16
Claims on institutions and corporates with a short-term credit assessment								
Other items								
TOTAL	**14,835**	**10,440**	**1,852**	**346**	**16**	**1,064**	**28,553**	**11,333**

	Risk weight							
31 Dec 2015, SEK m	0%	2%	20%	50%	75%	100%	Total	Of which unrated
Central governments or central banks	5,851		76	362		12	**6,301**	
Regional governments or local authorities	6,324						**6,324**	
Public sector entities								
Multilateral development banks	2,382						**2,382**	
International organisations								
Institutions		2,153	935				**3,088**	2,426
Corporates		14,419				1,066	**15,485**	13,911
Retail	1				23		**24**	24
Claims on institutions and corporates with a short-term credit assessment								
Other items								
TOTAL	**14,558**	**16,572**	**1,011**	**362**	**23**	**1,078**	**33,604**	**16,361**

Netting and collateral management

Counterparty risk in derivatives is reduced through the use of close-out netting agreements, where all positive and negative market values under an agreement can be netted at the counterparty level. The netting agreement is often supplemented with a collateral agreement where the net market value exposure is reduced further by collateralisation.

Netting and collateral agreements can contain rating triggers. SEB has a restrictive policy in respect of rating-based levels for thresholds and minimum transfer amounts. In addition, asymmetrical rating trigger levels require specific approval from a deviation committee. Rating-based thresholds have only been accepted for a very limited number of counterparties. If SEB were downgraded, the impact would be limited. In the event of a downgrade, SEB would need to post additional collateral of SEK 227m for a one-notch downgrade and SEK 967m for a two-notch downgrade. Furthermore, as a general rule, rating triggered termination events are not accepted.

Counterparty credit risk can also be mitigated by steering exposure and risks to clearing houses, which is common for a range of products to reduce bilateral counterparty credit risk. Risk can also be closed out through various portfolio compression activities. A small part of the counterparty credit risk exposure is reduced by credit derivatives. SEB conducts credit derivative transactions primarily in connection with counterparty risk and mainly trades with counterparties where an ISDA CSA agreement has been established. Rather than using credit derivatives to mitigate counterparty credit risk in its trading operations, SEB prefers to make use of collateral arrangements.

SEB mitigates settlement risk through Delivery-vs-Payment (DVP) or Payment-vs-Payment (PVP) arrangements when possible. One such settlement vehicle is the global FX clearing that is conducted through CLS Group (originally Continuous Linked Settlement), where SEB is a member. They eliminate settlement risk in FX transactions with counterparties that are eligible for CLS clearing.

TABLE 39. Impact of netting and collateral held on exposure values

31 Dec 2016, SEK m	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	194,311	–125,174	69,137	–23,653	45,484
SFTs	55,741	–9,104	46,636	–43,038	3,598
Cross-product netting					
TOTAL	**250,052**	**–134,278**	**115,773**	**–66,691**	**49,083**

31 Dec 2015, SEK m	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	207,757	–137,363	70,394	–22,158	48,236
SFTs	53,335	–6,067	47,268	–39,034	8,234
Cross-product netting					
TOTAL	**261,092**	**–143,430**	**117,662**	**–61,193**	**56,469**

TABLE 40. Composition of collateral for exposures to CCR

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
31 Dec 2016, SEK m	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash – domestic currency	131	5,938		2,848	2,415	370
Cash – other currencies	31	25,158		35,537	12,860	37,697
Domestic sovereign debt	197	4,605	3,852	2,680	4,468	1,836
Other sovereign debt	22	7,466	3,997	3,326	45,273	40,424
Institutions	62	5,070	4,736	1,722	59,154	13,235
Corporate	5	293			586	217
Equity securities	6,447	2,757	1,752	16,044	114,616	76,457
Other collateral	149					
TOTAL	**7,044**	**51,287**	**14,337**	**62,157**	**239,372**	**170,236**

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
31 Dec 2015, SEK m	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash – domestic currency	34	6,036		3,634	1,989	372
Cash – other currencies	91	23,105		29,816	13,577	34,183
Domestic sovereign debt	178	3,827	4,645	418	17,549	17,518
Other sovereign debt	222	5,548	2,762	2,815	36,193	32,792
Institutions	88	4,200	4,032	378	60,196	7,742
Corporate	7	225			434	477
Equity securities	5,647	774		17,748	108,777	84,404
Other collateral	6,078				285	
TOTAL	**12,345**	**43,715**	**11,439**	**54,809**	**239,000**	**177,488**

TABLE 41. Credit derivatives exposures

SEK m	31 Dec 2016			31 Dec 2015		
	Credit derivative hedges		Other credit derivatives	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold		Protection bought	Protection sold	
Notionals						
Single-name credit default swaps			6,914			10,072
Index credit default swaps	2,944		1,831	1,342		1,608
Total return swaps						
Credit options						
Other credit derivatives						
TOTAL NOTIONALS	**2,944**		**8,745**	**1,342**		**11,680**
Fair values						
Positive fair value (asset)			***219***			***329***
Negative fair value (liability)	***–242***		***–333***	***–76***		***–462***

Securitisations

SEB does not regularly securitise its assets and has no outstanding own issues. In addition, the Group does not operate any Asset Backed Commercial Paper (ABCP) conduit or similar structure. Thus, most of the securitisation regulatory framework is of less relevance for the Group. SEB provides asset backed financing to its clients through a small number of SPVs for funding of trade receivables, lease or consumer receivables.

As part of its diversified investment portfolio SEB holds securitisation positions in others' issues. These are reported according to the External Rating approach, and the absolute majority consists of the most senior tranches. Some holdings have been downgraded from an original AAA but all are performing.

Holdings with lower than BB/Ba rating would receive a risk weight of 1.325 per cent but are instead, as prescribed in regulation, deducted from own funds. Securitisation positions (except those held for trading) are accounted for as available for sale assets or as loans and receivables.

Interest rate risk in the structured bonds portfolio is of less importance, due to the absolute domination of floating rate bonds. The credit risk is diversified into several industries. There are no interest rate hedges or credit default swaps hedges. The structured bonds portfolio is part of the bank's liquidity portfolio and is funded by commercial papers/certificates of deposit with maturity up to one year. The majority of bonds consist of the most senior tranches. All structured bonds are performing and amortise according to schedule. Stress tests are performed on a monthly basis which takes into consideration underlying levels of the position.

