2017

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 the quarterly Interim Reports and Fact Books. In this report – the Capital Adequacy and Risk Management Report (Pillar 3) – SEB provides additional information on its capital adequacy, risk exposures and risk management.

Regulatory framework for disclosures

The Basel Committee's framework is based on 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 their capital position, risk exposures and risk management processes. Pillar 3 requires all material risks to be disclosed, in order for investors and other market participants to assess the risk profile of individual banks. Disclosure requirements are specified in the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR), which implemented the Basel III standards of stricter capital requirements and new requirements for liquidity risk and leverage, and raised the standards on prudential supervision and disclosure. The CRR came into force in the EU on 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) in the autumn of 2014. In December 2016, European Banking Association (EBA) published its final report on Guidelines on disclosure requirements under Part 8 of CRR, with the aim to harmonise disclosures across banks. The guidelines are expected to be adhered to as of 31 December 2017, at the latest. In October 2017, the SFSA announced that they adopt EBA's guidelines.

Basis for SEB's Pillar 3 report

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

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, in particular in Note 9.

The Pillar 3 report is based upon the Group consolidated situation as of 31 December 2017. 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 Tables 3–5 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. The report is produced in accordance with the Group's disclosure policy, and is formally approved by the CFO and the CRO.

II. Risk management

SEB takes risk for the purpose of creating customer value and sustainable returns to shareholders. Managing this risk is a core activity in a bank and fundamental to long-term profitability and stability.

Risk management framework

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 (GRC) 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 Executive Committee (GEC), the Group Risk Committee, the Board's Risk and Capital Committee (RCC) and the Board.

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.

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 the bank's credit committees. The business units are responsible for ensuring that the activities comply with applicable rules. They are supported by a code of conduct and group values, 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, monitoring and reporting SEB's risks. 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 by 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, constitutes the cornerstones of an effective risk management.

Risk governance

SEB's overall corporate governance is described in detail in the section Corporate Governance in the Annual Report. The governance relating to risk management is summarised below.

The *Board of Directors* shall ensure that SEB is organised in such a way that, among other things, it has an effective internal control framework ensuring that all risks inherent in the activities of the Group are identified, measured, monitored and reported, and that the functions for risk control, compliance and internal audit are in place, that they are independent, separate from each other and have adequate resources, competences and responsibilities. The Board defines the principles for risk management in an overall risk policy. The risk policy is supplemented by instructions issued by the RCC and the GRC. The Board defines the bank's overall risk tolerance and risk strategy, and risk mandates are allocated by board committees and executive management committees. A comprehensive risk management governance structure ensures that policies approved by the Board are effectively complied with in all of SEB's risk-taking activities.

The *Board's Risk and Capital Committee* (RCC) supports the Board in ensuring that SEB is organised and managed in such a way that all risks inherent in the Group's business are controlled in accordance with the Board's risk tolerance statement as well as with external and internal rules. The RCC also monitors the Group's capital situation on a continuous basis. The RCC sets the principles and parameters for measuring and allocating risk and capital within the Group and oversees risk management systems and the risk tolerance and strategy for the near and long term. The RCC prepares a recommendation for the appointment and dismissal of the CRO. It also decides on individual credit matters of major importance or of importance as to principles and assists the Board's Remuneration Committee in providing a risk- and capital-based view on the remuneration system. The Group's Chief Financial Officer (CFO) has the overall responsibility for informing and submitting proposals to the RCC on matters related to capital and funding. The CRO has the same overall responsibility regarding risk and credit matters. The President, the CFO and the CRO regularly participate in the meetings.

The *Group Risk Committee* (GRC) is a group-wide, decision-making committee that addresses all types of risk at group level in order to evaluate portfolios, products and customers from a comprehensive risk perspective. The GRC is tasked with making important credit decisions and ensuring that all risks inherent in the Group's activities are identified, defined, measured, monitored and controlled in accordance with internal and external rules. The GRC also supports the President in ensuring that decisions regarding the Group's long-term risk tolerance are followed in the business organisation and ensures that the Board's guidelines for risk management and risk control are implemented and that the necessary rules and policies for risk-taking in the Group are maintained and enforced. The committee's chairman is the President and deputy chair is the CRO.

The *Group Risk Measurement Committee* (GRMC), a sub-committee of the GRC, has been delegated the mandate to assure that all risk methods, tools and measurements are of sufficient quality and approved. The committee consists of 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, particularly in the new regulatory framework; strategic capital and liquidity issues (including internal capital allocation and principles for internal pricing); balance sheet structure and development and other balance sheet-related issues; financing of wholly owned subsidiaries; as well as the Group's funding strategy. The committee's chairman is the President and deputy chair is the CFO.

The *Chief Risk Officer* (CRO) is appointed by the Board and reports to the President. The CRO keeps the Board, the RCC, the ACC, the GEC, the ALCO and the GRC regularly informed about risk matters. The CRO has global functional responsibility, and the activities of the CRO are governed by and set out in an instruction adopted by the Board. The CRO Function is organised in two units: Group Risk and Group Credits.

Group Risk, the risk organisation, is responsible for identifying, measuring, analysing and reporting on SEB's risks. The unit also develops and maintains the bank's risk models, aggregates and analyses risk data across risk types and the group's credit portfolios, as well as handles general matters relating to risk governance and risk disclosure.

Group Credits is responsible for managing the credit approval process, for certain individual credit decisions and for monitoring compliance with the credit policies set by the RCC and the Board. Its activities are regulated by the Group's Credit Instruction, adopted by the Board. The chairs of the respective divisional credit committees have the right to veto credit decisions. Material exceptions to the Group's Credit Policy must be escalated to a higher level in the decision-making hierarchy. The Head of Group Risk and the Group Credit Officer are appointed by the President, upon recommendation by the CRO, and report to the CRO.

For further information about SEB's governance arrangements, 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 and own funds

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

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 its 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 2017 are illustrated in the table below.

Table 1. **Regulatory capital requirement**

31 Dec 2017	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	0.9%			**0.9%**
Total Pillar 1	**10.9%**	**1.5%**	**2.0%**	**14.4%**
Systemic risk requirement	2.0%			**2.0%**
Mortgage floor	2.1%	0.2%	0.3%	**2.6%**
Credit concentration risk	0.3%	0.1%	0.1%	**0.5%**
Interest rate risk in the banking book	0.6%	0.1%	0.1%	**0.8%**
Pension risk	0.5%	0.1%	0.1%	**0.7%**
Corporate exposures – PD scale	0.5%	0.0%	0.1%	**0.6%**
Corporate exposures – maturity floor	0.3%	0.0%	0.1%	**0.4%**
Total Pillar 2	**6.3%**	**0.5%**	**0.7%**	**7.5%**
TOTAL CAPITAL REQUIREMENT	**17.2%**	**2.0%**	**2.7%**	**22.0%**

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

- The new accounting standard, IFRS 9 Financial Instruments, is effective as of 1 January 2018. It entails a change of methodology for impairment of financial instruments accounting in which loan loss allowances will be based on an expected loss model rather than the current incurred loss model. *For more information about IFRS9 and the transitional impact, refer to the Annual Accounts and the Annual Report for 2017 (Note 1).*
- The EU's Bank Recovery and Resolution directive was implemented into Swedish law in 2016. It sets the crisis management procedure for failing banks. The law also covers the bail-in tool and introduces a minimum requirements for own funds and eligible liabilities (MREL). In 2017, the Swedish National Debt Office (Riksgälden) presented the Swedish MREL framework, which includes a requirement for subordination of debt that may be bailed-in. The requirement is effective from 2018 and banks are expected to progressively build up the required volume of subordinated liabilities until 1 January 2022 at the latest. For SEB, this volume is around SEK 90bn.
- The major part of the revised Basel III framework was finalised in December 2017, resulting in a limitation of the benefits in terms of capital requirement when using internal ratings-based risk measurement models. SEB has started to assess the capital effect of the revised framework, but due to the fact that there are still

issues to be agreed upon, the adaptation to national supervisory regimes, and the long implementation period from 2022 to 2027, the final effect is still not clear. In a parallel initiative, EBA is, together with national supervisors, trying to harmonise and reduce variation in the implementation of internal models by introducing requirements on definitions and model parameters, and prescribing more detailed requirements on decision processes. Compliance is expected during the next one to three years.

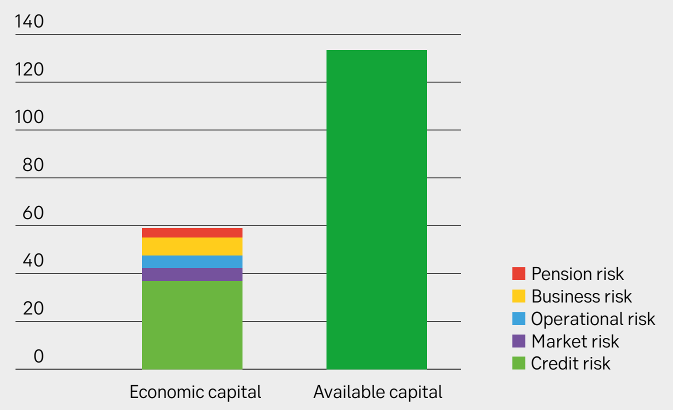
Capitalisation target

The Board of Directors sets SEB's capitalisation target to ensure that the Group's capital is sufficient both to support its business strategy and risk tolerance and to safeguard that the bank can maintain its capital ratios above regulatory requirements also in less favourable economic conditions. Currently, the Board's 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 target for the CET 1 capital ratio of around 18.7 per cent as of year-end 2017. SEB's CET1 capital ratio amounted to 19.4 per cent as of year-end 2017.

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.

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



COMMENTS

- *As of 31 December 2017, the internally assessed capital requirement for the consolidated situation (i.e., excluding insurance operations) amounted to SEK 59bn (59), of which credit risk accounts for the largest part.*
- *Available capital to cover for the economic capital amounted to SEK 136bn (134), which shows that SEB is well capitalised in relation to its risks.*

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'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 concentration to large exposures is also stressed by simulating the effect of a 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.

Funding and business 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.

SEB typically works with different stress test scenarios designed to reflect both probable and hypothetical scenarios. The probable scenarios have a sufficient connection with historical observation to enable calculation of the likely effect, whereas the hypothetical scenarios represent 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. For example, the EBA regularly conducts an EU-wide stress test. The next such stress test will be conducted in 2018.

SEB's consolidated situation

Scope of application of the regulatory framework

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.

The tables below show the scope of consolidation and the difference between the accounting and regulatory scopes of consolidation due to the insurance operations.

Table 3. **EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

SEK m	a	b	c	d	e	f	g	
			Carrying values of items:					
31 Dec 2017	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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*
Assets								
Cash and cash balances with central banks	177,222	177,222	177,222					
Other lending to central banks	12,778	12,778	12,444	334				
Loans to credit institutions	34,715	34,163	34,107	56				
Loans to the public	1,484,803	1,489,647	1,401,905	78,955	8,787			
Financial assets at fair value through profit or loss	575,955	271,191		105,321		263,206		
Fair value changes of hedged items in a portfolio hedge	93	93				93		
Available-for-sale financial assets	27,776	30,351	27,776				2,575	
Investments in subsidiaries and associates	1,314	11,034	7,676				3,358	
Tangible and intangible assets	12,052	4,194	1,252				2,942	
Other assets	48,877	51,475	46,195				5,280	
Non-current assets and disposal groups classified as held for sale	184,011	274	274					
Total assets	**2,559,596**	**2,082,422**	**1,708,851**	**184,666**	**8,787**	**263,299**	**14,155**	
Liabilities								
Deposits from central banks and credit institutions	89,076	88,881						
Deposits and borrowing from the public	1,004,721	1,014,031						
Liabilities to policyholders	303,202							
Debt securities issued	614,033	614,033						
of which gains or losses on liabilities valued at fair value resulting from changes in own credit standing		*99*						*a*
Financial liabilities at fair value through profit or loss	114,314	115,600		86,721				
Fair value changes of hedged items in a portfolio hedge	1,046	1,046						
Other liabilities	75,170	71,859						
Provisions	3,009	2,909						
Subordinated liabilities	32,390	32,390						
of which Additional Tier 1 instruments		*13,922*						*b*
of which Tier 2 instruments		*18,171*						*c*
Liabilities of disposal groups classified as held for sale	178,710	0						
Total liabilities	**2,415,671**	**1,940,749**		**86,721**				
Total equity	**143,925**	**141,673**						
of which CET1 paid-in share capital	*21,942*	*21,942*						*d*
of which retained earnings	*61,140*	*60,066*						*e*
of which accumulated other comprehensive income	*5,055*	*4,869*						*f*
of which other reserves	*39,544*	*38,607*						*f*
of which independently reviewed result	*16,244*	*16,189*						
TOTAL LIABILITIES AND EQUITY	**2,559,596**	**2,082,422**						

Table 4. EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

SEK m		a	b	c	d	e
			Items subject to:			
Dec 31 2017		Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
1	**Asset carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**2,165,603**	**1,708,851**	**184,666**	**8,787**	**263,299**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	86,721		86,721		
3	Total net amount under regulatory scope of consolidation	2,165,603	1,708,851	184,666	8,787	263,299
4	Off-balance sheet amounts	739,176	675,645	63,400	131	
5	*Differences in valuations*					
6	*Differences due to different netting rules, other than those already included in row 2*	*–134,325*		*–16,300*		*–118,025*
7	*Differences due to consideration of provisions*					
8	*Differences due to prudential filters*					
10	**EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES**	**2,770,454**	**2,384,496**	**231,766**	**8,918**	**145,274**

