# Risk, liquidity and capital management

Managing risk is an integral part of banking, and risk awareness is deeply embedded in SEB's corporate culture. The bank has a comprehensive framework for risk, liquidity and capital management that is continuously being developed to reflect the current environment. This has enabled SEB to continue to create customer value during the Covid-19 pandemic while maintaining the bank's resilience.

## Risk management

### Risk development in 2020

2020 was an extraordinary year from a risk perspective, with the Covid-19 pandemic testing the resilience of the financial system. When the pandemic erupted, global growth prospects experienced an unprecedented shock as restrictions and lockdowns were implemented around the world. Estimating the extent of the economic damage was at that point impossible. Financial markets reacted to the uncertainty with volatility that exceeded levels seen during the 2007–2008 financial crisis and the oil price fell sharply. Corporate customers approached banks to secure liquidity facilities and governments struggled to put together suitable support programs for both corporates and individuals. The shock to the economy also created massive uncertainty regarding expected credit losses among banks.

SEB has managed the crisis well. Focus has been on supporting customers while at the same time managing the increasing risks. The bank's crisis management and pandemic plans were activated already at the onset of the pandemic and have resulted in completely new ways of working without major disturbances to the bank's significant processes. Operational risk incidents and related losses remained low. Market volatility was handled within existing risk frameworks and financial markets recovered swiftly. SEB's liquidity position and capital adequacy have remained strong throughout the turbulence. Net expected credit losses saw an increase during the year but were primarily concentrated to the offshore segment in the oil industry, which was deeply affected by the lower oil prices. In addition, model overlays were made for potential Covid-19-related effects. The effects from the pandemic on the overall credit quality remained limited throughout the year.

The economic recovery that began in the third quarter was soon interrupted by a second wave of infections. The outlook for 2021 contains both hope for a return to normal as vaccination programmes are rolled out, and a concern that, for some companies, future income will not compensate for increasing debt levels during the crisis. There are also companies whose business models may be at risk given the accelerated digitalisation.

While the Covid-19 pandemic dominated risk management in 2020, it is clear that risks related to environmental, social and governance (ESG) continue to grow in importance. Climate-related risks in particular are being increasingly analysed, measured and integrated into strategic decision-making. Risks related to money laundering and financing of terrorism remain in focus, and preventive work is being continuously strengthened.

SEB continues to develop its risk management in order to manage new types of risks emerging from trends or events such as pandemics, climate change, technological innovation or geopolitical events. This is done through developing relevant taxonomies, a control framework focused on prevention, an integrated risk and control assessment that considers emerging risks, and a quantitative assessment of the risk.

### Overall stable asset quality

SEB has a well-balanced credit portfolio (which includes loans, contingent liabilities and derivatives) mainly focused on Nordic

### Risk profile

The Board of Directors decides on the overarching risk tolerance. The President and CEO is responsible for managing SEB's risks overall and ensuring that the risk profile is within the Board's risk tolerance and capital adequacy targets.

| Board's risk tolerance statements in brief. SEB shall: | Measurement | 2020 | 2019 |
|---|---|---|---|
| **Credit risk and asset quality**<br>Have a robust credit culture based on long-term relationships, knowledge about customers and focus on their repayment capacity. This will lead to a high-quality credit portfolio. | • Total loans, contingent liabilities and derivatives (SEK bn)<br>• Expected credit losses in relation to total exposure (%)<br>• Share of loans that are classified as credit-impaired (%) | 2,591<br>0.26<br>0.87 | 2,498<br>0.10<br>0.67 |
| **Market risk**<br>Achieve low earnings volatility by generating revenues based on customer-driven business. | • Statistical measure of the largest trading loss that can be expected in a ten-day period (VaR) (SEK m) | 210 | 98 |
| **Operational, business and reputational risk**<br>Mitigate operational, business and reputational risk in all activities and maintain the bank's good reputation. | • Operational risk losses in relation to operating income (%) | 1.94[1)] | 0.30 |
| **Liquidity and funding risk**<br>Have a soundly structured liquidity position, a balanced wholesale funding dependence and sufficient liquid assets to meet potential net outflows in a stressed scenario. | • Short-term funds in relation to short-term payments (Liquidity Coverage Ratio) (%)<br>• Long-term funds in relation to long-term cash flows (Core Gap ratio) (%) | 163<br>113 | 218<br>109 |
| **Aggregated risk and capital adequacy**<br>Maintain satisfactory capital strength in order to sustain aggregated risks and guarantee the bank's long-term survival and its position as a financial counterparty, while operating within regulatory requirements and meeting rating targets. | • Risk-weighted business volumes (risk exposure amount) (SEK bn)<br>• Capital in relation to the risk exposure amount (CET1) (%)<br>• Capital in relation to total assets (leverage ratio) (%) | 726<br>21.0<br>5.1 | 746<br>17.6<br>5.1 |

1) Excluding an administrative fee of SEK 1,000m issued by the Swedish FSA, the operational risk loss in relation to operating income would have been 0.45%.

large corporates and Swedish households. In 2020, overall asset quality remained stable despite the exceptional economic slow-down triggered by the pandemic. The impact of Covid-19 was limited for the bank's larger portfolios such as large corporates, real estate, small and medium-sized companies and households. At the end of the year, there were still no signs of a broad structural deterioration of customers' financial positions.