TABLE 42. Securitisations in banking book by rating category

31 Dec 2016, SEK m		Total exposure	Of which deducted	Reported as risk exposure amount		
				Exposure	Average risk weight (%)	REA
	AAA/Aaa	2,263		2,263	12.3	278
	AA/Aa	185		185	8.5	16
	A/A	3,298		3,298	13.9	458
	BBB/Baa	874		874	55.1	481
	BB/Ba	218		218	545.0	1,189
Total securitisation		**6,838**		**6,838**	**35.4**	**2,422**
	BBB/Baa	85		85	238.5	203
	BB/Ba	95		95	689.0	657
	sub BB/Ba	35	35		1.325.0	(deducted)
Total resecuritisation		**216**	**35**	**180**	**477.8**	**860**
TOTAL		**7,054**	**35**	**7,019**	**46.8**	**3,282**

31 Dec 2015, SEK m		Total exposure	Of which deducted	Reported as risk exposure amount		
				Exposure	Average risk weight (%)	REA
	AAA/Aaa	4,202		4,202	9.9	418
	AA/Aa	278		278	8.5	24
	A/A	3,787		3,787	14.0	530
	BBB/Baa	928		928	66.6	618
	BB/Ba	242		242	515.5	1,247
Total securitisation		**9,437**		**9,437**	**30.1**	**2,836**
	AAA/Aaa	51		51	31.8	16
	AA/Aa	6		6	42.4	2
	A/A	27		27	53.0	14
	BBB/Baa	104		104	238.5	247
	BB/Ba	151		151	798.5	1,206
	sub BB/Ba	43	43		1.325.0	(deducted)
Total resecuritisation		**382**	**43**	**339**	**438.4**	**1,486**
TOTAL		**9,819**	**43**	**9,776**	**44.2**	**4,322**

TABLE 43. Securitisations in banking book by asset type

31 Dec 2016. SEK m	Total exposure	Of which deducted	Reported as risk exposure amount		
			Exposure	Average risk weight (%)	REA
Collateralised loan obligations (CLO)	398		398	7.4	29
Commercial mortgage backed securitisations (CMBS)	162		162	642.0	1,040
Collateralised mortgage obligations (CMO)	105		105	7.4	8
Residential mortgage backed securitisations (RMBS)	1,106		1,106	38.9	430
Securities backed with other assets	1,927		1,927	15.5	298
Liquidity facilities	3,140		3,140	19.6	617
Total securitisation	**6,839**		**6,838**	**35.4**	**2,422**
Collateralised debt obligations (CDO)	216	35	180	477.8	860
Total resecuritisation	**216**	**35**	**180**	**477.8**	**860**
TOTAL	**7,054**	**35**	**7,018**	**46.8**	**3,282**

31 Dec 2015. SEK m	Total exposure	Of which deducted	Reported as risk exposure amount		
			Exposure	Average risk weight (%)	REA
Collateralised loan obligations (CLO)	1,713		1,713	7.6	130
Commercial mortgage backed securitisations (CMBS)	340		340	335.1	1,139
Collateralised mortgage obligations (CMO)	129		129	7.4	10
Residential mortgage backed securitisations (RMBS)	1,118		1,118	47.4	529
Securities backed with other assets	2,627		2,627	13.5	355
Liquidity facilities	3,511		3,511	19.2	674
Total securitisation	**9,437**		**9,437**	**30.1**	**2,836**
Collateralised debt obligations (CDO)	331	43	288	510.7	1,470
Collateralised loan obligations (CLO)	51		51	31.8	16
Total resecuritisation	**382**	**43**	**339**	**438.4**	**1,486**
TOTAL	**9,819**	**43**	**9,776**	**44.2**	**4,322**

TABLE 44. Securitisations in trading book by rating category

31 Dec 2016, SEK m	Total exposure	Of which deducted	Of which reported as risk exposure amount		
			Exposure	Average risk weight (%)	REA
AAA/Aaa	57		57	7.0	4
sub BB/Ba	7		7	1.250.0	82
TOTAL	**64**		**64**	**134.0**	**86**

31 Dec 2015, SEK m	Total exposure	Of which deducted	Of which reported as risk exposure amount		
			Exposure	Average risk weight (%)	REA
AAA/Aaa	70		70	7.0	5
sub BB/Ba	10		10	1.250.0	121
TOTAL	**80**		**80**	**157.3**	**126**

V. Market risk

Market risk is the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. Market risk can arise from changes in interest rates, foreign exchange rates, credit spreads, commodity and equity prices, implied volatilities, inflation and market liquidity.

Risk management

A particular distinction is made between market risks related to trading activity, i.e., trading book risks, and structural market and net interest income risks, i.e., banking book risks. Whereas the trading book is under a daily mark-to-market regime, positions in the banking book are typically held at amortised cost.

Market risks in the trading book arise from SEB's customer-driven trading activity and in the maintenance of the Group's liquidity portfolio. A majority of the trading activity is performed by the Large Corporate & Financial Institutions division in its capacity as market maker for trading in international foreign exchange, equity and capital markets. The liquidity portfolio consists of the Group's investments in pledgeable and liquid bonds. The treasury function manages this portfolio to ensure that the Group's available liquidity is sufficient even in a severely stressed liquidity environment.

Market risks in the banking book arise as a result of mismatches in currencies, interest terms and interest rate periods on the balance sheet. The treasury function has overall responsibility for managing these risks, which are consolidated centrally through the internal funds transfer pricing system. Small market risk mandates are granted to subsidiaries where cost-efficient, in which case the treasury function is represented on the local Asset and Liability Committee for co-ordination and information-sharing. The centralised treasury operations create a cost-efficient matching of liquidity and interest rate risk in all non-trading related business.

Market risk also arises in the bank's traditional life insurance activities and in the defined benefit plans as a result of mismatches between the market value of assets and liabilities. Market risks in the life insurance business and pension obligations are not included in the Group market risk figures set out below.

Market risk types

Interest rate risk: Interest rate risk is the risk of loss or reduction of future net income following changes in interest rates, including price risk in connection with the sale of assets or closing of positions. SEB uses VaR, Delta 1% and Pillar 2 stress test scenarios defined by the SFSA to measure and limit interest rate risk arising from non-trading activities (referred to as interest rate risk in the banking book or IRRBB).

Net interest income (NII) risk: The NII risk depends on the overall business profile, particularly mismatches between interest-bearing assets and liabilities in terms of volumes and repricing periods. The NII risk is also exposed to a so-called "floor" risk. Asymmetries in product pricing create a margin squeeze in times of low interest rates, making it relevant to analyse both upward and downward changes. SEB monitors NII risk, but it is not assigned a specific limit.

Credit spread risk: Credit spread risk is the risk of loss or reduction of future net income following changes in credit spreads, including price risk in connection with the sale of assets or closing of positions. As opposed to credit risk, which applies to all credit exposures, only assets that are marked to market are exposed to credit spread risk. Credit spread risk is measured by VaR.

Foreign exchange or currency risk: Foreign exchange risk arises both through SEB's foreign exchange trading and through its operations in various currencies. While foreign exchange trading positions are measured and managed within the overall VaR framework, the Group measures and manages the structural foreign exchange risk inherent in the structure of the balance sheet and earnings separately. Foreign exchange risk is monitored and limited using single and aggregated FX measures and VaR.

Equity price risk: Equity price risk arises in connection with market making and trading in equities and related instruments. VaR is the main risk measure for equity price risk, complemented with sensitivities for derivative positions.

Commodity price risk: Commodity risk is the risk associated to the movements of commodity prices including cost of closing out the positions, and arises in customer-driven trading in commodities. Commodity price risk is measured by VaR.

Volatility risk: Volatility risk is defined as the risk of a negative financial outcome due to changes in the implied volatility. The price of an option contract is dependent on the estimate of future volatility of the underlying asset as quoted in the market, i.e., implied volatility. Volatility risk is measured by VaR.

Inflation risk: Inflation risk is the risk of losses in inflation-linked products due to changes in inflation.