Table 5. EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

	a	b	c	e	f
		Method of regulatory consolidation			
Name of the entity	**Method of accounting consolidation**	**Full consolidation**	**Proportional consolidation**	**Deducted**	**Description of the entity**
SEB Corporate Bank, PJSC, Kiev	Full consolidation	✓			Credit institution
SEB AG, Frankfurt am Main	Full consolidation	✓			Credit institution
SEB Bank JSC, St Petersburg	Full consolidation	✓			Credit institution
SEB Banka, AS, Riga	Full consolidation	✓			Credit institution
SEB bankas, AB, Vilnius	Full consolidation	✓			Credit institution
SEB Kort Bank AB, Stockholm	Full consolidation	✓			Credit institution
SEB Leasing Oy, Helsinki	Full consolidation	✓			Credit institution
SEB Njord AS, Oslo	Full consolidation	✓			Credit institution
SEB Pank, AS, Tallinn	Full consolidation	✓			Credit institution
Skandinaviska Enskilda Banken S.A., Luxembourg	Full consolidation	✓			Credit institution
Skandinaviska Enskilda Ltd, London	Full consolidation	✓			Credit institution
Aktiv Placering AB, Stockholm	Full consolidation	✓			Financial corporation
SEB Fondbolag Finland Ab, Helsinki	Full consolidation	✓			Financial corporation
SEB Fund Services S.A., Luxembourg	Full consolidation	✓			Financial corporation
SEB Förvaltnings AB, Stockholm	Full consolidation	✓			Financial corporation
SEB Investment Management AB, Stockholm	Full consolidation	✓			Financial corporation
SEB Kapitalförvaltning Finland Ab, Helsinki	Full consolidation	✓			Financial corporation
SEB Portföljförvaltnings AB, Stockholm	Full consolidation	✓			Financial corporation
SEB Securities Inc., New York	Full consolidation	✓			Financial corporation
SEB Strategic Investments AB, Stockholm	Full consolidation	✓			Financial corporation
SEB Life and Pension Holding AB, Stockholm	Full consolidation			✓	Insurance operations
Repono Holding AB, Stockholm	Full consolidation			✓	Insurance operations
Försäkringsaktiebolaget Skandinaviska Enskilda Captive, Stockholm	Full consolidation			✓	Insurance operations
Baltectus B.V., Amsterdam	Full consolidation	✓			Non-financial corporation
Bankomat AB, Stockholm	Equity method		✓		Non-financial corporation
Bankomatcentralen AB, Stockholm	Equity method		✓		Non-financial corporation
BGC Holding AB, Stockholm	Equity method		✓		Non-financial corporation
Domena Property Sp. Z o.o., Warsaw	Full consolidation	✓			Non-financial corporation
Enskilda Kapitalförvaltning SEB AB, Stockholm	Full consolidation	✓			Non-financial corporation
Getswish AB, Stockholm	Equity method		✓		Non-financial corporation
Parkeringshuset Lasarettet HGB KB, Stockholm	Full consolidation	✓			Non-financial corporation
Postep Property Sp. Z o.o., Warsaw	Full consolidation	✓			Non-financial corporation
SEB do Brasil Representacões LTDA, Sao Paulo	Full consolidation	✓			Non-financial corporation
SEB Hong Kong Trade Services Ltd, Hong Kong	Full consolidation	✓			Non-financial corporation
SEB Internal Supplier AB, Stockholm	Full consolidation	✓			Non-financial corporation
Skandinaviska Kreditaktiebolaget, Stockholm	Full consolidation	✓			Non-financial corporation
UC AB, Stockholm	Equity method		✓		Non-financial corporation

Own funds and capital requirements

Table 6. Overview of own funds and capital adequacy

SEK m	31 Dec 2017	31 Dec 2016
Own funds		
Common Equity Tier 1 capital	118,204	114,419
Tier 1 capital	132,127	129,157
Total own funds	147,849	151,491
Own funds requirement		
Risk exposure amount	610,819	609,959
Expressed as own funds requirement	48,866	48,797
Common Equity Tier 1 capital ratio	19.4%	18.8%
Tier 1 capital ratio	21.6%	21.2%
Total capital ratio	24.2%	24.8%
Own funds in relation to own funds requirement	3.03	3.10
Regulatory Common Equity Tier 1 capital requirement including buffers	10.9%	10.7%
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	*0.9%*	*0.7%*
Common Equity Tier 1 capital available to meet buffers [1)]	14.9%	14.3%
Transitional floor 80% of capital requirement according to Basel I		
Minimum floor own funds requirement according to Basel I	89,774	86,884
Own funds according to Basel I	149,030	151,814
Own funds in relation to own funds requirement Basel I	1.66	1.75
Leverage ratio		
Exposure measure for leverage ratio calculation	2,519,532	2,549,149
of which on balance sheet items including derivatives and securities financing transactions (SFTs)	*2,140,093*	*2,120,587*
of which off balance sheet items	*379,439*	*428,562*
Leverage ratio	5.2%	5.1%

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%.

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 130.7bn, while own funds amounted to SEK 198.4bn. In these total figures, SEB Life and Pension Holding AB has contributed with Solvency II figures from 30 September 2017.

Table 7. EU OV1 – Overview of RWAs

SEK m		RWAs		Minimum capital requirements
	Breakdown by risk type	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**
1	Credit risk (excluding counterparty credit risk)	458,570	443,741	36,686
2	*of which standardised approach (SA)*	*47,521*	*51,678*	*3,802*
3	*of which foundation internal rating-based (F-IRB) approach*	*129,444*	*119,588*	*10,356*
4	*of which advanced internal rating-based (A-IRB) approach*	*281,605*	*272,475*	*22,528*
6	Counterparty credit risk	27,484	33,895	2,199
7	*of which mark to market*	*7,207*	*9,288*	*577*
10	*of which internal model method (IMM)*	*13,368*	*16,720*	*1,069*
11	*of which risk exposure amount for contributions to the default fund of a CCP*	*141*	*69*	*11*
12	*of which CVA*	*6,767*	*7,818*	*541*
13	Settlement risk	38		3
14	Securitisation exposures in banking book	1,060	3,282	85
15	*of which IRB approach*	*838*	*3,066*	*67*
18	*of which standardised approach*	*222*	*216*	*18*
19	Market risk	38,794	43,213	3,104
20	*of which standardised approach*	*13,902*	*13,171*	*1,112*
21	*of which internal model approach (IMA)*	*24,892*	*30,042*	*1,991*
22	Large exposures			
23	Operational risk	48,219	47,901	3,858
26	*of which advanced measurement approach*	*48,219*	*47,901*	*3,858*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	20,851	23,180	1,668
28	Floor adjustment			
	Additional risk exposure amount due to Article 3 CRR	15,802	14,747	1,264
29	**TOTAL**	**610,819**	**609,959**	**48,866**

Table 8. EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

SEK m		a	b
		RWA amounts	Capital requirements
1	**RWA as at 31 Dec 2016**	**392,063**	**31,365**
2	Asset size	22,080	1,766
3	Asset quality	–5,730	–458
4	Model updates	5,500	440
5	Methodology and policy		
6	Acquisitions and disposals		
7	Foreign exchange movements	–2,864	–229
8	Other		
9	**RWA AS AT 31 DEC 2017**	**411,049**	**32,884**

Table 9. EU CCR7 – RWA flow statements of CCR exposures under Internal Model Method (IMM)

SEK m		a	b
		RWA amounts	Capital requirements
1	**RWA as at 31 Dec 2016**	**16,720**	**1,338**
2	Asset size	–3,382	–271
3	Credit quality of counterparties	345	28
4	Model updates (IMM only)		
5	Methodology and policy (IMM only)		
6	Acquisitions and disposals		
7	Foreign exchange movements	–314	–25
8	Other		
9	**RWA AS AT 31 DEC 2017**	**13,368**	**1,069**

Table 10. EU MR2-B – RWA flow statements of market risk exposures under the IMA

SEK m		a	b	c	d	e	f	g
		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWA as at 31 Dec 2016**	**4,345**	**25,697**				**30,042**	**2,403**
1a	Regulatory adjustment	–3,207	–18,921				–22,128	–1,770
1b	RWA as at year-end 2016 (end of the day)	1,138	6,776				7,914	633
2	Movement in risk levels	–43	887				844	68
3	Model updates/changes	–269					–269	–22
4	Methodology and policy							
5	Acquisitions and disposals							
6	Foreign exchange movements							
7	Other	73	–622				–549	–44
8a	RWA as at year-end 2017 (end of the day)	899	7,040				7,939	635
8b	Regulatory adjustment	2,603	14,350				16,953	1,356
8	**RWA as at 31 Dec 2017**	**3,502**	**21,390**				**24,892**	**1,991**

Table 11. EU INS1 – Non-deducted participations in insurance undertakings

SEK m	31 Dec 2017	31 Dec 2016
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	6,653
Total risk exposure amount	16,633	16,633

COMMENTS

- *Total risk exposure amount remained stable over the year at SEK 611bn (610).*
- *Credit risk RWA increased mainly due to an increase in credit volumes, which however was partly offset by foreign exchange movements and improved asset quality. As of Q2 2017, sovereign exposures are calculated according to the IRB Foundation method instead of the Standardised approach, which explains part of the model update effect in credit risk RWA flow statement. Counterparty credit risk RWA decreased due to volume changes.*
- *Risk exposure amount for market risk decreased mainly due to lower risk positions at the end of the year.*
- *Risk exposure amount for operational risk was stable.*
- *Additional risk exposure amount was established in Q4 2015 in agreement with the SFSA as a measure of prudence. This item increased by SEK 1bn to SEK 15.8bn.*

Table 12. Transitional own funds for SEB consolidated situation
Disclosure according to Article 5 in EU Regulation No 1423/2013

SEK m		31 Dec 2017	31 Dec 2016	*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	60,066	60,659	*e*
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	43,477	44,086	*f*
3a	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)			
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	4,084	–14	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**129,568**	**126,673**	
Common Equity Tier 1 (CET1) capital: regulatory adjustements				
7	Additional value adjustments (negative amount)	–663	–1,169	
8	Intangible assets (net of related tax liability) (negative amount)	–6,225	–6,835	
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)	–75	–208	
11	Fair value reserves related to gains or losses on cash flow hedges	–1,192	–2,400	
12	Negative amounts resulting from the calculation of expected loss amounts	–1,307	–381	
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	99	–115	*a*
15	Defined-benefit pension fund assets (negative amount)	–1,807	–920	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–193	–191	
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			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		–35	
20b	*of which qualifiying holdings outside the financial sector (negative amount)*			
20c	*of which: securitisation positions (negative amount)*		*–35*	
20d	*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*			
25a	Losses for the current financial year (negative amount)			
25b	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			
26a	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			
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additionnal 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)**	**–11,364**	**–12,254**	
29	**Common Equity Tier 1 (CET1) capital**	**118,204**	**114,419**	

Table 12. **Transitional own funds**

SEK m		31 Dec, 2017	31 Dec, 2016	*BS Cross reference*
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	13,922	9,959	
31	*of which: classified as equity under applicable accounting standards*			
32	*of which: classified as liabilities under applicable accounting standards*	*13,922*	*9,959*	
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	
	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**	**13,922**	**14,738**	
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)			
41a	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			
41b	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			
41c	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**			
44	**Additional Tier 1 (AT1) capital**	**13,922**	**14,738**	*b*
45	**Tier 1 capital (T1 = CET1 + AT1)**	**132,127**	**129,157**	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	18,171	24,851	*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	126	58	
51	**Tier 2 (T2) capital before regulatory adjustments**	**18,297**	**24,909**	
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)			
54a	*of which new holdings not subject to transitional arrangements*			
54b	*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)			
56a	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			
56b	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			
56c	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**	**15,722**	**22,334**	
59	**Total capital (TC = T1 + T2)**	**147,849**	**151,491**	
59a	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**	**610,819**	**609,959**	

Table 12. Transitional own funds

SEK m		31 Dec, 2017	31 Dec, 2016	*BS Cross reference*
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	19.4%	18.8%	
62	Tier 1 (as a percentage of risk exposure amount)	21.6%	21.2%	
63	Total capital (as a percentage of risk exposure amount)	24.2%	24.8%	
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)	10.9%	10.7%	
65	*of which : capital conservation buffer requirements*	*2.5%*	*2.5%*	
66	*of which : countercyclical buffer requirements*	*0.9%*	*0.7%*	
67	*of which : systemic risk buffer requirements*	*3.0%*	*3.0%*	
67a	*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)	14.9%	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	6,653	
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)			
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	2,590	2,522	
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	7,002	8,402	
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 13. Capital instruments' main features
Disclosure according to Article 3 in EU Regulation No 1423/2013

31 Dec 2017					
1	Issuer	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	XS1072796870	XS1511589605	XS1136391643	XS1584880352
3	Governing law(s) of the instrument	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	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-) 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	Additional Tier 1 Notes	Additional Tier 1 Notes
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	SEK 9,822m	SEK 8,349m	SEK 9,009m	SEK 4,914m
9	Nominal amount of instrument	EUR 1,000m	EUR 850m	USD 1,100m	USD 600m
9a	Issue price	99,361%	99%	100%	100%
9b	Redemption price	100%	100%	N/A	N/A
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	2014-05-28	2016-10-31	2014-11-13	2017-03-23
12	Perpeptual or dated	Dated	Dated	Perpetual	Perpetual
13	Original maturity date	2026-05-28	2028-10-31	N/A	N/A
14	Issuer call subjet to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	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 Principal Amount	2022-05-13 or at any time thereafter. At Prevailing Principal Amount
16	Subsequent call dates, if applicable	N/A	N/A	At any time thereafter. At Prevailing Principal Amount.	At any time thereafter. At Prevailing Principal Amount.
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed, Annually Payments in arrear	Fixed, Annually Payments in arrear	Fixed, Semi-annually Payments in arrear	Fixed, Semi-annually Payments in arrear
18	Coupon rate and any related index	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.	5.625% pa. If not called then new fixed rate set to USD Mid-Swap Rate for the relevant 5 Year period+Reset margin that is 3.493%pa.
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Mandatory	Mandatory	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	N/A	N/A	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	5.125% for the Bank and 8% for the Group
25	If convertible, fully or partially	N/A	N/A	N/A	Fully
26	If convertible, conversion rate	N/A	N/A	N/A	Higher of (i) the current market price, (ii) the floor price or (iii) the nominal value.
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	Mandatory
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	A shares
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	Issuer
30	Write-down features	No	No	Yes	No
31	If write-down, write-down trigger (s)	N/A	N/A	5.125% for the Bank and 8% for the Group	N/A
32	If write-down, full or partial	N/A	N/A	Full	N/A
33	If write-down, permanent or temporary	N/A	N/A	Temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	Discretionary out of Net Profit subject to MDA	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Senior Debt	Senior Debt	Tier 2	Tier 2
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specifiy non-compliant features				

N/A inserted if the question is not applicable.