Monthly filings of bankruptcies in Sweden peaked in March and April but remained below the level in 2019 thereafter. Late payments and drawdowns on overdraft facilities remained low and stable throughout the year. However, the expectation is that the underlying financial profile of many companies has weakened as an effect of lost income and increased debt levels. This could eventually lead to weakening asset quality in banks. Industry sectors deemed to be most at risk are oil-related, travel and transportation, retailers and retail space. During the pandemic, SEB's prime focus has been to work closely with customers and actively manage risk.

There was limited impact from the Covid-19 pandemic and SEB's net expected credit losses were concentrated to exposures which were weaker already before the outbreak, including the offshore segment in the oil industry. The sharp decline in oil prices early in the year prompted oil and gas companies to take drastic measures, including significant capital expenditure cutbacks. Many sectors within the oil service industry were already struggling with overcapacity, thus necessitating more severe restructuring measures. SEB's offshore portfolio (rigs, accommodation rigs and platform support vessels) has been subject to enhanced monitoring since 2015 but, with a few exceptions, restructurings have now been concluded or are in the process of being concluded. Performance and/or recovery on an individual customer basis will continue to depend largely on the length and depth of the overcapacity issue as well as on owners' willingness and ability to engage in, and support, consensual restructurings with regard to the few remaining offshore exposures still subject to ongoing restructuring discussions.

Net expected credit losses (ECL) amounted to SEK 6,118m (2,294), corresponding to a net ECL level of 26 basis points (10). The development was driven by increased provisions for individual counterparties in the offshore segment and model overlays on portfolio level for potential Covid-19-related effects and oil-related exposures.

Credit-impaired loans (gross loans in Stage 3) amounted to SEK 15.6bn at year-end (11.8), corresponding to 0.87 per cent of gross lending (0.67). The Stage 3 ECL coverage ratio increased during the year from 45.2 per cent to 48.4 per cent.

### Robust credit portfolio growth in challenging times

Credit volume growth was good in 2020, driven mainly by large corporate demand for Covid-19 related contingent liquidity facilities during the first wave of the pandemic as well as strong growth in the Swedish household mortgage portfolio. The total credit portfolio amounted to SEK 2,591bn (2,498).

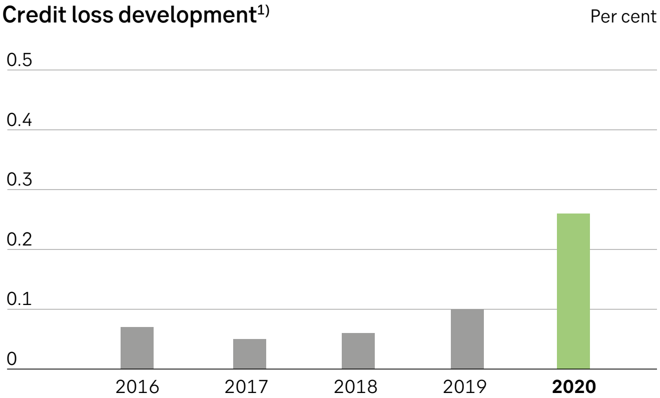
### Strong credit demand from large corporates

More than half of SEB's credit portfolio consists of exposure to corporates. SEB is unique among its peers in that its corporate portfolio consists primarily of large corporate customers – mainly Nordic and German customers in a wide range of industries, the largest being manufacturing.

In general, SEB's large corporate customers have remained resilient during the crisis. At the outbreak of the Covid-19 pandemic, demand from large corporates for liquidity facilities increased, and as a result, the majority of counterparties entered the economic downturn with strong buffers. For SEB this was the main driver of corporate credit growth in 2020. Activity among large corporate customers gradually returned to more normal levels during the second half of the year and in total, the corporate portfolio grew to SEK 1,308bn (1,268).