Market liquidity risk: Market liquidity risk is the risk of loss in connection with the sale of assets or closing of positions due to bid-ask spread widening.

Credit value adjustment (CVA) risk: CVA arises from variations in the counterparty credit risk based on the expected future exposure. CVA is fundamentally credit risk, but the exposure is calculated using market risk drivers. Main risk drivers include credit spreads, interest rates and currency.

Market risk limits and control

The Board of Directors defines how much market risk is acceptable by setting the overall market risk tolerance, limits and general instructions. The limits are based on recommendations from the Risk and Capital Committee of the Board of Directors, upon proposals made by the CRO. The Group Risk Committee delegates the market risk mandate set by the Board of Directors to the divisions and treasury function which, in turn, further delegate the limits internally. The Board of Directors has decided on a number of key risk measures to limit the total market risk exposure: Value-at-Risk (VaR), Delta 1%, Aggregated FX and stop-loss limits, exposure to stress tests (historical and forward-looking) and valuation uncertainty around level 3 assets. Within the divisions and the treasury function, limits are also imposed on different position and sensitivity measures and stress tests are conducted as appropriate to the various businesses.

The risk organisation measures, follows up and reports the market risk taken by the various units within the Group on a daily basis. The risk control function is present in the trading room and monitors limit compliance and market prices at closing, as well as valuation standards and the introduction of new products. Market risks are reported on a monthly basis to the Group Risk Committee and the Board's Risk and Capital Committee. The risk organisation verifies the valuation of positions held at fair value independently and calculates the prudent valuation capital buffers.

Measurement of market risk

When measuring market risks it is important to distinguish between measures that seek to estimate losses under current market conditions and those that focus on extreme market situations. Market risks under normal market circumstances are measured using Value at Risk (VaR) as well as specific measures that are relevant for the different risk types. These measures are complemented by stressed VaR, stress tests and scenario analyses, in which potential losses under extreme market conditions are estimated.

VaR and stressed VaR

VaR expresses the maximum potential loss that could arise during a certain time period with a given degree of probability. SEB uses a historical simulation VaR model with a ten-day time horizon and 99 per cent confidence interval to measure, limit and report VaR. The model aggregates market risk exposures for all risk types and covers a wide range of risk factors in all asset classes. SEB also uses a stressed VaR measure, where VaR calculations for the current portfolio are performed using market data from a historic, turbulent time period covering the Lehman Brothers default (April 2008–April 2009). In the day-to-day risk management of trading positions, limits and exposures are also followed up with a one-day time horizon.

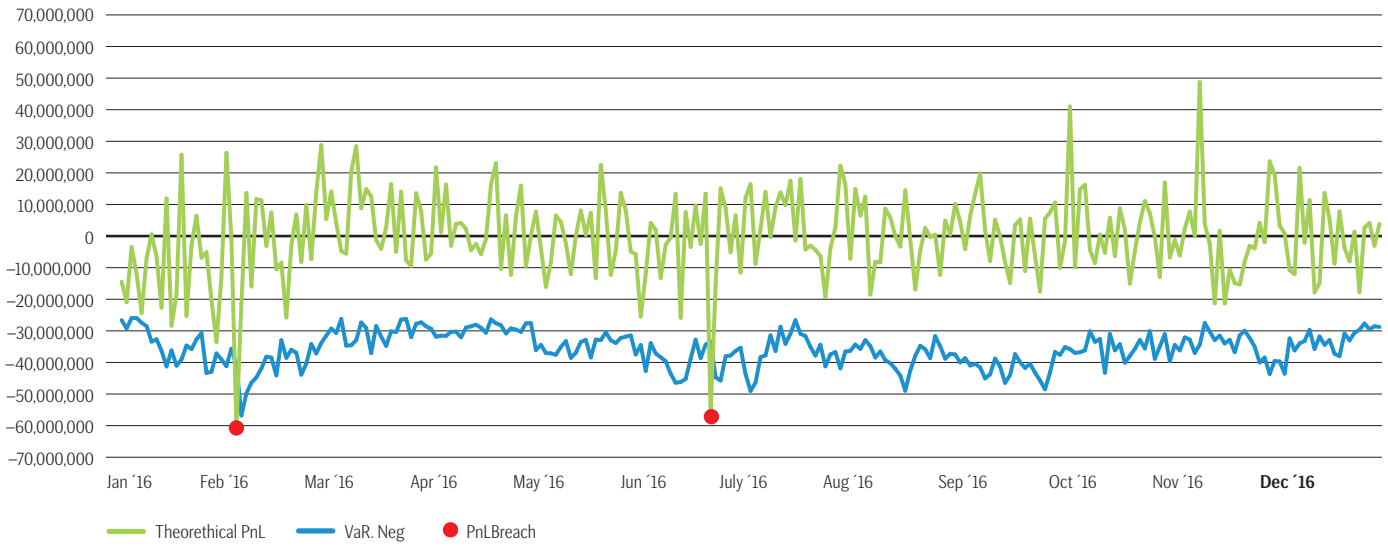
The limitation of SEB's VaR model is that it uses historical data to estimate potential market changes. As such it may not predict all outcomes, especially in a rapidly changing market. Also, VaR does not take into account any actions to reduce risk as the model assumes that the portfolio is unchanged.

SEB's VaR and stressed VaR models have been approved by the SFSA for calculation of regulatory capital requirements for all the general market risks in SEB's trading book in the parent company and in the subsidiary Skandinaviska Enskilda Banken S.A. in Luxembourg.

Back-testing of regulatory VaR-model

To verify and assure the model's accuracy, the VaR-model is back-tested on a daily basis by comparing the last 250 daily VaR estimates with the profit or loss for the corresponding days. Back-testing is used to verify that actual losses do not exceed the VaR level in more than one per cent of the trading days in line with the model confidence level. The daily theoretical result is calculated from end-of-day positions using full revaluation and updated market data. Back-testing is performed on desk level as well as on aggregated level.

TABLE 45. Back-testing of VaR-model (SEK million, unweighted VaR vs. Theoretical profit and loss, 99% confidence interval and one-day holding period)



Comments

- *The chart above compares VaR estimates of the trading book with theoretical gains and losses in 2016.*
- *In 2016, the theoretical loss on the trading book exceeded the VaR loss limits on two occasions.*

Value at Risk 2016

TABLE 46. Trading book VaR and Stressed VaR

Value at Risk (99 per cent, ten days), SEK m	Min	Max	31 Dec 2016	Average 2016	Average 2015
Interest rate risk	37	120	**61**	**72**	95
Credit spread risk	54	77	**61**	**63**	66
Foreign exchange risk	6	78	**9**	**32**	34
Equity risk	11	56	**40**	**26**	29
Commodities risk	9	60	**27**	**22**	17
Volatilities risk	10	34	**12**	**17**	34
Diversification			**–118**	**–120**	–158
TOTAL	**83**	**182**	**92**	**112**	**117**

Stressed Value at Risk (99 per cent, ten days), SEK m	Min	Max	31 Dec 2016	Average 2016	Average 2015
Interest rate risk	229	522	**274**	**358**	417
Credit spread risk	343	497	**416**	**399**	486
Foreign exchange risk	17	165	**17**	**59**	80
Equity risk	24	207	**57**	**67**	116
Commodities risk	13	117	**32**	**32**	30
Volatilities risk	28	102	**37**	**54**	53
Diversification			**–295**	**–391**	–411
TOTAL	**413**	**741**	**538**	**578**	**771**