Table 14. Leverage ratio
Disclosure according to Regulation (EU) 2016/200

SEK m		31 Dec 2017	31 Dec 2016
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount	Applicable amount
1	Total assets as per published financial statements	2,559,596	2,620,646
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	−477,174	−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	35,394	−1,439
5	Adjustment for securities financing transactions (SFTs)	49,424	29,958
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	379,439	428,562
EU-6a	(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-6b	(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	−27,147	−73,650
8	**LEVERAGE RATIO TOTAL EXPOSURE MEASURE**	**2,519,532**	**2,549,149**

Table LRCom: Leverage ratio common disclosure		CRR leverage ratio exposures	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)	1,921,000	1,878,886
2	(Asset amounts deducted in determining Tier 1 capital)	−13,665	−9,466
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**1,907,334**	**1,869,420**
	Derivatives exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	65,963	88,796
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	65,883	58,709
EU-5a	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	13,691	18,550
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	−4,822	−9,227
11	**Total derivatives exposures (sum of lines 4 to 10)**	**140,715**	**156,828**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	83,496	86,213
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets	8,548	8,126
EU-14a	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-15a	(Exempted CCP leg of client-cleared SFT exposure)		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**92,044**	**94,339**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	739,176	1,091,353
18	(Adjustments for conversion to credit equivalent amounts)	−359,737	−662,791
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**379,439**	**428,562**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19b	(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	132,127	129,157
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	2,519,532	2,549,149
	Leverage ratio		
22	Leverage ratio	5.2%	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 14. Leverage ratio

SEK m		31 Dec 2017	31 Dec 2016
Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,921,000	1,878,886
EU-2	Trading book exposures	174,763	150,782
EU-3	Banking book exposures, of which:	1,746,237	1,728,104
EU-4	Covered bonds		
EU-5	Exposures treated as sovereigns	285,896	317,351
Eu-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns		
EU-7	Institutions	72,294	45,757
EU-8	Secured by mortgages of immovable properties	821,758	784,229
EU-9	Retail exposures	64,932	62,371
EU-10	Corporate	425,351	447,184
EU-11	Exposures in default	9,994	8,642
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	66,011	62,570

COMMENTS

- *SEB's leverage ratio increased marginally to 5.2 per cent (5.1) as of year-end.*
- *The leverage ratio is one of the capital adequacy measures used by SEB in its capital planning to ensure that the bank does not take on excessive leverage.*

Table 15. Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

Disclosure according to Regulation (EU) 2015/1555

SEK m	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
31 Dec 2017	Exposure value for standardised approach	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for standardised approach	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
Breakdown by country												
Sweden	21,739	993,454	3,366				13,300	226		13,526	38.7%	2.0%
Germany	6,241	85,445	215				3,561	13		3,574	10.2%	
Norway	6,938	96,702	478				2,817	6		2,824	8.1%	2.0%
Lithuania	3,749	59,929					2,263			2,263	6.5%	
Finland	1,871	64,601	352				1,794	29		1,823	5.2%	
Denmark	3,275	58,780	375				1,940	30		1,970	5.6%	
Estonia	3,773	50,009	5				1,754			1,754	5.0%	
Latvia	1,488	27,382	5				1,164			1,165	3.3%	
Other	10,566	196,431	640		985	7,932	5,878	49	85	6,011	17.2%	
TOTAL	**59,640**	**1,632,731**	**5,436**		**985**	**7,932**	**34,471**	**354**	**85**	**34,910**	**100.0%**	

Table 16. Amount of institution-specific countercyclical buffer

Disclosure according to Regulation (EU) 2015/1555

SEK m **31 Dec 2017**	
Total risk exposure amount	610,819
Institution-specific countercyclical buffer rate	0.9%
Institution-specific countercyclical buffer requirement	5,725

COMMENTS

- *As of year-end 2017, SEB's countercyclical buffer rate amounted to 0.9 per cent and the countercyclical buffer capital requirement amounted to SEK 5.7bn.*
- *The countercyclical buffers in Sweden and Norway are 2 per cent of the relative exposures in these countries.*

Own funds 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 17. Capital position of significant subsidiaries

SEK m	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	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Own funds								
Common Equity Tier 1 capital	19,621	19,160	8,575	8,502	3,409	3,495	6,361	6,283
Tier 1 capital	19,621	19,160	8,575	8,502	3,409	3,495	6,361	6,283
Total own funds	19,699	19,300	8,575	8,502	3,409	3,495	6,456	6,354
Own funds requirement								
Risk exposure amount	74,020	77,131	24,399	23,188	16,815	17,553	32,296	32,603
Expressed as own funds requirement	5,922	6,170	1,952	1,855	1,345	1,404	2,584	2,608
Common Equity Tier 1 capital ratio	26.5%	24.8%	35.1%	36.7%	20.3%	19.9%	19.7%	19.3%
Tier 1 capital ratio	26.5%	24.8%	35.1%	36.7%	20.3%	19.9%	19.7%	19.3%
Total capital ratio	26.6%	25.0%	35.1%	36.7%	20.3%	19.9%	20.0%	19.5%
Own funds in relation to own funds requirement	3.3	3.1	4.4	4.6	2.5	2.5	2.5	2.4
Regulatory Common Equity Tier 1 capital requirement including buffers	5.8%	5.2%	10.0%	10.0%	7.0%	7.0%	9.0%	9.0%
of which capital conservation buffer requirement	*1.3%*	*0.6%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
of which systemic risk buffer requirement			*1.0%*	*3.0%*				
of which countercyclical capital buffer requirement	*0.1%*	*0.1%*	*0.0%*					
of which: Global Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII) buffer			*2.0%*		*1.0%*		*2.0%*	*2.0%*
Common Equity Tier 1 capital available to meet buffer[1]	22.0%	20.3%	30.6%	32.2%	15.8%	15.4%	15.2%	14.8%
Transitional floor 80% of capital requirement according to Basel I								
Minimum floor own funds requirement according to Basel I	7,281	7,757	2,629	2,439	1,640	1,405	3,348	3,173
Own funds according to Basel I	19,676	19,287	8,653	8,569	3,470	3,516	6,563	6,626
Own funds in relation to own funds requirement Basel I	2.7	2.5	3.3	3.5	2.1	2.5	2.0	2.1
Leverage ratio								
Exposure measure for leverage ratio calculation	206,537	232,759	63,904	59,607	39,586	36,538	83,076	78,225
of which on balance sheet items incl. derivatives and SFTs	*163,461*	*189,894*	*58,406*	*55,093*	*36,393*	*33,928*	*76,148*	*72,471*
of which off balance sheet items	*43,076*	*42,865*	*5,498*	*4,514*	*3,194*	*2,610*	*6,928*	*5,754*
Leverage ratio	9.5%	8.2%	13.1%	14.3%	8.6%	9.6%	7.7%	8.0%

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 2017.

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 private individuals and small businesses, the credit approval process is often based on credit scoring models. 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 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. Environmental, social and governance risks shall be considered in the credit analysis.

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 limit 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

Provisions are made for incurred credit losses on individually assessed impaired loans and for portfolio assessed loans, as described further below. As of 1 January 2018, the incurred loss approach under IAS 39 is replaced by a forward-looking expected credit loss (ECL) approach under IFRS9, which is described in more detail in Note 1 of the Annual Report.

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 table below represents SEB's total credit risk exposure, including counterparty credit risk and securitisation positions.

Table 18. Overview of credit risk exposure

SEK m 31 Dec 2017	EAD post CRM and post CCF	Average EAD for the year	RWAs	Minimum own funds requirement [1]	Average risk weight (%) [2]
Central governments or central banks	284,750	316,294	9,319	745	3.3
Institutions	146,868	136,009	32,838	2,627	22.4
Corporates	1,034,762	1,011,631	326,327	26,106	31.5
of which large corporates	*747,791*	*758,680*	*239,613*	*19,169*	*32.0*
of which SME corporates	*249,068*	*252,965*	*68,777*	*5,502*	*27.6*
of which Specialised Lending	*37,903*	*39,401*	*17,937*	*1,435*	*47.3*
Retail exposures	597,969	569,704	62,286	4,983	10.4
of which secured by real estate property	*525,317*	*514,282*	*36,558*	*2,925*	*7.0*
of which retail SME	*11,794*	*7,053*	*7,033*	*563*	*59.6*
of which other retail exposures	*60,858*	*60,532*	*18,695*	*1,496*	*30.7*
Securitisation positions	7,932	5,601	838	67	10.6
Total IRB approach	**2,072,282**	**2,090,816**	**431,607**	**34,529**	**20.8**
Central governments or central banks	30,370	108,717	4,060	325	13.4
Other exposures	76,644	124,231	44,679	3,574	58.3
Total Standardised approach	**107,014**	**232,949**	**48,739**	**3,899**	**45.5**
TOTAL	**2,179,296**	**2,323,765**	**480,346**	**38,428**	**22.0**

SEK m 31 Dec 2016	EAD post CRM and post CCF	Average EAD for the year	RWAs	Minimum own funds requirement [1]	Average risk weight (%) [2]
Central governments or central banks					
Institutions	115,713	114,579	26,254	2,100	22.7
Corporates	1,071,207	1,023,938	335,413	26,833	31.3
of which large corporates	*783,811*	*753,273*	*247,046*	*19,764*	*31.5*
of which SME corporates	*248,450*	*227,942*	*69,382*	*5,551*	*27.9*
of which Specialised Lending	*38,946*	*42,723*	*18,985*	*1,519*	*48.7*
Retail exposures	561,609	555,563	55,617	4,449	9.9
of which secured by real estate property	*495,156*	*489,526*	*34,079*	*2,726*	*6.9*
of which retail SME	*6,436*	*5,971*	*4,723*	*378*	*73.4*
of which other retail exposures	*60,017*	*60,066*	*16,815*	*1,345*	*28.0*
Securitisation positions	6,060	6,899	3,066	246	50.6
Total IRB approach	**1,754,589**	**1,700,979**	**420,350**	**33,628**	**24.0**
Central governments or central banks	265,095	263,778	1,801	144	0.7
Other exposures	167,392	174,497	50,949	4,076	30.4
Total Standardised approach	**432,487**	**438,275**	**52,750**	**4,220**	**12.2**
TOTAL	**2,187,076**	**2,139,254**	**473,100**	**37,848**	**21.6**

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.

The tables below represent SEB's credit risk exposure excluding counterparty credit risk and securitisation, in line with the EBA Guidelines.

Table 19. EU CRB-B – Total and average net amount of exposures

SEK m	a	b	a	b
	31 Dec 2017		31 Dec 2016	
	Net value of exposures at the end of the period	Average net exposures over the period	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	262,808	270,259		
Institutions	190,819	200,415	174,763	178,664
Corporates	1,193,343	1,187,503	1,243,157	1,190,401
of which large corporates	*886,312*	*875,302*	*941,044*	*900,145*
of which SME corporates	*267,986*	*271,457*	*262,947*	*247,944*
of which Specialised Lending	*39,045*	*40,744*	*39,166*	*42,312*
Retail exposures	620,230	606,027	583,112	578,327
of which secured by real estate property	*538,330*	*529,953*	*508,219*	*502,908*
of which retail SME	*12,346*	*6,643*	*5,719*	*5,342*
of which other retail exposures	*69,554*	*69,431*	*69,173*	*74,007*
Total IRB approach	**2,267,199**	**2,264,204**	**2,001,032**	**1,947,392**
Central governments or central banks	30,368	97,158	256,970	238,221
Other exposures	86,929	84,100	164,621	140,341
Total Standardised approach	**117,297**	**181,258**	**421,591**	**378,562**
TOTAL	**2,384,496**	**2,445,462**	**2,422,623**	**2,325,954**

COMMENTS

- *The credit exposure was stable over the year, as an increase in Retail exposures was offset by a decrease in corporate exposures.*
- *The implementation of an internal sovereign model explains the shift in exposure to Central governments under the standardised approach to the IRB approach.*

Table 20. EU CRB-C – Geographical break-down of exposures

SEK m	Net value of exposure									
31 Dec 2017	**Sweden**	**Denmark**	**Norway**	**Finland**	**Estonia**	**Latvia**	**Lithuania**	**Germany**	**Other**	**Total**
Central governments or central banks	33,648	4,200	6,455	5,321	13,182	8,064	16,446	75,455	100,037	**262,808**
Institutions	53,441	2,243	8,106	856	4	101	122	4,881	121,065	**190,819**
Corporates	521,938	66,728	95,661	73,543	29,624	20,194	44,850	118,055	222,750	**1,193,343**
of which large corporates	*331,647*	*63,108*	*80,158*	*68,335*	*12,365*	*7,821*	*25,610*	*103,574*	*193,694*	***886,312***
of which SME corporates	*183,189*	*2,745*	*10,499*	*2,490*	*16,502*	*12,027*	*16,919*	*10,115*	*13,501*	***267,986***
of which Specialised Lending	*7,103*	874	*5,004*	2,718	*757*	*346*	*2,321*	*4,366*	15,556	***39,045***
Retail exposures	529,897	4,914	21,764	2,122	23,216	10,156	24,136	259	3,767	**620,230**
of which secured by real estate property	*481,023*	123	572	59	*21,060*	*8,627*	*23,017*	240	3,610	***538,330***
of which retail SME	*8,585*	*591*	*1,090*	*558*	*682*	*361*	*470*	1	8	***12,346***
of which other retail exposures	*40,289*	*4,200*	*20,102*	*1,505*	*1,475*	*1,168*	*649*	*17*	149	***69,554***
Total IRB approach	**1,138,924**	**78,085**	**131,985**	**81,841**	**66,025**	**38,515**	**85,554**	**198,651**	**447,619**	**2,267,199**
Central governments or central banks									30,368	**30,368**
Other exposures	39,977	2,820	7,380	2,140	4,160	2,263	4,005	7,210	16,975	**86,929**
Total Standardised approach	**39,977**	**2,820**	**7,380**	**2,140**	**4,160**	**2,263**	**4,005**	**7,210**	**47,342**	**117,297**
TOTAL	**1,178,901**	**80,905**	**139,365**	**83,981**	**70,185**	**40,778**	**89,559**	**205,861**	**494,961**	**2,384,496**

SEK m	Net value of exposure									
31 Dec 2016	**Sweden**	**Denmark**	**Norway**	**Finland**	**Estonia**	**Latvia**	**Lithuania**	**Germany**	**Other**	**Total**
Central governments or central banks										
Institutions	36,568	2,779	7,906	391	31	90	120	12,065	114,812	**174,763**
Corporates	509,755	62,295	103,298	81,580	25,324	18,295	39,799	146,045	256,766	**1,243,157**
of which large corporates	*326,957*	*59,924*	*90,115*	*73,692*	*10,778*	*7,875*	*20,800*	*134,296*	*216,609*	***941,044***
of which SME corporates	*174,353*	*1,511*	*8,209*	*4,850*	*13,771*	*10,416*	*14,810*	*9,003*	*26,025*	***262,947***
of which Specialised Lending	*8,446*	860	*4,975*	3,038	*775*	*4*	*4,189*	*2,746*	14,132	***39,166***
Retail exposures	497,626	4,992	22,608	2,090	20,694	9,331	22,152	263	3,356	**583,112**
of which secured by real estate property	*457,403*	116	514	43	*18,733*	*6,945*	*21,023*	257	3,186	***508,219***
of which retail SME	*814*	*728*	*1,125*	*564*	*652*	*1,304*	*521*		12	***5,719***
of which other retail exposures	*39,409*	*4,148*	*20,970*	*1,482*	*1,309*	*1,082*	*608*	*7*	158	***69,173***
Total IRB approach	**1,043,950**	**70,066**	**133,813**	**84,061**	**46,049**	**27,716**	**62,072**	**158,373**	**374,934**	**2,001,032**
Central governments or central banks	69,525	5,645	2,990	3,895	5,308	3,039	5,311	45,184	116,074	**256,970**
Other exposures	68,134	2,015	7,060	4,464	4,635	2,420	4,432	52,705	18,755	**164,621**
Total Standardised approach	**137,659**	**7,660**	**10,050**	**8,359**	**9,943**	**5,459**	**9,744**	**97,889**	**134,829**	**421,591**
TOTAL	**1,181,609**	**77,726**	**143,862**	**92,420**	**55,992**	**33,175**	**71,815**	**256,261**	**509,763**	**2,422,623**

COMMENTS

- *SEB's main markets are Sweden and the other Nordic countries, Germany and the Baltic region. SEB's credit exposure in Sweden grew moderately during the year. In the other Nordic markets, SEB's credit exposure growth was moderate in Norway while exposure in Denmark and Finland declined. Credit exposure to the Baltic countries grew more rapidly driven by the strong economies in the region.*
- *The US and Luxembourg together constitute the majority of the exposure in the category Other in the table above.*

Table 21. EU CRB-D – Concentration of exposures by industry or counterparty types

SEK m

31 Dec 2017	Finance and insurance	Wholesale and retail	Transportation	Shipping	Business and household services	Construction	Manufacturing	Agriculture, forestry and fishing	Mining, oil and gas extraction	Electricity, water and gas supply	Commercial real estate management	Residential real estate management	Housing co-operative associations	Banks	Public Administration	Household	Other	Total
Central governments or central banks	1,788	0	1,520		387		233	0		592	194			165,151	92,130		813	**262,808**
Institutions	100,339	0	13	199	3,470		3,072		186	23	0			83,492			23	**190,819**
Corporates	46,783	95,713	47,309	61,803	194,878	28,562	214,321	16,483	45,923	81,333	169,602	100,747	60,891	878	3,914	1,740	22,464	**1,193,343**
of which large corporates	*38,197*	*75,551*	*36,509*	*57,916*	*150,739*	*18,464*	*197,856*	*6,102*	*41,787*	*63,207*	*114,112*	*58,639*	8,724	*782*	*3,914*	98	*13,714*	**886,312**
of which SME corporates	*6,167*	*20,131*	*7,539*	*3,468*	*30,685*	*7,655*	*16,246*	*10,380*	*3,094*	*4,548*	*53,682*	*42,108*	52,167	*97*	0	1,642	*8,378*	**267,986**
of which Specialised Lending	*2,419*	*31*	*3,261*	*418*	*13,453*	*2,443*	*219*		*1,042*	*13,577*	*1,808*						*373*	**39,045**
Retail exposures	376	6,083	1,161	66	18,622	4,272	2,505	3,903	12	115	2,518	3,053	41	1	17	544,380	33,104	**620,230**
of which secured by real estate property	*199*	*3,676*	*860*	*43*	*14,472*	*3,186*	*1,684*	*3,290*	*4*	*79*	*2,265*	*2,892*	37		*6*	477,430	*28,208*	**538,330**
of which retail SME	*149*	*2,333*	*285*	*21*	*3,173*	*1,007*	*795*	*395*	*8*	*36*	*229*	*62*	4	*1*	*12*	61	*3,774*	**12,346**
of which other retail exposures	*28*	*74*	*16*	*2*	*977*	*80*	*26*	*217*	*0*	*0*	*24*	*99*			*0*	66,888	*1,122*	**69,554**
Total IRB approach	**149,286**	**101,797**	**50,003**	**62,068**	**217,357**	**32,834**	**220,131**	**20,385**	**46,121**	**82,063**	**172,314**	**103,800**	**60,932**	**249,522**	**96,062**	**546,119**	**56,404**	**2,267,199**
Central governments or central banks														26,011	4,080		276	**30,368**
Other exposures	11,956	1,608	4,649	71	4,168	1,003	4,789	1,599	372	485	1,900	68		12,632	353	21,385	19,891	**86,929**
Total Standardised approach	**11,956**	**1,608**	**4,649**	**71**	**4,168**	**1,003**	**4,789**	**1,599**	**372**	**485**	**1,900**	**68**		**38,643**	**4,433**	**21,385**	**20,168**	**117,297**
TOTAL	**161,242**	**103,405**	**54,652**	**62,139**	**221,525**	**33,837**	**224,920**	**21,984**	**46,493**	**82,548**	**174,214**	**103,868**	**60,932**	**288,165**	**100,495**	**567,505**	**76,572**	**2,384,496**

SEK m

31 Dec 2016	Finance and insurance	Wholesale and retail	Transportation	Shipping	Business and household services	Construction	Manufacturing	Agriculture, forestry and fishing	Mining, oil and gas extraction	Electricity, water and gas supply	Commercial real estate management	Residential real estate management	Housing co-operative associations	Banks	Public Administration	Household	Other	Total
Central governments or central banks																		
Institutions	52,095	76	5		1,430		3,064		227					117,822	2		43	**174,763**
Corporates	90,322	85,784	42,516	69,700	193,796	30,633	227,705	12,082	50,884	79,309	174,082	99,880	53,590	2,114	6,104	1,891	22,766	**1,243,157**
of which large corporates	*71,621*	*66,289*	*33,097*	*64,599*	*160,541*	*22,621*	*211,310*	*1,755*	*46,638*	*59,371*	*115,193*	*61,647*	4,150	*2,063*	*5,362*	161	*14,627*	**941,044**
of which SME corporates	*17,160*	*19,494*	*6,672*	*4,298*	*22,822*	*5,939*	*16,130*	*8,326*	*3,243*	*5,638*	*55,560*	*38,233*	49,440	*50*	217	1,727	*7,999*	**262,947**
of which Specialised Lending	*1,541*		*2,747*	*804*	*10,432*	*2,073*	*266*	2,001	*1,003*	*14,300*	*3,329*			1	525	3	*140*	**39,165**
Retail exposures	190	3,276	759	36	13,836	2,587	1,277	2,635	5	56	1,003	1,361	1		5	521,974	34,111	**583,112**
of which secured by real estate property	*127*	*2,748*	*673*	*28*	*12,659*	*2,380*	*1,027*	*1,885*	*3*	*43*	*853*	*1,278*	*1*		5	454,855	*29,656*	**508,219**
of which retail SME	*3*	*443*	*69*	*6*	*809*	*138*	*223*	*619*	*2*	*13*	*109*	*4*					*3,280*	**5,719**
of which other retail exposures	*59*	*84*	*17*	*2*	*368*	*69*	*28*	*131*			*41*	*79*				67,119	*1,175*	**69,173**
Total IRB approach	**142,606**	**89,135**	**43,279**	**69,736**	**209,062**	**33,221**	**232,046**	**14,717**	**51,116**	**79,365**	**175,085**	**101,240**	**53,590**	**119,936**	**6,111**	**523,865**	**56,920**	**2,001,031**
Central governments or central banks	2,849		3		1,584					294	2			216,123	35,370		746	**256,970**
Other exposures	12,593	4,589	4,114	96	6,246	2,214	4,698	2,163	46	731	3,338	1,368	42	18,711	58,938	20,773	23,962	**164,621**
Total Standardised approach	**15,442**	**4,589**	**4,117**	**96**	**7,830**	**2,214**	**4,698**	**2,163**	**46**	**1,025**	**3,340**	**1,368**	**42**	**234,834**	**94,308**	**20,773**	**24,708**	**421,591**
TOTAL	**158,048**	**93,724**	**47,397**	**69,832**	**216,891**	**35,435**	**236,743**	**16,880**	**51,162**	**80,390**	**178,425**	**102,608**	**53,633**	**354,770**	**100,419**	**544,638**	**81,628**	**2,422,623**

COMMENTS

- *There were no significant movements in SEB's industry concentration during the year.*

Table 22. EU CRB-E – Maturity of exposures

SEK m	a	b	c	d	e	f
	Net exposure value					
31 Dec 2017	**On demand**	**< 1 year**	**> 1 year >5 years**	**> 5 years**	**No stated maturity**	**Total**
Central governments or central banks	186,756	12,542	30,415	33,095		**262,808**
Institutions	91,566	31,097	45,278	22,878		**190,819**
Corporates	114,003	106,462	409,199	563,679		**1,193,343**
of which large corporates	*91,921*	*70,893*	*290,094*	*433,404*		***886,312***
of which SME corporates	*21,755*	*35,480*	*107,803*	*102,948*		***267,986***
of which Specialised Lending	*327*	*90*	*11,301*	*27,326*		***39,045***
Retail exposures	29,663	67,275	204,399	318,882	10	**620,230**
of which secured by real estate property	*27,852*	*3,132*	*198,579*	*308,768*		***538,330***
of which retail SME	*755*	*8,640*	*1,817*	*1,133*		***12,346***
of which other retail exposures	*1,056*	*55,503*	*4,003*	*8,982*	*10*	***69,554***
Total IRB approach	**421,989**	**217,375**	**689,291**	**938,534**	**10**	**2,267,199**
Central governments or central banks	26,224	67	4,076			**30,368**
Other exposures	38,421	5,735	19,372	23,401		**86,929**
Total Standardised approach	**64,646**	**5,802**	**23,448**	**23,401**		**117,297**
TOTAL	**486,634**	**223,177**	**712,739**	**961,935**	**10**	**2,384,496**

SEK m	a	b	c	d	e	f
	Net exposure value					
31 Dec 2016	**On demand**	**< 1 year**	**> 1 year >5 years**	**> 5 years**	**No stated maturity**	**Total**
Central governments or central banks						
Institutions	111,809	18,386	30,552	14,017		**174,763**
Corporates	146,492	103,907	438,699	554,059		**1,243,157**
of which large corporates	*119,111*	*72,426*	*327,308*	*422,199*		***941,044***
of which SME corporates	*27,157*	*31,227*	*100,660*	*103,904*		***262,947***
of which Specialised Lending	*224*	*254*	*10,731*	*27,957*		***39,166***
Retail exposures	27,734	60,101	202,056	293,208	14	**583,112**
of which secured by real estate property	*26,528*	*3,431*	*195,563*	*282,696*		***508,219***
of which retail SME	*50*	*3,397*	*846*	*1,426*		***5,719***
of which other retail exposures	*1,156*	*53,272*	*5,646*	*9,085*	*14*	***69,173***
Total IRB approach	**286,035**	**182,394**	**671,306**	**861,284**	**14**	**2,001,032**
Central governments or central banks	225,097	2,283	22,176	7,415		**256,970**
Other exposures	47,097	13,092	47,528	56,903		**164,621**
Total Standardised approach	**272,194**	**15,375**	**69,704**	**64,318**		**421,591**
TOTAL	**558,229**	**197,768**	**741,010**	**925,602**	**14**	**2,422,623**

COMMENTS

- *There were no significant movements in SEB's maturity profile during the year.*

Table 23. EU CR1-A – Credit quality of exposures by exposure class and instrument

SEK m	a	b	c	d	e	f	g
	Gross carrying values of						
31 Dec 2017	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values a+b-c-d
Central governments or central banks		262,808					262,808
Institutions	12	190,807					190,819
Corporates	7,863	1,188,360	2,880		505	491	1,193,343
of which large corporates	*4,584*	*882,822*	*1,094*		*160*	*345*	*886,312*
of which SME	*1,066*	*267,920*	*999*		*167*		*267,986*
of which Specialised Lending	*2,213*	*37,619*	*787*		*178*	*146*	*39,045*
Retail exposures	2,773	618,564	1,107		46	182	620,230
of which secured by real estate property	*1,625*	*537,199*	*494*			*129*	*538,330*
of which retail SME	*168*	*12,278*	*100*		*17*	*2*	*12,346*
of which other retail exposures	*979*	*69,087*	*513*		*29*	*52*	*69,554*
Total IRB approach	**10,647**	**2,260,539**	**3,987**		**551**	**674**	**2,267,199**
Central governments or central banks		30,368					30,368
Other exposures	134	87,361	565			50	86,929
Total Standardised approach	**134**	**117,728**	**565**			**50**	**117,297**
TOTAL	**10,781**	**2,378,267**	**4,552**		**551**	**724**	**2,384,496**
Of which: Loans	10,049	1,603,843	4,552		551	724	1,609,340
Of which: Debt securities		40,365					40,365
Of which: Off-balance-sheet exposures	732	674,913					675,645

Table 24. EU CR1-B – Credit quality of exposures by industry

SEK m	a	b	c	d	e	f	g
	Gross carrying values of						
31 Dec 2017	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values a+b-c-d
Finance and insurance	4	161,260	22			1	161,242
Wholesale and retail	181	103,394	170		9	14	103,405
Transportation	181	54,620	150		0	128	54,652
Shipping	1,260	61,234	355				62,139
Business and household services	1,608	220,307	390		9	282	221,525
Construction	333	33,601	96		93	8	33,837
Manufacturing	1,279	224,175	534		223	81	224,920
Agriculture, forestry and fishing	129	21,906	51		0	2	21,984
Mining, oil and gas extraction	1,696	44,883	86			0	46,493
Electricity, water and gas supply	657	82,508	617				82,548
Commercial real estate management	704	173,871	361		175	11	174,214
Residential real estate management	40	103,859	31			1	103,868
Housing co-operative associations Sweden		60,943	11				60,932
Banks	12	288,159	7				288,165
Public Administration		100,496	1				100,495
Household	2,459	566,081	1,035		28	181	567,505
Other	237	76,971	636		14	16	76,572
TOTAL	**10,781**	**2,378,267**	**4,552**		**551**	**724**	**2,384,496**

Table 25. EU CR1-C – Credit quality of exposures by geography

SEK m	a	b	c	d	e	f	g
	Gross carrying values of						
31 Dec 2017	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values a+b-c-d
Sweden	1,975	1,178,863	1,374		37	398	1,179,464
Denmark	482	80,749	326			13	80,905
Norway	1,050	138,492	176			1	139,365
Finland	310	83,738	65				83,983
Estonia	566	69,811	192			60	70,185
Latvia	915	40,358	491		178	22	40,782
Lithuania	1,446	88,798	685		235	226	89,559
Germany	345	205,705	188		102		205,861
Other countries	3,692	491,754	1,054			3	494,391
TOTAL	**10,781**	**2,378,267**	**4,552**		**551**	**724**	**2,384,496**

Table 26. Past due loans that are not impaired

SEK m 31 Dec 2017	< 30 days[1]	31 – 60 days	>60 days	Total
Corporates	4,855	154	316	**5,325**
Households	4,219	423	322	**4,965**
Other	48	2	3	**52**
TOTAL	**9,122**	**579**	**641**	**10,342**

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

1) The increase in 2017 <30 days is mainly related to past due volumes less than 5 days. These volumes were not included in the figures for 2016.

Table 27. Forborne loans

Forborne loans	31 Dec 2017	31 Dec 2016
Total forborne loans	14,640	11,990
of which performing[1)]	*6,995*	*6,327*

1) According to EBA definition.