TABLE 47. Banking book VaR

Value at Risk, (99 per cent, ten days), SEK m	Min	Max	31 Dec 2016	Average 2016	Average 2015
Interest rate risk	127	336	**127**	**232**	189
Credit spread risk	14	82	**51**	**60**	97
Foreign exchange risk		10	**6**		1
Equity risk	29	98	**29**	**58**	28
Diversification			**–54**	**–110**	–98
TOTAL	**153**	**320**	**159**	**240**	**217**

Comments

- *In 2016, the Group's 10-day VaR in the trading operations averaged SEK 112m compared to SEK 117m for 2015. Open market risk in SEB's trading portfolios peaked during the first quarter of 2016, and was stable during the rest of the year.*
- *The average banking book VaR increased by 11 per cent in 2016 compared to 2015, primarily driven by a higher contribution from interest rates.*

Scenario analyses and stress tests

Scenario analyses and stress tests are performed on a regular basis and complement the Group's other risk measurements.

The 99 per cent-confidence level used in the VaR model implies that a loss exceeding the VaR figure is expected once every 100 days. By using a more extensive set of market data scenarios than available in the simulation window of the VaR-model, stress testing makes it possible to estimate losses in scenarios that are more severe than the VaR 99 per cent scenario.

By applying extreme movements in market factors to the Group's positions, the potential impact from individual risk factors as well as broader market scenarios can be assessed. The movements could either be forward-looking and hypothetical or be based on observed historical movements. To further incorporate all possible events, the Group complements the historical and hypothetical scenarios with reverse stress tests, which start from an outcome where, for example, a stop-loss limit would be breached and then identifies circumstances where this might occur. The risk tolerance framework includes limits on stress test scenarios.

Risk type-specific measures

As complementary analytical tools, SEB uses sensitivity and position measures as appropriate to the various instrument and risk types:

Delta 1%

SEB uses both gross and net delta 1% to measure interest rate risk sensitivity in the trading and banking books. Both measures are calculated for interest rate-based products and measure the change in market value following a simultaneous one percentage-point-parallel shift in interest rates for all currencies.

Aggregated FX positions

While foreign exchange trading positions are measured using VaR, the structural foreign exchange risk inherent in the structure of the balance sheet and earnings are measured separately through an aggregate FX limit. Aggregated FX is arrived at by calculating the sum of all short non-SEK positions and the sum of all long non-SEK positions. Aggregated FX is the larger of these two sums, in absolute value.

Stop-loss limits

Stop-loss limits are used throughout the Group's trading activities. A stop-loss limit is a specified loss amount at which loss limiting measures must be executed in order to restrict potential losses of a position, portfolio or entity. Since it focuses on actual losses, the stop-loss framework covers all risk events and risk drivers, and helps limit losses under stressed market conditions.

Capital requirement for market risk in the trading book

SEB uses the internal model approach for calculation of regulatory capital requirements for all the general market risks in SEB's trading book in the parent company and in the subsidiary Skandinaviska Enskilda Banken S.A. in Luxembourg (VaR and SVaR-models). The capital requirement for remaining market risks in the trading book is calculated using the standardised approach. The break-down of risk exposure amount and the corresponding capital requirements are shown below.

TABLE 48. Market risk under the standardised approach

	31 Dec 2016		31 Dec 2015	
SEK m	REA	Own funds requirements	REA	Own funds requirements
Outright products	13,085	1,047	16,259	1,301
Interest rate risk (general and specific)	7,302	584	9,595	768
Equity risk (general and specific)	2,010	161	1,803	144
Foreign exchange risk	3,773	302	4,778	382
Commodity risk				
CIUs			84	7
Options			1	
Simplified approach				
Delta-plus method				
Scenario approach			1	
Securitisation (specific risk)	86	7	126	10
TOTAL	**13,171**	**1,054**	**16,386**	**1,311**

TABLE 49. Market risk under the IMA

	31 Dec 2016		31 Dec 2015	
SEK m	REA	Own funds requirements	REA	Own funds requirements
VaR	**4,345**	**348**	**4,934**	**395**
Previous day's VaR (Article 365(1) of the CRR (VARt-1)	1,138	91	951	76
Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR	4,345	348	4,934	395
SVaR	**25,697**	**2,056**	**29,298**	**2,344**
Latest SVaR (article 365(2) of the CRR (SVaRt-1)	6,776	542	6,350	508
Average of the SVaR (article 365(2) of the CRR) uring the preceding 60 business days (SVaRavg) x multiplication factor (mc) (Article 366 of the CRR)	25,697	2,056	29,298	2,344
TOTAL	**30,042**	**2,403**	**34,233**	**2,739**

Table 50. IMA values for trading portfolios

VaR (10 day 99%), SEK m	**2016**	2015
Maximum value	182	160
Average value	112	117
Minimum value	83	75
Period end	92	75
SVaR (10 day 99%), SEK m		
Maximum value	741	1,108
Average value	578	771
Minimum value	413	470
Period end	538	518

Comments

- *The table above summarises the values resulting from the VaR- and SVaR-models that are used for computing the regulatory capital requirement for SEB under the IMA approach.*

Fundamental Review of the Trading Book

The Basel Committee finalised the Fundamental Review of the Trading Book (FRTB) in January 2016. The framework covers how market risks shall be measured and reported for regulatory capital with the objective to address identified weaknesses under the existing framework. The framework outlines significant changes to both the standardised and internal model-based approaches for calculating capital charges, including stricter quantitative and qualitative requirements for applying internal models. The framework also proposes to shift the risk measure from VaR to expected shortfall to better capture tail risk. Furthermore, the proposal includes a revised boundary between the trading book and the banking book that is better aligned with banks' risk management practices and reduces incentives for regulatory arbitrage.

The recently published proposal for a revision of CRR indicates that implementation of the new framework is expected be in place by January 2021. Quantitative impact studies will be rerun based on the latest proposal. SEB's work on implementing the new framework includes cross-departmental efforts in order to utilise synergies between units. In addition to complying with the new standardised and internal model approaches, the aim is to increase transparency and granularity in risk reporting and to increase the benefits for customers through reduced operational risk and increased cost efficiency. When implemented, FRTB will be subject to a phase-in-period of three years during which banks will be allowed to multiply their own fund requirements for market risks by 65 per cent.

VI. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes compliance, legal and financial reporting, IT and information security, security and venture execution risk.

Risk management

Operational risk is inherent in all of SEB's operations. Examples of operational incidents include fraud, business disruptions and system failures, misconduct by its employees, failure to comply with applicable laws and regulations or failures or mistakes on the part of suppliers or external service providers. Such events could result in financial losses, litigation and regulatory fines, as well as reputational damage to SEB.

SEB aims to maintain a sound risk culture with low operational risk and loss level through an effective internal control environment by ensuring a structured and consistent usage of risk mitigating tools and processes. The Board of Directors has defined the overall aim and principles for identification, analysis and reporting, monitoring and measurement of operational risk in the Group Risk Policy and the Operational Risk Instruction, which in turn is supplemented by additional instructions and guidelines.