Table 28. Change of reserves for impaired loans and portfolio assessed loans

	Loans to credit institutions		Loans to the public		Total	
Specific loan loss reserves[1)]	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Opening balance			−1,928	−2,044	−1,928	−2,044
Reversals for utilisation			318	584	318	584
Provisions			−1,309	−734	−1,309	−734
Reversals			760	338	760	338
Exchange rate differences			−27	−72	−27	−72
Closing balance			**−2,187**	**−1,928**	**−2,187**	**−1,928**
Collective loan loss reserves[2)]						
Opening balance		−7	−2,861	−2,827	−2,861	−2,834
Net provisions		7	592	35	592	42
Exchange rate differences			−21	−69	−21	−69
Closing balance			**−2,290**	**−2,861**	**−2,290**	**−2,861**
Contingent liabilities reserves						
Opening balance			−44	−81	−44	−81
Net provisions			−30	43	−30	43
Reversal for utilisation						
Exchange rate differences			−1	−6	−1	−6
Closing balance			**−75**	**−44**	**−75**	**−44**
TOTAL			**−4,552**	**−4,833**	**−4,552**	**−4,833**

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.

COMMENTS

- *Total reserves amounted to SEK 4.6bn, which is a slight reduction compared to SEK 4.8bn as of year-end 2016.*
- *Starting 1 January 2018, the impairment model for credit losses was changed from an incurred loss model under IAS 39 to an expected loss model under IFRS9 Financial Instruments.*

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 29. EU CR3 – CRM techniques – Overview

SEK m		a	b	c	d	e
31 Dec 2017		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	346,930	1,262,410	1,217,503	44,907	
2	Total debt securities	40,365				
3	**TOTAL EXPOSURES**	**387,295**	**1,262,410**	**1,217,503**	**44,907**	
4	Of which defaulted	8,411	2,370	2,329	41	

SEK m		a	b	c	d	e
31 Dec 2016		Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	445,673	1,134,311	1,061,916	72,395	
2	Total debt securities	49,735				
3	**TOTAL EXPOSURES**	**495,408**	**1,134,311**	**1,061,916**	**72,395**	
4	Of which defaulted	6,007	2,707	2,686	21	

COMMENTS

- *There were no significant changes in SEB's use of credit risk mitigation techniques in 2017. About 77 per cent (70) of loans and debt securities was secured by either collateral or financial guarantees. More than 90 per cent of the secured loans and debt securities was covered by collateral at year-end.*

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 31 December 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 digitalised 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, Real Estate 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 risk class 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.

For the Basel retail segment, the PD values are organised in PD pools to build pools of counterparties with similar risk behaviour. 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.

Table 30. 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
Default	100%	Default	Default

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 2017, 90 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 and, since June 2017, with an IRB-Foundation approval for the sovereign portfolio. 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. For the Group, only smaller, less significant portfolios are being reported under the standardised approach.

Table 31. Exposure by model approach

SEK bn	A-IRB			F-IRB			Standardised		
31 Dec 2017	**EAD**	**RWAs**	**Portfolios**	**EAD**	**RWAs**	**Portfolios**	**EAD**	**RWAs**	**Portfolios**
SEB AB (publ)	1,301	256	Retail, corporate & institutions	220	16	Corporate & institutions, Sovereign & municipalities	22	19	Retail, corporate & other
Baltic subsidiaries	57	11	Retail exposures	124	53	Corporate & institutions, Sovereign & municipalities	9	6	Retail & other
SEB AG				182	57	Corporate & institutions, Sovereign & municipalities	9	8	Corporate
Other subsidiaries	46	15	Retail, corporate & institutions	15	3	Corporate & institutions	48	15	Retail & other
TOTAL	**1,404**	**282**		**541**	**129**		**88**	**48**	

Credit risk exposures under IRB approaches

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

Table 32. EU CR6 – IRB – Credit risk exposures by exposure class and PD range

SEK m		a	b	c	d	e	f	g	h	i	j	k	l
31 Dec 2017	**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)**	**RWAs**	**Average risk weight (%)**	**EL**	**Value adjustments and Provisions**
F-IRB Central governments or central banks	0.00 to <0.01	208,338	15,636	99	237,677	0.0	429	44.5	1.6	4,882	2.1	2	
	0.01 to <0.03	17,693	1,889	98	20,506	0.0	179	45.0	1.6	2,016	9.8	2	
	0.03 to <0.12	10,358	1,275	98	12,008	0.0	414	39.6	1.8	1,402	11.7	2	
	0.12 to <0.46	300	42	98	331	0.2	60	43.0	2.5	133	40.0	0	
	0.46 to <1.74	1	279	75	210	0.8	5	45.0	2.5	185	88.0	1	
	1.74 to <7.00	26	15	92	37	2.3	13	44.7	2.5	46	124.1	0	
	7.00 to <9.00	0	0	100	0	8.0	3	45.0	2.5	0	188.2	0	
	9.00 to <22.00	5	0	99	6	11.4	12	45.0	2.5	12	213.7	0	
	22.00 to <100.00	0	41	20	8	25.0	1	45.0	2.5	24	293.6	1	
Sub-total		**236,721**	**19,177**	**98**	**270,782**	**0.0**	**1,116**	**44.3**	**1.6**	**8,699**	**3.2**	**9**	**0**
F-IRB Corporate	0.03 to <0.12	44,992	57,531	87	74,518	0.1	341	35.1	2.5	12,919	17.3	15	
	0.12 to <0.46	87,928	54,695	91	116,336	0.3	2,998	37.7	2.5	51,057	43.9	128	
	0.46 to <1.74	50,813	11,641	96	56,022	1.0	3,139	40.0	2.5	42,637	76.1	227	
	1.74 to <7.00	7,207	2,016	95	8,214	2.7	1,375	39.7	2.5	7,993	97.3	90	
	7.00 to <9.00	226	532	91	667	8.0	58	45.0	2.5	1,146	171.7	24	
	9.00 to <22.00	1,630	402	96	1,576	14.4	175	37.1	2.5	2,431	154.2	84	
	22.00 to <100.00	406	4	100	368	25.0	33	41.3	2.5	695	188.9	38	
	100.00 (Default)	1,739	549	98	1,807	100.0	198	42.3	2.5			765	
Sub-total		**194,941**	**127,370**	**91**	**259,508**	**1.3**	**8,317**	**37.6**	**2.5**	**118,877**	**45.8**	**1,371**	**1,020**
F-IRB Institution	0.03 to <0.12	9,290	1,011	91	7,934	0.0	104	38.0	2.5	1,210	15.3	1	
	0.12 to <0.46	2,367	1,319	97	2,383	0.3	78	11.6	2.5	402	16.9	1	
	0.46 to <1.74	652	479	88	451	0.8	28	10.7	2.5	80	17.8	0	
	1.74 to <7.00	19	21	95	21	2.5	9	45.0	2.5	29	138.0	0	
	7.00 to <9.00		79	35		8.0	3	45.0	2.5				
	9.00 to <22.00	53	8	100	53	14.9	3	45.0	2.5	143	268.0	4	
	22.00 to <100.00	2		100	2	25.0	2	45.0	2.5	5	293.6	0	
	100.00 (Default)												
Sub-total		**12,383**	**2,917**	**92**	**10,844**	**0.2**	**227**	**31.1**	**2.5**	**1,869**	**17.2**	**6**	**0**

Table 32. EU CR6 – IRB – Credit risk exposures by exposure class and PD range

SEK m		a	b	c	d	e	f	g	h	i	j	k	l
31 Dec 2017	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)	RWAs	Average risk weight (%)	EL	Value adjustments and Provisions
A-IRB Corporate	0.03 to <0.12	100,370	159,405	81	191,330	0.1	1,973	29.6	2.3	28,116	14.7	39	
	0.12 to <0.46	278,014	119,524	93	349,571	0.3	10,615	20.7	2.2	78,857	22.6	192	
	0.46 to <1.74	151,796	33,411	96	168,272	0.8	8,860	19.1	2.2	59,815	35.5	278	
	1.74 to <7.00	10,775	3,031	94	11,512	2.5	5,773	25.6	2.6	8,164	70.9	74	
	7.00 to <9.00	2,354	433	96	2,528	8.0	184	30.6	2.0	2,872	113.6	62	
	9.00 to <22.00	4,046	685	97	4,539	13.6	210	26.6	2.1	5,801	127.8	163	
	22.00 to <100.00	1		100	1	25.0	23	35.7	1.0	1	148.1	0	
	100.00 (Default)	5,820	602	98	5,616	100.0	140	18.5	2.8	12,992	231.3	1,371	
Sub-total		**553,174**	**317,091**	**90**	**733,368**	**1.3**	**27,778**	**22.8**	**2.2**	**196,618**	**26.8**	**2,179**	**1,793**
A-IRB Institution	0.03 to <0.12	39,362	16,219	93	46,318	0.1	1,348	43.7	1.4	8,583	18.5	13	
	0.12 to <0.46	16,484	11,334	91	19,844	0.2	2,257	39.2	1.4	6,609	33.3	15	
	0.46 to <1.74	3,874	2,447	93	4,784	0.8	303	43.9	2.1	4,085	85.4	17	
	1.74 to <7.00	704	951	90	717	2.1	78	56.0	0.7	1,092	152.3	8	
	7.00 to <9.00	103	374	74	134	8.0	54	55.8	0.5	321	239.0	6	
	9.00 to <22.00	1,025	681	89	691	12.4	157	55.9	0.6	1,955	282.7	48	
	22.00 to <100.00	0	1	49	0	25.0	19	56.0	0.6	1	339.6	0	
	100.00 (Default)	10	2	96	11	100.0	23	42.0	1.0	57	524.7		
Sub-total		**61,563**	**32,009**	**93**	**72,500**	**0.3**	**4,239**	**42.8**	**1.4**	**22,702**	**31.3**	**106**	**0**
A-IRB Retail Mortgage	0.03 to <0.12	161,462	2,352	100	163,057	0.1	257,543	7.0		2,701	1.7	11	
	0.12 to <0.46	280,181	22,331	100	292,401	0.2	494,388	11.6		15,841	5.4	79	
	0.46 to <1.74	46,643	5,660	100	50,077	0.9	86,049	15.1		9,018	18.0	68	
	1.74 to <7.00	12,118	378	100	12,372	4.0	18,092	12.6		4,620	37.3	63	
	7.00 to <9.00	268	13	99	277	7.5	491	20.8		190	68.8	4	
	9.00 to <22.00	4,073	7	100	4,077	16.0	10,119	13.7		3,157	77.4	93	
	22.00 to <100.00	1,429	4	100	1,432	43.3	2,422	8.4		683	47.7	52	
	100.00 (Default)	1,623	1	100	1,625	100.0	4,165	19.6		348	21.4	319	
Sub-total		**507,797**	**30,747**	**100**	**525,317**	**0.9**	**873,269**	**10.6**		**36,558**	**7.0**	**689**	**494**
A-IRB Other Retail	0.03 to <0.12	5,774	28,908	34	29,340	0.1	75,392	41.7		2,287	7.8	8	
	0.12 to <0.46	6,254	4,627	95	9,462	0.3	62,209	52.1		2,458	26.0	14	
	0.46 to <1.74	15,583	8,995	83	22,236	0.9	326,792	46.5		10,376	46.7	99	
	1.74 to <7.00	4,755	1,951	90	6,555	3.4	100,205	53.7		5,004	76.3	115	
	7.00 to <9.00	792	605	72	1,362	7.2	2,697	53.7		1,181	86.7	52	
	9.00 to <22.00	1,336	441	84	1,774	13.4	9,998	59.4		2,022	114.0	136	
	22.00 to <100.00	611	123	95	775	40.0	38,079	59.8		1,231	158.8	187	
	100.00 (Default)	1,138	10	100	1,146	100.0	8,824	41.6		1,168	102.0	476	
Sub-total		**36,244**	**45,660**	**66**	**72,650**	**3.1**	**624,196**	**46.5**		**25,727**	**35.4**	**1,088**	**614**

Table 32. **EU CR6 – IRB – Credit risk exposures by exposure class and PD range**

SEK m		a	b	c	d	e	f	g	h	i	j	k	l
31 Dec 2016	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)	RWAs	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	393	35.7	2.5	14,439	17.1	17	
	0.12 to <0.46	78,787	48,563	71	107,667	0.3	2,759	38.5	2.5	47,958	44.5	120	
	0.46 to <1.74	44,374	14,647	72	54,177	1.0	3,035	39.4	2.5	41,636	76.9	222	
	1.74 to <7.00	7,419	2,260	66	8,815	2.7	1,458	39.2	2.5	8,620	97.8	95	
	7.00 to <9.00	362	176	75	492	8.0	45	39.1	2.5	664	135.0	15	
	9.00 to <22.00	2,346	244	66	2,492	13.5	181	38.2	2.5	3,856	154.7	126	
	22.00 to <100.00	446	14	63	451	25.0	57	41.7	2.5	876	194.2	47	
	100.00 (Default)	2,503	178	56	2,600	100.0	277	41.4	2.5	14	0.5	1,072	
Sub-total		**182,216**	**127,011**	**71**	**261,273**	**1.6**	**8,205**	**37.8**	**2.5**	**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	115	40.8	2.5	892	19.4		
	0.12 to <0.46	1,067	858	68	1,629	0.2	80	29.3	2.5	531	32.6	1	
	0.46 to <1.74	34	18	67	46	1.1	21	6.5	2.5	8	17.4		
	1.74 to <7.00	55	1	45	55	2.9	11	45.0	2.5	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	5	31.9	2.5	15	214.3	1	
	100.00 (Default)												
Sub-total		**11,481**	**3,060**	**57**	**6,335**	**0.1**	**232**	**37.6**	**2.5**	**1,525**	**24.1**	**3**	**0**
A-IRB Corporate	0.03 to <0.12	111,457	176,284	61	212,288	0.1	2,451	28.2	2.4	31,658	14.9	40	
	0.12 to <0.46	271,454	107,638	62	334,237	0.3	9,228	21.3	2.3	79,175	23.7	194	
	0.46 to <1.74	149,070	36,324	62	170,560	0.9	8,100	19.9	2.4	65,748	38.5	299	
	1.74 to <7.00	11,004	1,063	63	11,641	3.0	4,774	24.3	2.4	8,134	69.9	89	
	7.00 to <9.00	5,981	1,788	48	6,727	8.0	136	17.0	2.1	4,423	65.7	91	
	9.00 to <22.00	2,670	115	71	2,738	14.3	188	26.6	1.4	3,356	122.6	107	
	22.00 to <100.00												
	100.00 (Default)	2,899	323	43	3,022	100.0	121	21.8	1.7	8,241	272.7	820	
Sub-total		**554,535**	**323,536**	**61**	**741,213**	**0.9**	**24,998**	**23.0**	**2.4**	**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	1,343	43.2	1.3	5,597	18.0	8	
	0.12 to <0.46	7,741	5,143	66	10,313	0.2	1,970	44.7	1.2	3,947	38.3	10	
	0.46 to <1.74	4,353	1,346	45	4,673	0.8	294	45.8	1.9	4,153	88.9	16	
	1.74 to <7.00	489	975	41	638	2.1	81	56.0	0.8	984	154.2	7	
	7.00 to <9.00	44	78	54	65	8.0	36	56.0	0.9	162	249.2	3	
	9.00 to <22.00	329	629	24	440	12.0	143	54.8	0.6	1,214	275.9	29	
	22.00 to <100.00		77	10	8	25.0	22	56.0	0.1	26	325.0	1	
	100.00 (Default)	10	2	30	10	100.0	22	41.9	1.0	55	550.0		
Sub-total		**36,864**	**22,390**	**57**	**47,162**	**0.3**	**3,911**	**44.1**	**1.3**	**16,138**	**34.2**	**74**	**0**
A-IRB Retail Mortgage	0.03 to <0.12	152,993	2,353	100	154,560	0.1	249,232	7.0		2,541	1.6	10	
	0.12 to <0.46	250,703	23,070	100	263,188	0.2	435,253	11.3		13,235	5.0	64	
	0.46 to <1.74	56,621	5,183	100	59,805	0.8	132,463	15.7		10,492	17.5	75	
	1.74 to <7.00	10,186	393	98	10,437	4.0	16,668	12.7		3,964	38.0	53	
	7.00 to <9.00	1,434	6	93	1,439	7.9	4,725	15.8		972	67.6	18	
	9.00 to <22.00	2,604	6	100	2,608	14.9	5,669	13.6		1,980	75.9	56	
	22.00 to <100.00	1,325	28	100	1,342	43.3	2,281	8.3		641	47.8	48	
	100.00 (Default)	1,777			1,777	100.0	4,816	1.1		254	14.3	401	
Sub-total		**477,643**	**31,039**	**100**	**495,156**	**0.9**	**851,107**	**10.5**		**34,079**	**6.9**	**725**	**676**
A-IRB Other Retail	0.03 to <0.12	7,185	29,064	80	30,537	0.1	86,941	42.0		2,452	8.0	9	
	0.12 to <0.46	7,149	2,427	74	8,956	0.3	59,070	53.3		2,475	27.6	13	
	0.46 to <1.74	10,733	7,512	72	16,171	0.8	154,750	45.3		7,057	43.6	60	
	1.74 to <7.00	4,483	1,325	98	5,775	3.0	124,123	55.5		4,583	79.4	96	
	7.00 to <9.00	1,234	533	93	1,729	7.4	7,588	50.1		1,402	81.1	64	
	9.00 to <22.00	939	334	108	1,300	14.1	4,861	63.7		1,639	126.1	111	
	22.00 to <100.00	628	125	141	804	37.3	34,184	59.9		1,291	160.6	185	
	100.00 (Default)	1,160	6	102	1,167	100.0	11,777	4.3		624	53.5	534	
Sub-total		**33,511**	**41,326**	**80**	**66,439**	**3.2**	**483,294**	**45.7**		**21,523**	**32.4**	**1,072**	**606**

COMMENTS

- *The Swedish FSA no longer allows risk-weighting of sovereign exposures according to the standardised approach for IRB banks, so as from Q2 2017 sovereign exposures are calculated according to the IRB Foundation method.*

Table 33. EU CR7 – IRB approach – effect on RWA of credit derivatives used as CRM techniques

SEK m		a	b	a	b
		31 Dec 2017		31 Dec 2016	
		Pre-credit derivatives RWAs	Actual RWAs	Pre-credit derivatives RWAs	Actual RWAs
1	**Exposures under FIRB**	**129,444**	**129,444**	**119,588**	**119,588**
2	Central governments or central banks	8,699	8,699		
3	Institutions	1,869	1,869	1,525	1,525
4	Corporates – SMEs	40,813	40,813	37,970	37,970
5	Corporates – Specialised lending	7,870	7,870	6,698	6,698
6	Corporates – Other	70,194	70,194	73,395	73,395
7	**Exposures under AIRB**	**281,605**	**281,605**	**272,475**	**272,475**
9	Institutions	22,702	22,702	16,138	16,138
10	Corporates – SMEs	26,369	26,369	29,414	29,414
11	Corporates – Specialised lending	9,280	9,280	11,131	11,131
12	Corporates – Other	160,968	160,968	160,191	160,191
13	Retail – Secured by real estate SME	1,576	1,576	259	259
14	Retail – Secured by real estate non-SME	34,982	34,982	33,820	33,820
16	Retail – Other SME	7,033	7,033	4,722	4,722
17	Retail – Other non-SME	18,694	18,694	16,800	16,800
20	**TOTAL**	**411,049**	**411,049**	**392,063**	**392,063**

COMMENTS

- *SEB has not used credit derivatives for credit risk mitigation why there is no effect on RWA due to this.*

Table 34. Back-testing of PD

31 Dec 2017	Exposure (SEK m)	PD (counterparty weighted)	PD (exposure weighted)	Observed Default Frequency (ODF) (counterparty weighted)	Observed Default Frequency (ODF) (exposure weighted)
Non-retail	1,212,044	0.95%	0.49%	0.20%	0.47%
Retail Sweden[1)]	452,392	0.46%	0.49%[2)]	0.13%	0.12%
Retail Baltics[1)]	44,003	1.25%	1.24%	0.57%	0.57%

1) Retail mortgage.
2) Regulatory floor on mortage portfolio of 0.49.

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.*

Credit risk exposures under the standardised approach

The standardised approach is used for calculating risk-weighted exposure amounts for a number of minor portfolios, including some smaller sovereign exposures in certain foreign subsidiaries.

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.

Table 35. EU CR4 – Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

SEK m		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
31 Dec 2017		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	Average risk weight (%)
1	Central governments or central banks	30,370		30,370		4,060	13.4
2	Regional governments or local authorities	89		327			
3	Public sector entities						
4	Multilateral development banks						
5	International organisations						
6	Institutions	3,070	261	1,521	38	344	22.1
7	Corporates	19,392	2,237	17,337	653	17,703	98.4
8	Retail	20,594	2,515	16,133	826	12,082	71.2
9	Secured by mortgages on immovable property	7,137	308	7,134	154	2,539	34.8
10	Exposures in default	86	1	77	0	112	146.2
11	Items associated with particularly high risk	578		578		866	150.0
14	Claims in the form of CIU	42		41		41	100.0
15	Equity exposures	1,972		1,972		1,972	100.0
16	Other items	10,434	0	10,433		7,801	74.8
17	**TOTAL**	**93,762**	**5,322**	**85,923**	**1,672**	**47,521**	**54.3**

SEK m		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
31 Dec 2016		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	Average risk weight (%)
1	Central governments or central banks	253,422	11,490	256,088	5,963	1,600	0.6
2	Regional governments or local authorities	61,534	21,506	62,203	6,329	51	0.1
3	Public sector entities	2,209	11	2,208	6	29	1.3
4	Multilateral development banks	1	10	6	3		
5	International organisations	194		194			
6	Institutions	3,007	189	1,882	55	981	50.6
7	Corporates	16,278	2,597	14,928	780	16,115	102.6
8	Retail	24,000	6,984	22,980	2,770	16,173	62.8
9	Secured by mortgages on immovable property	11,240	587	11,240	272	3,803	33.0
10	Exposures in default	280	11	280	6	384	134.4
11	Items associated with particularly high risk	985		985		1,477	150.0
14	Claims in the form of CIU	66		66		66	100.0
15	Equity exposures	2,119		2,243		2,119	94.5
16	Other items	11,456		11,488		8,879	77.3
17	**TOTAL**	**386,791**	**43,385**	**386,791**	**16,184**	**51,678**	**12.8**

COMMENTS

- *The Swedish FSA no longer allows risk-weighting of sovereign exposures according to the standardised approach for IRB banks, so as from Q2 2017 sovereign exposures are calculated according to the IRB Foundation method.*

Table 36. EU CR5 – Standardised approach – exposures by asset classes and risk weights

SEK m 31 Dec 2017 **Exposure classes**		Risk weight										Total credit exposure amount (post CCF and post-CRM)	Of which unrated
		0%	20%	35%	50%	75%	100%	150%	250%	Others	Deducted		
1	Central governments or central banks	26,310					4,060					30,370	
2	Regional governments or local authorities	327										327	
3	Public sector entities												
4	Multilateral development banks												
5	International organisations												
6	Institutions		1,513		10		37					1,560	1,445
7	Corporates		327		31		17,631					17,990	17,133
8	Retail					16,958						16,958	16,958
9	Secured by mortgages on immovable property			7,226	62							7,288	7,288
10	Exposures in default						6	71				77	77
11	Items associated with particularly high risk							578				578	578
14	Claims in the form of CIU						41					41	41
15	Equity exposures						1,972					1,972	1,926
16	Other items	2,018	411		96		7,281		322	305		10,433	10,433
17	**TOTAL**	**28,655**	**2,251**	**7,226**	**199**	**16,958**	**31,029**	**649**	**322**	**305**		**87,595**	**55,879**

SEK m 31 Dec 2016 **Exposure classes**		Risk weight										Total credit exposure amount (post CCF and post-CRM)	Of which unrated
		0%	20%	35%	50%	75%	100%	150%	250%	Others	Deducted		
1	Central governments or central banks	258,286	2,595		178		992					262,051	
2	Regional governments or local authorities	68,275	257									68,532	
3	Public sector entities	2,155			59							2,214	
4	Multilateral development banks	9										9	
5	International organisations	194										194	
6	Institutions	214	1,059		3		661					1,937	1,730
7	Corporates		7		15		15,683	3				15,708	14,819
8	Retail					25,750						25,750	25,738
9	Secured by mortgages on immovable property			11,512								11,512	11,512
10	Exposures in default						87	199				286	286
11	Items associated with particularly high risk							985				985	985
14	Claims in the form of CIU						66					66	66
15	Equity exposures						2,243					2,243	2,236
16	Other items	2,049	151		371		7,453		1,312	153		11,488	11,488
17	**TOTAL**	**331,182**	**4,069**	**11,512**	**626**	**25,750**	**27,184**	**1,185**	**1,312**	**153**		**402,975**	**68,860**

COMMENTS

- *The Swedish FSA no longer allows risk-weighting of sovereign exposures according to the standardised approach for IRB banks, so as from Q2 2017 sovereign exposures are calculated according to the IRB Foundation method.*

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. *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.*

Table 37. **Equity exposures not included in the trading book**

SEK m **31 Dec 2017**	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses
Associates (venture capital holdings)	842	842	250	16	64
Associates (strategic investments)	334	334			
Other strategic investments	1,910	1,910	1,220	55	458
Seized shares	42	42			
TOTAL	**3,128**	**3,128**	**1,470**	**71**	**522**

SEK m 31 Dec 2016	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**

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 38. EU CCR1 – Analysis of CCR exposure by approach

SEK m **31 Dec 2017**	**Replacement cost/Current market value**	**Potential future exposure**	**Effective expected positive exposure (EEPE)**	**Multiplier**	**EAD post CRM**	**RWAs**
Mark to market	5,112	76,833			38,855	4,674
Internal Model Method (for derivatives and SFTs)			48,533	1.4	67,946	13,510
of which Securities Financing Transactions			*1,319*	*1.4*	*1,846*	*95*
of which derivatives & Long Settlement Transactions			*47,214*	*1.4*	*66,100*	*13,415*
Financial collateral comprehensive method (for SFTs)					23,185	2,533
TOTAL						**20,717**

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 39. EU CCR2 – CVA capital charge

SEK m	**31 Dec 2017**		**31 Dec 2016**	
	Exposure value	**RWAs**	**Exposure value**	**RWAs**
All portfolios subject to the Standardised Method	35,982	6,767	41,589	7,818
TOTAL SUBJECT TO THE CVA CAPITAL CHARGE	**35,982**	**6,767**	**41,589**	**7,818**

Table 40. EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale

SEK m		a	b	c	d	e	f	g	a	b	c	d	e	f	g
		31 Dec 2017							31 Dec 2016						
	PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWAs	Average risk weight (%)	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (years)	RWAs	Average risk weight (%)
F-IRB Central governments or central banks	0.00 to <0.01	11,948	0.0	101	44.8	2.2	382	3.2							
	0.01 to <0.03	466	0.0	3	45.0	2.2	54	11.7							
	0.03 to <0.12	1,551	0.0	12	45.0	1.1	181	11.7							
	0.12 to <0.46														
	0.46 to <1.74														
	1.74 to <7.00	2	2.0	1	45.0	2.5	3	121.7							
	7.00 to <9.00														
	9.00 to <22.00														
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**13,968**	**0.0**	**117**	**44.8**	**2.1**	**620**	**4.4**							
F-IRB Corporates	0.03 to <0.12	3,662	0.1	99	15.8	2.5	327	8.9	9,628	0.1	181	34.2	1.5	1,033	10.7
	0.12 to <0.46	2,633	0.3	190	35.0	2.5	996	37.8	4,371	0.2	281	28.2	2.5	1,292	29.6
	0.46 to <1.74	389	0.9	88	27.4	2.5	174	44.6	683	1.0	102	35.7	2.5	466	68.2
	1.74 to <7.00	13	2.1	12	45.0	2.5	15	113.4	134	3.8	28	34.8	1.3	125	93.3
	7.00 to <9.00	18	8.0	1	45.0	2.5	34	188.2							
	9.00 to <22.00	3	14.8	4	45.0	2.5	5	186.0	11	14.9	5	45.0	2.5	20	181.8
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**6,719**	**0.2**	**394**	**24.2**	**2.5**	**1,552**	**23.1**	**14,827**	**0.2**	**597**	**32.5**	**1.8**	**2,936**	**19.8**
F-IRB Institutions	0.03 to <0.12	3,728	0.0	152	9.5	2.5	245	6.6	6,935	0.0	197	23.5	2.0	795	11.5
	0.12 to <0.46	8,083	0.3	170	0.0	2.1	1	0.0	2,935	0.3	134	6.0	2.2	102	3.5
	0.46 to <1.74	311	1.3	18		2.0			248	0.9	28		2.5		
	1.74 to <7.00	5	2.0	1		2.5			10	2.0	3		2.5		
	7.00 to <9.00														
	9.00 to <22.00														
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**12,127**	**0.2**	**341**	**2.9**	**2.2**	**246**	**2.0**	**10,128**	**0.1**	**362**	**17.8**	**2.0**	**897**	**8.9**
A-IRB Corporates	0.03 to <0.12	20,702	0.1	514	30.4	2.3	2,669	12.9	32,630	0.1	739	30.0	2.0	3,789	11.6
	0.12 to <0.46	10,608	0.3	685	40.2	2.1	4,390	41.4	15,089	0.3	994	36.7	2.2	5,885	39.0
	0.46 to <1.74	3,464	0.9	452	31.1	1.9	1,797	51.9	4,434	0.8	622	39.7	2.1	3,090	69.7
	1.74 to <7.00	294	3.7	147	35.2	0.9	271	92.1	1,134	2.5	234	19.6	3.0	661	58.3
	7.00 to <9.00	25	8.0	1	26.0	2.9	21	84.0	606	8.0	31	9.0		210	34.7
	9.00 to <22.00	66	11.2	3	31.1	3.7	104	156.9	4	11.0	5	8.0	1.0	2	50.0
	22.00 to <100.00														
	100.00 (Default)	7	100.0	5	29.9	1.0	28	373.7	12	100.0	4	37.0	1.2	57	475.0
Sub-total		**35,168**	**0.3**	**1,807**	**33.5**	**2.2**	**9,280**	**26.4**	**53,909**	**0.3**	**2,629**	**32.0**	**2.1**	**13,694**	**25.4**
A-IRB Institutions	0.03 to <0.12	40,638	0.0	766	41.0	1.0	4,697	11.6	45,446	0.0	1,146	39.9	1.0	4,925	10.8
	0.12 to <0.46	10,350	0.2	332	38.9	0.7	2,999	29.0	6,355	0.3	451	42.0	0.7	2,517	39.6
	0.46 to <1.74	394	1.0	38	40.2	1.1	310	78.8	286	1.1	66	42.6	0.9	251	87.7
	1.74 to <7.00	16	2.0	2	41.0	1.0	15	92.6							
	7.00 to <9.00														
	9.00 to <22.00														
	22.00 to <100.00														
	100.00 (Default)														
Sub-total		**51,398**	**0.1**	**1,138**	**40.6**	**1.0**	**8,021**	**15.6**	**52,087**	**0.1**	**1,663**	**40.1**	**1.0**	**7,693**	**14.8**