The business divisions and support functions own the risk inherent in their operations and the responsibility to identify, assess, monitor and manage operational risk rests with all managers throughout SEB. Operational risk managers are embedded within the first line of defense and are dedicated to assist managers in the day-to-day operational risk management. They are delegated the task to ensure an effective implementation of the operational risk management and internal control framework.

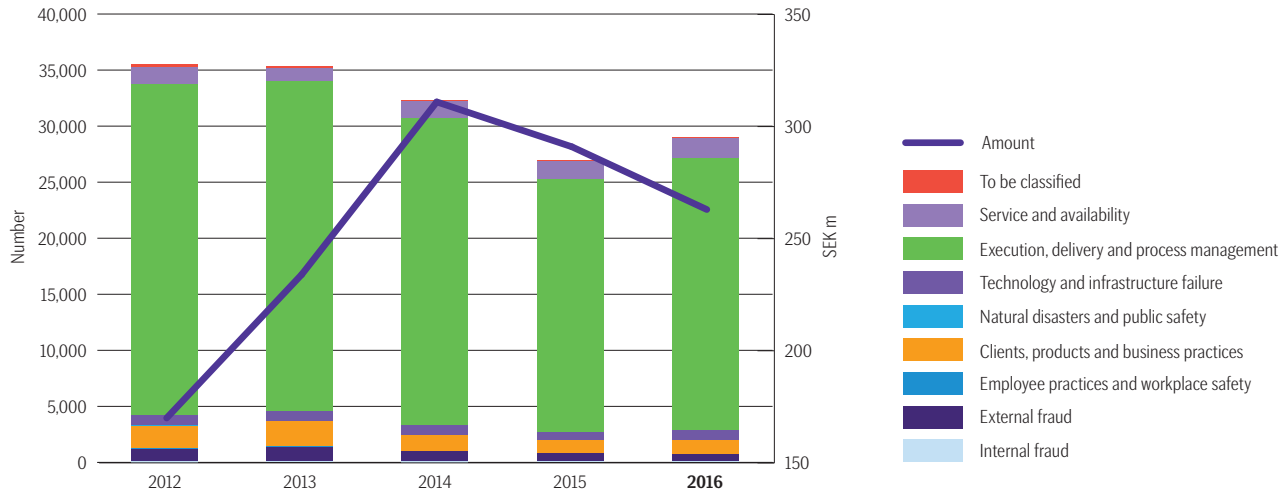
The risk organisation is responsible for identifying, monitoring, measuring, analysing and reporting SEB's operational risk. The main objective is to ensure that all operational risks inherent in the activities of SEB are identified and defined, as well as measured, monitored and controlled in accordance with external and internal rules.

The risk organisation provides periodic risk reports on compliance with the operational risk tolerance set by the Board, status on key risk indicators, significant incidents and risk highlights to senior management, risk committees and the Board. The risk organisation also regularly monitors, assesses and reports on SEB's operational risk environment. The conclusions are summarised and reported to senior management, risk committees and the Board from two main aspects: firstly, main operational risks for the Group, divisions and support functions, mitigating actions put in place and recommendations for further mitigating actions, and, secondly, how the bank's risk tools and processes are being applied to mitigate operational risk on a day to day basis.

SEB's structured approach working with operational risk has resulted in a decreased number of incidents and losses and increased risk awareness over the years. Despite a robust operational risk management framework, SEB strives to continuously improve its framework and risk practices to mitigate existing and emerging risks. The main focus during 2016 was to further strengthen the risk and control self-assessment methodology with particular focus on significant processes, legal, IT and rogue trading risks. Monitoring and reporting of cyber, information security and conduct risks was also strengthened during the year.

In 2016, losses from operational incidents amounted to SEK –263m (–291). Benchmarking against members of the Operational Risk Data Exchange Association (ORX) shows that SEB's operational losses are below the ORX average.

TABLE 51. Operational risk incidents registered and analysed



The following tools and processes are used throughout the bank to continuously identify and manage operational risk:

New Product Approval Process

All new or changed products, processes and/or systems as well as reorganisations are evaluated in a group-common New Product Approval Process (NPAP). The aim is to identify potential operational risks and ensure that proactive measures are taken to protect SEB from entering into unintended risk-taking that cannot be immediately managed by the organisation.

Risk and Control self-Assessments

All business units with significant risk embedded in their operations shall regularly complete Risk and Control Self-Assessments (RCSA) according to a group-wide methodology. The assessments are based on their consolidated operations and the assessments are designed to identify and mitigate operational risks embedded in the process end-to-end. The RCSA framework is used to analyse SEB's operational risk profile and help achieve operational excellence and high performance.

Business continuity management

Business continuity management (BCM) is the process of ensuring that the organisation is prepared to respond to and operate through a period of major disruption. SEB's BCM framework provides methods and processes to ensure readiness to recover, resume and maintain business critical functions and processes. There are strategies and plans in place to enable recovery and continuity of critical functions and processes in case of major disruptions.

Crisis management

Crisis Management Teams are established on Group, country and divisional level to ensure quick response and management of serious disruption in order to protect the lives, health and assets of employees, customer and other stakeholders.

Incident management

All employees are required to escalate and register risk-related events so that risks can be properly identified, assessed, monitored, mitigated and reported. SEB uses a group-wide system to capture risk-events and other operational risk data and key metrics. The information is analysed by both first and second lines of defense to evaluate operational risk exposures and identify businesses, processes, activities, services or products with an increased level of operational risk.

Conduct, training and whistleblower procedure

SEB conducts regular training and education in key areas, including information security, fraud prevention, anti-money laundering, know-your-customer procedures and SEB's Code of Business Conduct. SEB also has a formal whistleblower procedure that encourages employees to report improprieties and unethical or illegal conduct.

Insurance coverage

SEB is insured to a limited degree to cover for financial loss as a consequence of criminal acts committed with the intention of obtaining illegal financial gain, compensatory damages or settlements for financial loss caused by a negligent act, error or omission, and damages or settlements caused by loss or damage to property or by bodily injury.

Measurement of operational risk

SEB has received regulatory approval to use the Advanced Measurement Approach (AMA) to calculate the capital requirement for operational risk. This regulatory approval is a confirmation of SEB's experience and expertise in operational risk management, including incident reporting, operational loss reporting, capital modeling and quality assessment of processes.

Using the AMA model, SEB quantifies operational risk with a loss distribution approach, using internal data and external operational losses in the global financial sector. The AMA model is structured along the regulatory-defined business lines for operational risk where SEB's business volume serves as a risk estimate in the modelling. Once the capital requirement for the Group has been calculated, it can be allocated in a fashion that is similar to the methodology used in the Standardised Approach, however using capital multipliers representing each business line's riskiness as assessed in the model. The quality of the risk management of the divisions, based upon their self-assessment, is taken into account as well. Efficient operational risk management results in a reduction of allocated capital and insufficient risk management results in an increase. The capital requirement for operational risk is not affected by any external insurance agreement to reduce or transfer the impact of operational risk losses. The total capital requirement for operational risk was SEK 3.8bn (3.8) at the end of 2016.