Table 41. EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

SEK m		Risk weight							
31 Dec 2017		**0%**	**2%**	**20%**	**50%**	**75%**	**100%**	**Total**	**Of which unrated**
1	Central governments or central banks								
2	Regional governments or local authorities								
3	Public sector entities								
4	Multilateral development banks								
5	International organisations								
6	Institutions		10,217	935			1	**11,153**	11,153
7	Corporates						494	**494**	494
8	Retail					4		**4**	4
9	Claims on institutions and corporates with a short-term credit assessment								
10	Other items								
11	**TOTAL**		**10,217**	**935**		**4**	**494**	**11,650**	**11,650**

SEK m		Risk weight							
31 Dec 2016		**0%**	**2%**	**20%**	**50%**	**75%**	**100%**	**Total**	**Of which unrated**
1	Central governments or central banks	5,247		111	346		6	**5,710**	
2	Regional governments or local authorities	6,923						**6,923**	
3	Public sector entities								
4	Multilateral development banks	2,665						**2,665**	
5	International organisations								
6	Institutions		10,440	1,741			12	**12,193**	10,271
7	Corporates						1,046	**1,046**	1,046
8	Retail					16		**16**	16
9	Claims on institutions and corporates with a short-term credit assessment								
10	Other items								
11	**TOTAL**	**14,835**	**10,440**	**1,852**	**346**	**16**	**1,064**	**28,553**	**11,333**

COMMENT

- *The Swedish FSA no longer allows risk-weighting of sovereign exposures according to the Standardised approach for IRB banks, so as from Q2 2017 sovereign exposures are calculated according to the IRB Foundation method, which explains the decline in total exposures under the standardised approach.*

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 173m for a one-notch downgrade and SEK 233m 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. Exposure to qualified counterparty clearing houses (QCCPs), excluding initial margin and default fund contributions, amounted to SEK 18.9bn as of year-end. 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 42. EU CCR8 – Exposures to CCPs

SEK m		a	b
		31 Dec 2017	
		EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**		**310**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	18,923	169
3	(i) OTC derivatives	11,791	
4	(ii) Exchange-traded derivatives	7,132	169
5	(iii) Securities financing transactions		
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin	23,670	
8	Non-segregated initial margin	5,570	
9	Prefunded default fund contributions	1,656	141
10	Alternative calculation of own funds requirements for exposures		

Table 43. EU CCR5-A – Impact of netting and collateral held on exposure values

SEK m		a	b	c	d	e
31 Dec 2017		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	143,570	–94,118	49,452	–35,611	13,841
2	STFs	33,308	–3,272	30,036	–22,876	7,160
3	Cross-product netting					
4	**TOTAL**	**176,878**	**–97,390**	**79,488**	**–58,487**	**21,001**

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

Table 44. EU CCR5-B – Composition of collateral for exposures to CCR

SEK m	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
31 Dec 2017	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash – domestic currency	185	6,180		2,964	2,303	1,961
Cash – other currencies	943	29,117	60	21,047	7,043	25,490
Domestic sovereign debt	313	7,411	4,945	1,254	22,628	8,124
Other sovereign debt	3,698	4,750	3,653	1,958	18,124	13,900
Institutions	1,792	9,934	11,568	103	42,977	25,061
Corporates		199			24	5
Equity securities	2,144	3,294	3,911	2,364	82,725	59,017
Other collateral		60			285	
TOTAL	**9,075**	**60,945**	**24,137**	**29,690**	**176,109**	**133,558**

SEK m	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
31 Dec 2016	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
Corporates	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**

Table 45. EU CCR6 – Credit derivatives exposures

SEK m	a	b	c	a	b	c
	31 Dec 2017			31 Dec 2016		
	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			3,548			6,914
Index credit default swaps	963		1,233	2,944		1,831
Total return swaps						
Credit options						
Other credit derivatives						
TOTAL NOTIONALS	**963**		**4,781**	**2,944**		**8,745**
Fair values						
Positive fair value (asset)			***68***			***219***
Negative fair value (liability)	***–69***		***–244***	***–242***		***–333***

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. SEB provides financing to certain clients through a small number of asset-backed transactions, backed by consumer loans and lease receivables. The transactions are funded on balance by SEB with commitments between one and three years.

During the year, SEB finalised the wind-down of the securitisation positions in others' issues in its investment portfolio. The net effect from the wind-down of the investment portfolio securitisation positions and an increase of the customer-related, highly rated securitisations is an increase of exposure to SEK 8.9bn (SEK 7.0bn) and a decrease in risk exposure amount to SEK 1.1bn (SEK 3.3bn). The holdings are generally reported according to the External Rating-approach. The absolute majority consists of the most senior tranches, and the larger part of the holdings are AAA-rated, while the remainder is A-rated.

The securitisation positions are accounted for as loans and receivables, only a minor position is classified as available for sale. In some transactions, SEB acts as hedge counterparty with back-to-back transactions to the originators. The transactions are backed by granular pools of receivables to individuals and/or businesses. There are no credit default swap hedges. All holdings are performing and amortise according to schedule. Stress tests are performed on a monthly basis, which takes into consideration underlying levels of the positions.

Table 46. Securitisations in banking book by rating category

SEK m				Reported as risk exposure amount		
31 Dec 2017		Total exposure	Of which deducted	Exposure	Average risk weight (%)	RWAs
	AAA/Aaa	5,125		5,125	9.6	494
	AA/Aa					
	A/A	3,793		3,793	14.9	566
	BBB/Baa					
	BB/Ba					
Total securitisation		**8,918**		**8,918**	**11.9**	**1,060**
	BBB/Baa					
	BB/Ba					
	sub BB/Ba					
Total resecuritisation						
TOTAL		**8,918**		**8,918**	**11.9**	**1,060**

SEK m				Reported as risk exposure amount		
31 Dec 2016		Total exposure	Of which deducted	Exposure	Average risk weight (%)	RWAs
	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**	**477.6**	**860**
TOTAL		**7,054**	**35**	**7,018**	**46.8**	**3,282**

Table 47. Securitisations in banking book by asset type

SEK m			Reported as risk exposure amount		
31 Dec 2017	Total exposure	Of which deducted	Exposure	Average risk weight (%)	RWAs
Collateralised loan obligations (CLO)					
Commercial mortgage backed securitisations (CMBS)					
Collateralised mortgage obligations (CMO)	15		15	6.7	1
Residential mortgage backed securitisations (RMBS)					
Securities backed with other assets	6,020		6,020	11.5	692
Liquidity facilities	2,883		2,883	12.7	367
TOTAL SECURITISATION	**8,918**		**8,918**	**11.9**	**1,060**
Collateralised debt obligations (CDO)					
Total resecuritisation					
TOTAL	**8,918**		**8,918**	**11.9**	**1,060**

SEK m			Reported as risk exposure amount		
31 Dec 2016	Total exposure	Of which deducted	Exposure	Average risk weight (%)	RWAs
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	**6,838**		**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**

Table 48. Securitisations in trading book by rating category

SEK m			Reported as risk exposure amount		
31 Dec 2017	Total exposure	Of which deducted	Exposure	Average risk weight (%)	RWAs
AAA/Aaa					
sub BB/Ba					
TOTAL					

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

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.

Trading-related market risks arise from SEB's customer-driven trading activities and in the maintenance of the Group's liquidity portfolio. The trading activities are 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 Group's liquidity portfolio consists of 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 considered insurance risk and pension risk, respectively, and are not included in the Group market risk figures set out below.

Market risk limits and control

A market risk framework is in place to ensure proper oversight of all types of market risks, including both the trading-related risks, the

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 in the banking book and the market risk related to fair value adjustments. The Board of Directors defines how much market risk is acceptable by setting the overall market risk 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, maximum losses in 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 independently verifies prices and the valuation of positions held at fair value and calculates the prudent valuation capital buffers. Prudent valuation capital adjustments are taken across all fair value balances. ▶▶ *For further information about prudent valuation and valuation methodologies, refer to note 21 in the Annual Report.*

Measurement of market risk

When assessing the market risk exposure, SEB uses measures that capture losses under normal and stressed market conditions. Market risks under normal market circumstances are measured using Value at Risk (VaR) as well as specific measures that are relevant for the various risk types. These measures are complemented by stress tests and scenario analyses, in which potential losses under extreme market conditions are estimated. Since no method can cover all risks at all times, several approaches are used, and the results are assessed based on judgment and experience.

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.

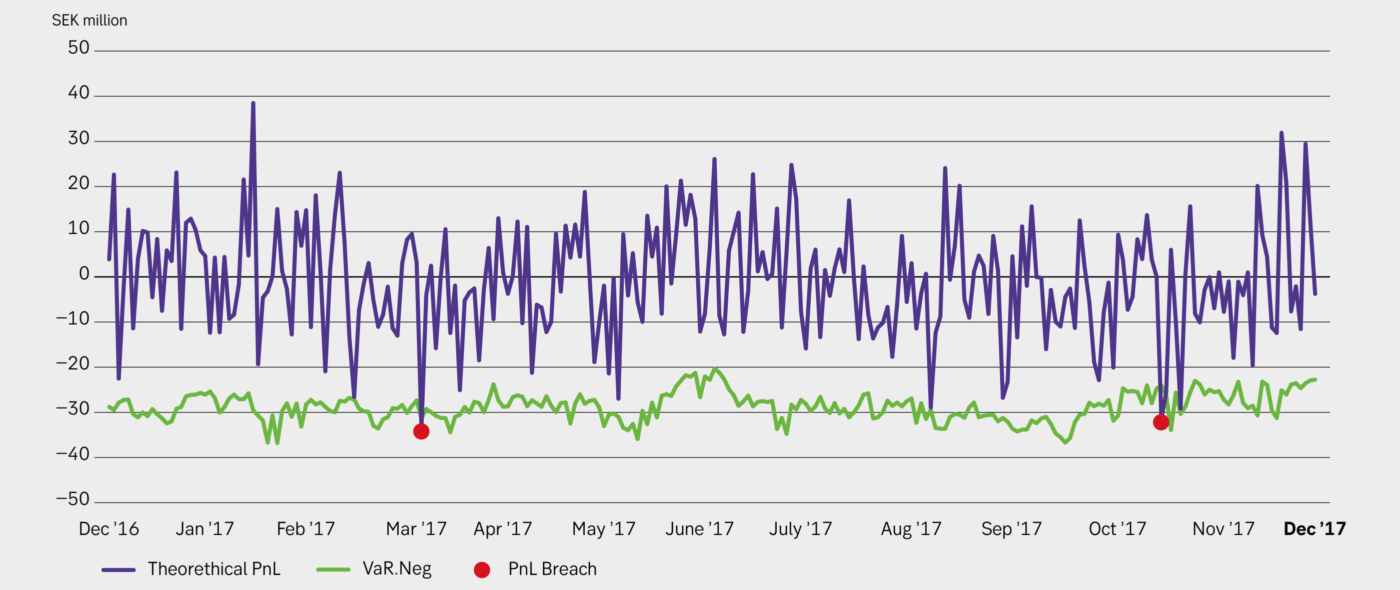
A limitation of SEB's VaR model is that it uses historical data to estimate potential market changes. As such it may not predict all outcomes, especially in a rapidly changing market. Also, VaR does not take into account any actions to reduce risk as the model assumes that the portfolio is unchanged.

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 49. **EU MR4 – Comparison of VaR estimates with gains/losses**
(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 2017.*
- *In 2017, the theoretical loss on the trading book exceeded the VaR loss limits on two occasions.*

Table 50. Trading book VaR and Stressed VaR

SEK m Value at Risk (99 per cent, ten days)	Min	Max	31 Dec 2017	Average 2017	Average 2016
Commodities risk	6	42	7	18	22
Credit spread risk	28	73	28	47	63
Equity risk	12	61	12	29	26
Foreign exchange risk	6	54	39	28	32
Interest rate risk	38	82	54	58	72
Volatilities risk	10	38	15	19	17
Diversification			−79	−108	−120
TOTAL	**64**	**119**	**76**	**91**	**112**

SEK m Stressed Value at Risk (99 per cent, ten days)	Min	Max	31 Dec 2017	Average 2017	Average 2016
Commodities risk	13	72	28	33	32
Credit spread risk	336	521	336	437	399
Equity risk	46	236	133	92	67
Foreign exchange risk	14	258	115	95	59
Interest rate risk	190	449	247	315	358
Volatilities risk	26	79	35	54	54
Diversification			−324	−471	−391
TOTAL	**375**	**748**	**570**	**555**	**578**

Table 51. Banking book VaR

SEK m Value at Risk (99 per cent, ten days)	Min	Max	31 Dec 2017	Average 2017	Average 2016
Credit spread risk	37	61	38	48	60
Equity price risk	11	29	16	15	58
Foreign exchange rate risk		1			
Interest rate risk	121	172	172	143	232
Diversification			−46	−45	−110
TOTAL	**145**	**182**	**180**	**161**	**240**

COMMENTS

- *In 2017, the Group's 10-day VaR in SEB's trading-related activities averaged SEK 91m compared to SEK 112m in 2016. Open market risk in SEB's trading portfolios was relatively stable during the first three quarters of 2017 and decreased somewhat in the last quarter. SEB's liquidity portfolio, managed by the Treasury function, is reported in the Trading book VaR. As of 2018, the liquidity portfolio will be reported in the banking book.*
- *The average banking book VaR decreased by 33 per cent in 2017 compared to 2016, primarily driven by a lower contribution from interest rates.*

Stress tests and scenario analyses

Scenario analysis and stress tests are a key part of the risk management framework, complementing the VaR measure. In particular, they test the portfolios using scenarios other than those available in the VaR simulation window, and cover longer time horizons. 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.