The AMA model is also used to calculate economic capital for operational risk, but with a higher confidence level and with the inclusion of loss events relevant for the life insurance operations. The calculation of expected losses takes into account both internal and external loss data and is used as input for business planning and stress tests at all levels in the bank.

Upcoming regulatory changes

The Basel Committee has proposed a new method, the Standardised Measurement Approach (SMA), to calculate regulatory capital for operational risks. The SMA is meant to replace all existing methods, including AMA, for calculating regulatory capital for operational risks. The SMA is intended to apply to banks of all sizes and complexities. As of year-end 2016, the final decision by the Basel Committee on the SMA had not been made.

VII. Liquidity risk

Liquidity risk is the risk that the group is unable to refinance its existing assets or is unable to meet the demand for additional liquidity. Liquidity risk also entails the risk that the bank is forced to borrow at unfavourable rates or is forced to sell assets at a substantial loss in order to meet its payment commitments.

Risk management

The aim of SEB's liquidity management is to ensure that the Group has a controlled liquidity situation, with adequate volumes of liquid assets in all relevant currencies to meet its liquidity requirements in all foreseeable circumstances, without incurring substantial cost. The treasury function has the overall responsibility for liquidity management and funding strategy, and is supported by local treasury centres in the Group's major markets.

The Board of Directors has established a comprehensive framework for managing the bank's liquidity requirements in the short- and long-term. Liquidity management and the structuring of the balance sheet from a liquidity point of view are built on three basic perspectives: (i) the structural liquidity perspective, in which stable funding is put in relation to illiquid assets; (ii) the bank's tolerance for short-term stress in the form of a shutdown of the wholesale and interbank funding markets (wholesale funding dependence); and, (iii) the bank's tolerance to a severe stress scenario where, in addition to a shutdown of the funding market, the bank experiences a severe outflow of deposits. The three perspectives are summarised in the simplified balance sheet below.

In addition to the above approaches of looking at liquidity, there are a number of targets that SEB strives to meet, including a diversified funding base, wholesale funding maturities that are well distributed over time, sufficient over-collateralisation in the bank's cover pools and to make sure that the level of encumbered assets is acceptable to unsecured creditors.

The liquidity risk is managed through the limits set by the Board, which are further allocated by the Group Risk Committee. Liquidity limits are set for the Group, branches and specific legal entities, as well as for exposures in certain currencies.

The risk organisation measures and follows up the liquidity risk and limit utilisation on a daily basis, which is reported to management. Risk utilisation based on different market conditions and liquidity stress tests are analysed continuously and reported at least on a monthly basis to the Group Risk Committee and the Board's Risk and Capital Committee.

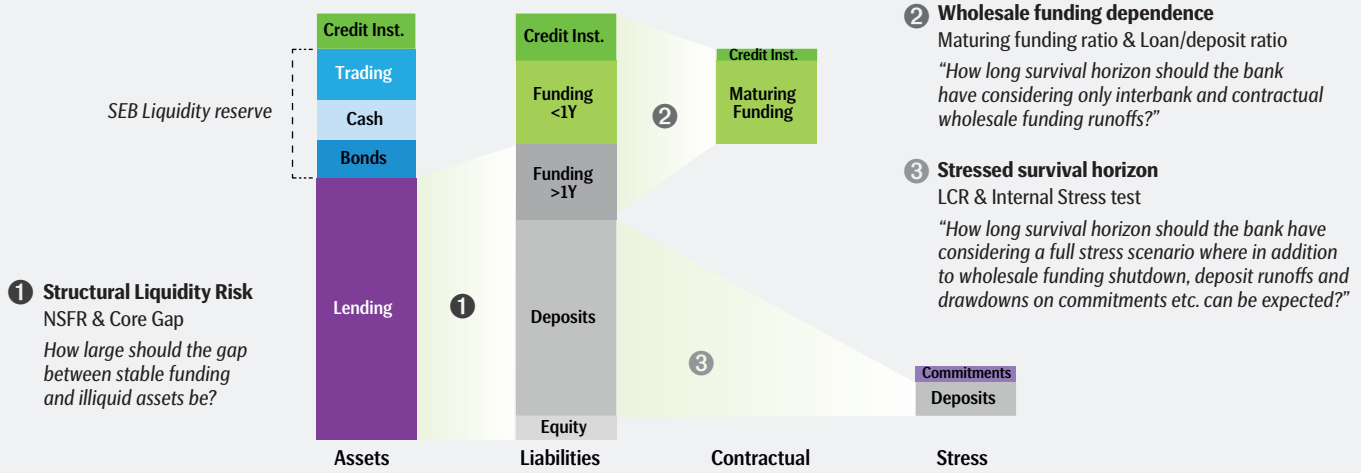
Liquidity reserve

To mitigate liquidity risk and ensure that SEB is able to meet its payment obligations, SEB holds a liquidity reserve which is managed by the treasury function. SEB's core liquidity reserve, in accordance with the template defined by the Swedish Bankers' Association, amounted to SEK 427bn (352) at year-end 2016. ▶▶ *For details on the liquidity reserve, please refer to Annual Report Note 17 f.*

Internal liquidity adequacy assessment process

Liquidity risk is not primarily mitigated by capital. However, there are strong links between a bank's capital and liquidity position. Hence, an internal liquidity adequacy assessment process (ILAAP) complements the ICAAP. The assessment is governed by the treasury function with input from the risk and finance organisations. The process is designed to identify potential gaps against SEB's long-term desired level of liquidity adequacy, taking into account that effective liquidity management is an ongoing improvement process.

Balance Sheet Structure illustrative



Asset encumbrance

The primary source of asset encumbrance in SEB is the issuance of covered bonds, which is a funding source used to fund residential mortgages. SEB maintains a certain level of over-collateralisation in the cover pool to be able to withstand a significant property price fall caused by a disruption in the real estate market. Furthermore, asset encumbrance is also driven by client facilitation within the Markets business where secured financing transactions such as repos and securities lending and borrowings give rise to the need for collateral both on and off the balance sheet. Other sources of asset encumbrance include collateral management and derivatives.

TABLE 52. Asset encumbrance

Carrying amount of selected financial liabilities, 2016

			Of which: Encumbered Assets						Of which: Encumbered Collateral					
Median value 2016, SEK m	**Total Sources of Encumbrance**	**Total Encumbrance**	**Bonds issued by General Governments and Central Banks**	**Covered bonds**	**Other debt securities**	**Equities**	**Loans and other assets**	**Total encumbered assets**	**Bonds issued by General Governments and Central Banks**	**Covered bonds**	**Other debt securities**	**Equities**	**Other**	**Total encumbered collateral**
Derivatives	**46,956**	**57,543**	2,626	353		691	37,929	**41,599**	8,923	5,525		1,496		**15,944**
Repos	**27,638**	**26,044**	8,887	1,543			202	**10,632**	11,357	4,055				**15,412**
Securities financing	**61,090**	**51,114**	5,576	2,207	1	17,085	19	**24,888**	3,923	1,865	63	20,375		**26,226**
Covered bonds	**352,510**	**355,573**					355,573	**355,573**						**0**
Collateral management	**137,761**	**139,265**							45,499	12,094	607	81,066		**139,266**
Other	**0**	**1,093**	787				306	**1,093**						**0**
Total	**625,955**	**630,633**	**17,876**	**4,103**	**1**	**17,776**	**394,029**	**433,785**	**69,702**	**23,539**	**670**	**102,937**		**196,848**
Non-encumbered assets and collateral			74,984	104,701	10,074	37,492	1,564,651	**1,791,902**	22,196	56,845	1,429	20,114	527	**101,111**
Total encumbrance and non-encumbrance			**92,860**	**108,804**	**10,075**	**55,268**	**1,958,680**	**2,225,687**	**91,898**	**80,384**	**2,099**	**123,051**	**527**	**297,959**
Encumbered asset ratio	19.5%													
Encumbered collateral ratio	66.1%													
Total encumbrance ratio	**25.0%**													

Carrying amount of selected financial liabilities, 2015

			Of which: Encumbered Assets						Of which: Encumbered Collateral					
Median value 2015, SEK m	**Total Sources of Encumbrance**	**Total Encumbrance**	**Bonds issued by General Governments and Central Banks**	**Covered bonds**	**Other debt securities**	**Equities**	**Loans and other assets**	**Total encumbered assets**	**Bonds issued by General Governments and Central Banks**	**Covered bonds**	**Other debt securities**	**Equities**	**Other**	**Total encumbered collateral**
Derivatives	**40,886**	**49,595**	3,672	754	46	242	32,842	**37,556**	7,873	4,075	17	75		**12,040**
Repos	**28,293**	**25,624**	11,229	3,191			193	**14,613**	5,006	6,005				**11,011**
Securities financing	**64,837**	**61,686**	11,326	2,036	60	33,811	676	**47,909**	1,647	67	29	12,034		**13,777**
Covered bonds	**352,655**	**348,963**					348,963	**348,963**						
Collateral management	**120,227**	**123,382**						**0**	37,617	8,996	448	76,321		**123,382**
Total	**606,898**	**609,251**	**26,227**	**5,981**	**106**	**34,053**	**382,674**	**449,041**	**52,143**	**19,143**	**494**	**88,430**		**160,210**
Non-encumbered assets and collateral			81,410	148,300	10,820	59,037	1,609,617	**1,909,184**	30,641	57,313	1,752	19,274	561	**109,541**
Total encumbrance and non-encumbrance			**107,637**	**154,281**	**10,926**	**93,090**	**1,992,291**	**2,358,225**	**82,784**	**76,456**	**2,246**	**107,704**	**561**	**269,751**
Encumbered asset ratio	19.0%													
Encumbered collateral ratio	59.4%													
Total encumbrance ratio	**23.2%**													

Measurement of liquidity risk

The risk organisation is responsible for the liquidity risk measurement methods and metrics used within SEB. In order to quantify and manage short- and long-term liquidity risk, a range of customised methods and metrics are used to assess the structure of the balance sheet and cash flows under both normal and stressed market conditions. Liquidity gaps shall be identified through measurement of cumulative net cash flows arising from the assets, liabilities and off-balance sheet positions in various time buckets.

Structural liquidity risk

In order to maintain a sound structural liquidity position, the structure of the liability side should be based on the composition of assets. The more long-term lending and other illiquid assets, the more stable funding is required. In SEB, this is measured as the Core Gap ratio, which is conceptually equivalent to the Basel Committee's Net Stable Funding Ratio (NSFR), i.e., a ratio between stable funding (over 1 year maturity) and illiquid assets (over 1 year maturity).

The difference between the internal Core Gap ratio and the external NSFR is that the Core Gap ratio is calculated and parameterised on a more detailed level, based on internal statistics resulting in different weightings of available stable funding and required stable funding.

SEB's Core Gap ratio amounted to 114 per cent at year-end 2016 (111). SEB manages its liquidity position in line with the upcoming regulatory NSFR requirement of 100 per cent, which is anticipated to be effective as of 2021.

Wholesale funding dependence

One way of measuring tolerance for deteriorating market conditions is to assess the time that SEB's liquid assets would last if the wholesale and interbank funding markets were closed. This measure, the maturing funding ratio, captures the bank's liquid assets in relation to wholesale funding and net interbank borrowings that come to maturity over the coming months, or as the number of months it would take to deplete the liquid assets in a scenario where all maturing funding must be repaid from liquid assets. Wholesale funding dependence is also measured as the loan to deposit ratio, excluding repos and reclassified debt securities.

SEB's loan to deposit ratio amounted to 143 per cent (146) as of year-end 2016.

Stressed survival horizon

Severe stress can be modelled by combining assumptions of a wholesale funding market shutdown with assumptions of deposit outflows and drawdowns on commitments, etc. The outcome is captured by the regulatory defined Liquidity Coverage Ratio (LCR) where, in a stressed scenario, modelled net outflows during a 30-day period are related to the amount of total liquid assets. SEB also measures the time it would take for the liquid assets to be depleted in a severely stressed scenario, expressed as the stressed survival horizon. In addition, SEB monitors various rating agencies' survival metrics.

SEB's LCR according to the SFSA's definition amounted to 168 per cent as of year-end 2016 (128). This shows that the bank is well funded in the event of a short-term stress in the funding markets. This is also the case in US dollars and euros, for which the LCR amounted to 305 per cent (230) and 272 per cent (226), respectively.

VIII. Insurance risk

Insurance risk in SEB consists of all risks related to the Group's life insurance operations, which consist of unit-linked, traditional life and risk insurance. The main risks include market risk, underwriting risk and operational risk.

SEB is exposed to a range of insurance risks. The main risks include market risk, underwriting risk and operational risk.

Market risk in the insurance business is the risk for losses on traditional life insurance policies with guaranteed benefits due to changes in fair value of assets and liabilities. Such changes in fair value can be caused by changes in interest rates, credit spreads, equity prices, property values, exchange rates and implied volatilities. In unit-linked insurance, the market risk is borne by the policyholder. However, there is an indirect exposure to market risk through the policyholders' investments, since a part of Life & Investment Management division's future income stream is based on the value of the assets under management.

Underwriting risk pertains to the risk of loss or of negative changes in the value of insurance liabilities (technical provisions) due to inadequate pricing and/or provisioning assumptions. It includes factors such as average mortality, longevity, disability/morbidity (including risks that result from fluctuation in the timing and amount of claim settlements), catastrophe risk (e.g., extreme or irregular events), expense risk and lapse risk (i.e., policyholder behavior risk).

Operational risk in the insurance business is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Within the Life & Investment Management division, unit-linked products represented 69 per cent of total premium income in 2016. In 2016, SEB re-opened sales within traditional life insurance policies in Sweden, after having been closed since 2007. SEB also offers traditional life insurance policies in Denmark and the Baltic countries.

Risk management and measurement

In unit-linked insurance, the market risk is borne by the policyholder, while the underwriting risk is limited. However, there is an indirect exposure to market risk through the policyholders´ investments, since a significant part of the future income stream of the life insurance business is based on assets under management. Market risk in the traditional life insurance products with guaranteed returns is mitigated through standard market risk hedging schemes and monitored through asset/liability management (ALM) risk measures and stress tests. This is supplemented by market risk tools such as VaR and scenario analysis.