SEB stresses its portfolios by applying extreme movements in market factors which have been observed in the past (historical scenarios) as well as extreme movements that could potentially happen in the future. 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. This type of analysis provides management with a view on the potential impact that large market moves in individual risk factors, as well as broader market scenarios, could have on a portfolio. The risk tolerance framework includes limits on maximum losses in various 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 breakdown of risk exposure amount and the corresponding capital requirements are shown below.

Table 52. EU MR1 – Market risk under the standardised approach

SEK m		a	b	a	b
		31 Dec 2017		31 Dec 2016	
		RWAs	Capital requirements	RWAs	Capital requirements
	Outright products	13,902	1,112	13,085	1,047
1	Interest rate risk (general and specific)	7,891	631	7,302	584
2	Equity risk (general and specific)	1,990	159	2,010	161
3	Foreign exchange risk	4,022	322	3,773	302
4	Commodity risk				
	CIUs	1			
	Options				
5	Simplified approach				
6	Delta-plus method				
7	Scenario approach				
8	Securitisation (specific risk)			86	7
9	**TOTAL**	**13,902**	**1,112**	**13,171**	**1,054**

COMMENTS

- *There were no significant changes in the market risk under the standardised approach during the year.*

Table 53. EU MR2-A – Market risk under the IMA

SEK m		a	b	a	b
		31 Dec 2017		31 Dec 2016	
		RWAs	Capital requirements	RWAs	Capital requirements
1	**VaR**	**3,502**	**280**	**4,345**	**348**
(a)	Previous day's VaR (Article 365(1) of the CRR (VARt-1)	900	72	1,138	91
(b)	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	3,502	280	4,345	348
2	**SVaR**	**21,390**	**1,711**	**25,697**	**2,056**
(a)	Latest SVaR (article 365(2) of the CRR (SVaRt-1)	7,043	563	6,776	542
(b)	Average of the SVaR (article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (mc) (Article 366 of the CRR)	21,390	1,711	25,697	2,056
5	**Other**				
6	**TOTAL**	**24,892**	**1,991**	**30,042**	**2,403**

COMMENTS

- *Total risk exposure amount decreased by SEK 5bn to SEK 24.9bn as of year-end 2017. The change was driven by lower stressed VaR during the 60-days average, which is mainly explained by a reduction of the liquidity portfolio.*

Table 54. EU MR3 – IMA values for trading portfolios

SEK m	31 Dec 2017	31 Dec 2016
VaR (10 day 99%)		
Maximum value	119	182
Average value	91	112
Minimum value	64	83
Period end	76	92
SVaR (10 day 99%)		
Maximum value	748	741
Average value	555	578
Minimum value	375	413
Period end	570	538
ICR (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		
Comprehensive risk capital charge (99.9%)		
Maximum value		
Average value		
Minimum value		
Period end		

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, cyber 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.

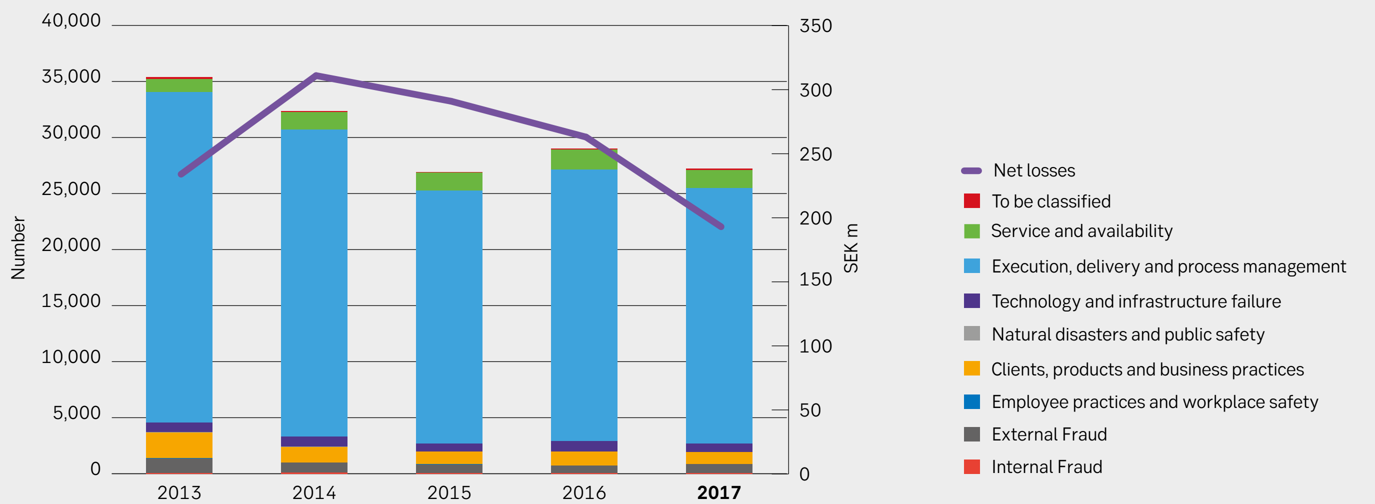
The business divisions and support functions own the risk inherent in their operations and the responsibility to identify, assess, monitor and manage operational risk rests with all managers throughout SEB. Operational risk managers are embedded within the first line of defense and are dedicated to assist 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. In 2017, SEB continued to strengthen and improve the operational risk tools, further improved the communication regarding best practices in the area, as well as developed the divisional operational risk reporting.

In 2017, net losses from operational incidents amounted to SEK –185m (–263), which was below SEB's historic average. Benchmarking against members of the Operational Risk Data Exchange Association (ORX) shows that SEB's operational losses are below the ORX average.

Table 55. **Operational risk incidents registered and analysed**



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 3.9bn (3.8) at the end of 2017.

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.

The Basel Committee has decided on a standardised approach to calculate the operational capital requirement and it will replace all existing methods, including AMA, to calculate capital for operational risk. The standardised approach uses multipliers to banks' financial income statement, where also internal loss statistics will be considered. The standardised approach will come into effect no later than 1 January 2022.

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.

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.

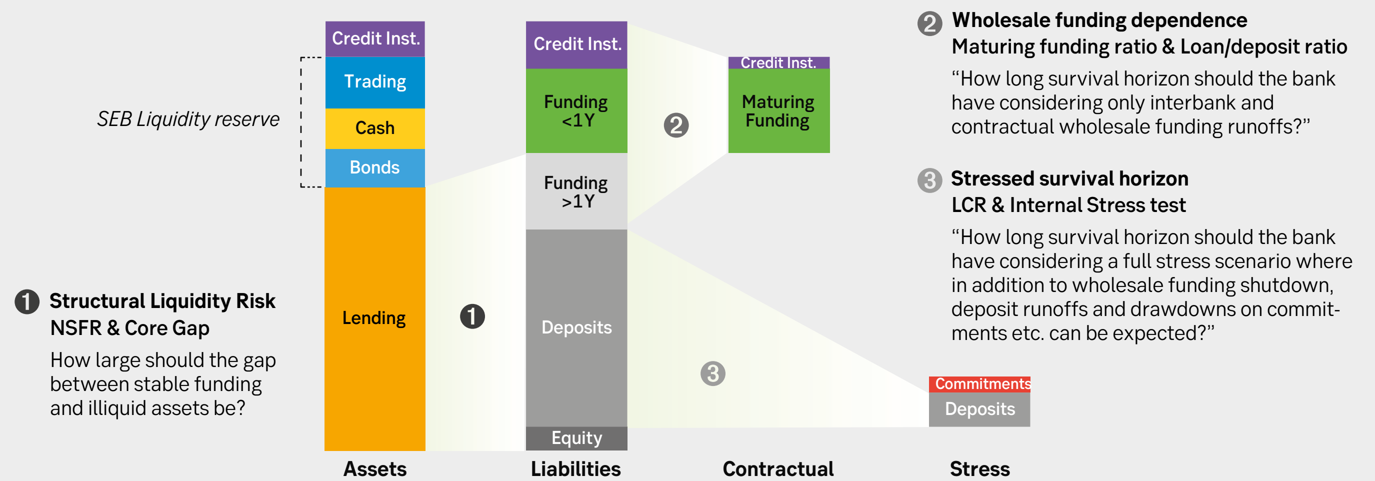
Liquidity reserve

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 340bn (427) at year-end 2017. ▶▶ *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 56. Asset encumbrance

SEK m			Of which: Encumbered Assets						Of which: Encumbered Collateral					
Carrying amount of selected financial liabilities **Median value 2017**	**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	**32,002**	**53,049**	1,539	1,163		993	26,098	**29,793**	10,174	9,661		3,422		**23,256**
Repos	**26,667**	**25,854**	4,727	754				**5,481**	13,694	6,680				**20,373**
Securities financing	**66,250**	**69,738**	2,028	6,516	32	13,471	25,928	**47,975**	1,920	753	7	19,083		**21,763**
Covered bonds	**330,872**	**337,494**					337,494	**337,494**						
Collateral management	**112,391**	**119,317**							38,914	17,883	177	62,343		**119,317**
Other		**1,606**	1,285				321	**1,606**						
Total	**568,182**	**607,058**	**9,579**	**8,433**	**32,**	**14,464**	**389,841**	**422,349**	**64,702**	**34,977**	**184,**	**84,848**		**184,709**
Non-encumbered assets and collateral			83,939	95,699	5,619	38,340	1,700,388	**1,923,985**	19,181	44,718	723,	23,051	537	**88,210**
TOTAL ENCUMBRANCE AND NON-ENCUMBRANCE			**93,518**	**104,132**	**5,651**	**52,804**	**2,090,229**	**2,346,334**	**83,883**	**79,695**	**907**	**107,899**	**537**	**272,919**

Encumbered asset ratio	18.0%
Encumbered collateral ratio	67.7%
TOTAL ENCUMBRANCE RATIO	**23.2%**

SEK m			Of which: Encumbered Assets						Of which: Encumbered Collateral					
Carrying amount of selected financial liabilities **Median value 2016**	**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**						
Collateral management	**137,761**	**139,266**							45,499	12,094	607	81,066		**139,266**
Other		**1,093**	787				306	**1,093**						
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%**

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 108 per cent at year-end 2017 (114). 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 (143) as of year-end 2017.

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 145 per cent as of year-end 2017 (168). 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 284 per cent (305) and 217 per cent (272), respectively. As of 1 January 2018, the LCR requirement will be according to the EU's definition only as the SFSA's requirement is removed.

Table 57. LCR summary
Disclosure according to Article 435 of Regulation (EU) No 575/2013

SEK bn		Total unweighted value (average)				Total weighted value (average)			
		Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Number of data points used in the calculation of averages		7	10	12	12	7	10	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)					541	542	552	551
Cash-outflows									
2	Retail deposits and deposits from small business customers, of which:	385	387	389	394	32	32	32	32
3	*Stable deposits*	*220*	*224*	*227*	*232*	*11*	*11*	*11*	*12*
4	*Less stable deposits*	*165*	*163*	*161*	*162*	*21*	*21*	*20*	*20*
5	Unsecured wholesale funding	735	754	776	796	391	406	422	437
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*336*	*339*	*347*	*356*	*81*	*82*	*84*	*87*
7	*Non-operational deposits (all counterparties)*	*354*	*368*	*385*	*395*	*264*	*277*	*294*	*305*
8	*Unsecured debt*	*46*	*47*	*44*	*45*	*46*	*47*	*44*	*45*
9	Secured wholesale funding					46	43	35	29
10	Additional requirements	484	490	494	497	53	56	58	63
11	*Outflows related to derivative exposures and other collateral requirements*	*16*	*25*	*30*	*37*	*4*	*8*	*10*	*15*
12	*Outflows related to loss of funding on debt products*								
13	*Credit and liquidity facilities*	*467*	*466*	*464*	*461*	*49*	*48*	*48*	*48*
14	Other contractual funding obligations	66	65	61	59	27	25	21	18
15	Other contingent funding obligations	29	31	34	36	1	2	2	2
16	**Total cash outflows**					**550**	**563**	**570**	**580**
Cash-inflows									
17	Secured lending (eg reverse repos)	248	226	230	213	77	71	65	55
18	Inflows from fully performing exposures	96	87	101	109	71	72	76	82
19	Other cash inflows	9	8	9	10	9	9	9	10
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)								
EU-19b	(Excess inflows from a related specialised credit institution)								
20	**Total cash inflows**	**354**	**321**	**340**	**332**	**157**	**151**	**150**	**147**
EU-20a	***Fully exempt inflows***								
EU-20b	***Inflows Subject to 90% Cap***								
EU-20c	***Inflows Subject to 75% Cap***	***264***	***237***	***263***	***258***	***157***	***151***	***150***	***147***

		Total adjusted value			
21	**Liquidity buffer**	**541**	**542**	**552**	**551**
22	**Total net cash outflows**	**394**	**412**	**420**	**434**
23	**Liquidity coverage ratio (%)**	**139**	**133**	**133**	**127**

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 and underwriting risk.

SEB's life insurance operations are conducted within the SEB Life Group in the Life & Investment Management Division. Unit-linked products represent the vast majority of the business. In 2016, SEB re-opened sales within traditional life insurance in Sweden, after having been closed since 2007. SEB also offers traditional life insurance policies in Denmark and the Baltic countries. In 2017, SEB entered into an agreement to divest the Danish life insurance operations.

Market risk in the insurance business is the risk of 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 the unit-linked insurance products, the market risk is borne by the policyholder. However, SEB has an indirect exposure to market risk through the policyholders' investments, since a part of the 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 behaviour risk).

Risk management and measurement

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 life insurance 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. Solvency calculations, in line with the Solvency II regulatory framework, are performed regularly and the required reporting is submitted to the financial supervisors on a quarterly basis. Calculations show that SEB Life Group is financially strong and resilient to different stresses. Solvency figures are closely monitored over time and the outcome has been in line with expectations. Key risks are reported to the Group Risk Committee, the Board's Risk and Capital Committee and to the boards of each insurance company.

Solvency II

Solvency II, which became effective as of 1 January 2016, is a common regulatory framework for the governance, internal control and capital requirements for insurance companies across Europe. The regulation facilitates transparency and comparability, ensures companies' ability to meet their obligations and thus increases 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.

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) Shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets and certain other regulatory adjustments defined in EU Regulation no 575/2013 (CRR).

Common Equity Tier 1 capital ratio Common Equity Tier 1 capital as a percentage of 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 as a percentage of the estimated net cash outflows over the next 30 calendar days.

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) Total assets and off balance sheet items, risk-weighted in accordance with capital adequacy regulations for credit risk and market risk. The operational risks are measured and added as risk exposure amount. Risk exposure amounts are 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.

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

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

Total capital ratio Total 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.