Underwriting risks are controlled through the use of actuarial analysis and stress tests of the existing insurance portfolio. Mortality and disability/morbidity risks are reinsured for large individual claims or for several claims attributable to the same event. Underwriting risk parameters are validated annually. Policyholders within certain traditional life insurance products are free to move their policies from SEB. The utilisation of this option has been very low historically. Nevertheless, to safeguard against unplanned cash outflows the bank maintains sufficient liquid investments. Furthermore, continuous cash flow analysis is conducted to mitigate this risk.

In the traditional products, the difference between asset values and the guaranteed obligations constitutes a buffer which is intended to cover SEB's risk. In the unit-linked business, the profitability for existing and new business is closely monitored, and look-through of funds is implemented to the extent possible for better calculation of capital requirements under the Solvency regime.

The risk organisation is responsible for measuring and controlling the risks inherent in SEB's life insurance operations. Measurement and monitoring are performed on a regular basis for each insurance company. Traditional ALM (assets/liabilities mismatches) risk measures used by the industry are monitored on a regular basis for each insurance company. This is supplemented with market risk tools, such as VaR, scenario analysis and stress tests. Key risks are reported to the Group Risk Committee, the Board's Risk and Capital Committee and to the Boards of each insurance company. From a Solvency II perspective, the risk organisation also forms part of the independent risk management function in the respective insurance companies.

Solvency II

Solvency II, the new regulatory framework for insurance companies in the EU, became operational from 1 January 2016. The purpose of Solvency II is to create a harmonised regulatory framework with respect to governance, internal control and capital requirements across Europe. This is intended to facilitate transparency and comparability and to ensure companies' ability to meet their obligations and thus increase protection for policyholders.

Under Solvency II, an insurance company's capital requirement is risk-based, rather than the previous application of a fixed percentage of the company's technical provisions. All risks are taken into account, including market risk, underwriting risk and operational risk. Stress testing is applied to assess the company's resilience to sudden changes in assets and liabilities. In addition, the new regulatory framework places increased demands on a company's directors to ensure good risk management and more extensive reporting to the regulatory authorities and the public.

The stress tests conducted during the first year of Solvency II regime show that SEB Life Group is financially strong and resilient to different stresses. Solvency calculations are performed at least monthly and the required reporting is submitted to the financial supervisor in each relevant country on a quarterly basis. Solvency figures are closely monitored over time and the outcome has been in line with expectations.

Definitions

Asset encumbrance An asset is considered encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Average risk weight Total risk-weighted exposures divided by credit exposures post-CCF and post-CRM. Also referred to REA density or RWA density.

Back-testing A statistical technique used to monitor and assess the accuracy of a model, and how that model would have performed had it been applied in the past.

Capital conservation buffer Buffer under Basel III designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should capital levels fall within the capital conservation buffer range capital distributions will be constrained by the regulators.

Common Equity Tier 1 capital (CET1) The highest quality form of capital under Basel III. Comprises common shares issued and related share premium, retained earnings and other reserves, less specified regulatory adjustments.

Common Equity Tier 1 capital ratio CET1 capital expressed as a percentage of total risk exposure amount.

Countercyclical capital buffer Capital buffer financial institutions are required to hold in addition to other minimum capital requirements. Aims to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the buildup of system-wide risk.

Credit conversion factor (CCF) Factor used when calculating EAD for off-balance sheet items. CCF is an estimate of the proportion of undrawn commitments expected to have been drawn down at the point of default.

Credit risk mitigation (CRM) A range of techniques and strategies to actively mitigate credit risks to which the bank is exposed, e.g. collateral, netting and risk transfer.

Credit value adjustment (CVA) Capital charge to cover the risk of mark-to-market losses on the expected counterparty risk to OTC derivatives. CVA is the difference between the value of a derivative assuming the counterparty is default-risk free and the value reflecting default risk of the counterparty.

Debit valuation adjustment (DVA) The difference between the value of the derivative assuming the bank is default-risk free and the value reflecting default risk of the bank. Changes in a bank's own credit risk therefore result in changes in the DVA component of the valuation of the bank's derivatives.

Expected loss (EL) Amount expected to be lost on an exposure using a one year horizon. Calculated by multiplying PD, EAD and LGD.

Exposure at default (EAD) Amount expected to be outstanding after any credit risk mitigation if the counterparty defaults.

External Credit Assessment Institutions (ECAI) External credit rating agencies such as Fitch, Moody's, DBRS and Standard & Poor's.

Internal ratings-based approach (IRB) Method for determining own funds requirement using the banks' own models to estimate the risk. There are two versions of the IRB approach; with and without own estimates of LGD and CCF referred to as Advanced and Foundation, respectively.

IRB-Advanced A version of the IRB approach with own estimates of LGD and CCF.

IRB-Foundation A version of the IRB approach without own estimates of LGD and CCF.

Leverage ratio Tier 1 capital as a percentage of total assets including off-balance sheet items with conversion factors according to the standardised approach.

Loss given default (LGD) The proportion of an exposure that the bank loses on average in the event of default.

Liquidity Coverage Ratio (LCR) High-quality liquid assets in relation to the estimated net cash outflows over the next 30 calendar days, as defined by Swedish regulations. (The Swedish Financial Supervisory Authority's code FFFS 2012:6 and FFFS 2011:37).

Minimum capital requirement Minimum amount of regulatory capital that the bank must hold to meet the Pillar 1 requirements.

Net Stable Funding Ratio (NSFR) Defined as the amount of available stable funding relative to the amount of required stable funding.

Own funds Comprises the sum of Tier 1 and Tier 2 capital.

Own funds requirement Total own funds must exceed 8% of total risk exposure amount. Own funds must also cover additional requirements due to institution-specific buffers.

Pillar 1 The Basel framework is based on three pillars. Pillar 1 aligns minimum capital requirements more closely with institutions' actual risks.

Pillar 2 Provides for the supervisory review of institutions' internal assessments of their overall risks and capital adequacy.

Pillar 3 Motivates prudent management by enhancing the degree of transparency in institutions' public reporting.

Potential future exposure (PFE) Potential future credit exposure on derivative contracts calculated according to the mark-to-market approach.

Probability of default (PD) The probability of a borrower defaulting within one year.

Risk exposure amount (REA) The total of risk-weighted exposure amount for credit risk and counterparty credit risk and the risk exposure amounts for trading market risk and operational risk. Risk exposure amount is only defined for the consolidated situation, excluding insurance entities and items deducted from own funds.

Standardised approach Method of calculating and reporting credit risks based on standardised risk weights on the basis of the external rating. The standardised approach can also be used for market risk and operational risk.

Stressed VaR Market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.

Systemic risk buffer Buffer requirement for systemically important banks.

Through-the-cycle (TTC) Methodology that seeks to take cyclical volatility out of the estimates of default risk by assessing the counterparty's performance over the business cycle.

Tier 1 capital Common Equity Tier 1 capital plus qualifying forms of subordinated loans (additional Tier 1 instrument).

Tier 1 capital ratio Tier 1 capital as a percentage of total risk exposure amount.

Tier 2 capital Mainly subordinated loans not qualifying as Additional Tier 1 capital.

Total capital ratio Own funds as a percentage of total risk exposure amount.

Value at risk (VaR) A market risk measure of loss that could occur on positions as a result of adverse movements in market risk factors over a specified time period and to a given level of confidence.