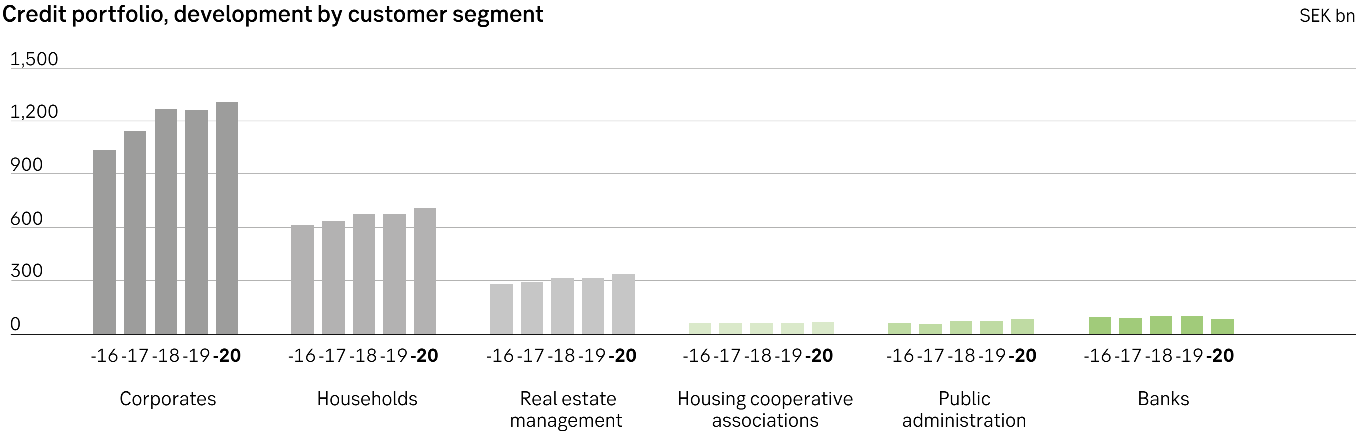
Among small and medium-sized enterprises (SMEs) demand for liquidity facilities was much less pronounced during the pandemic and credit demand from the segment was stable. SEB's SME portfolio grew to SEK 149 bn (143bn). SEB's exposure to SMEs is mainly in Sweden and accounts for 11 per cent (11) of the total corporate portfolio.

**Credit loss development**[1)]




1) 2018–2020: Net ECL level based on IFRS 9 expected loss model.
2016–2017: Credit loss level based on IAS 39 incurred loss model.

**Credit portfolio, development by customer segment**



## Strong growth in Swedish household mortgages

Activity remained high in the housing market in 2020 despite the unusual situation, supported by continued low interest rates and a labour market underpinned by forceful government measures. The majority of Swedish municipalities continue to report housing deficits and strong demand especially for smaller apartments. At the same time, the Covid-19 pandemic has resulted in growing demand for larger apartments and houses outside city centres. SEB's Swedish household mortgage portfolio continued to grow in line with the market at around 5 per cent and amounted to SEK 560bn at year-end (520bn). The portfolio is of high quality with low historical credit losses, a sound portfolio loan-to-value (LTV) ratio (weighted average max LTV of 54 per cent) and a proven strong repayment capacity among customers.

Lending decisions are based on the borrower's repayment capacity, including the ability to manage a stressed scenario with a higher interest rate. Where applicable, the stressed scenario takes into account the borrower's share of the housing association's total debt. New mortgage loans normally may not exceed five times the household's gross income.

The general exception from the amortisation requirement law implemented by the Swedish FSA when the Covid-19 pandemic escalated has not affected lending standards. In 2020 SEB granted the temporary exception to close to 30,000, or 17 per cent, of its Swedish mortgage customers, while asset quality indicators remained intact. The exception expires in August 2021.

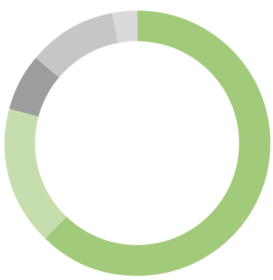
## Solid real estate portfolio

SEB's credit exposure to residential real estate management is mainly Swedish and consists of high quality, private and publicly owned real estate companies as well as institutional investors. Average loan-to-value for the portfolio was 46.5 per cent at year-end (46.6). Demand for residential real estate in Sweden is stable and non-cyclical due to the structural housing deficit.

Growth in the residential real estate portfolio was strong in 2020 driven mainly by high activity among existing customers as well as a growing supply of newly produced properties coming on to the market. The portfolio amounted to SEK 143bn (131). SEB also has SEK 66bn (63) in exposure to housing cooperative associations, a common form of residential home ownership in Sweden.

SEB's exposure to commercial real estate companies consists mainly of strong counterparties in the Nordic region with sound financing structures and diversified property portfolios. Average loan-to-value for the portfolio was 45.5 per cent at the end of 2020 (45.2). The market outlook for commercial real estate continues to be supported by low interest rates. The acceleration of trends such as e-commerce and remote working as well as reduced travelling during the Covid-19 pandemic has impacted segments such as retail-related properties and hotels. SEB's commercial real estate portfolio amounted to SEK 196bn (188) at year-end.

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



| | |
|---|---|
| Sweden | 63 |
| Other Nordic countries | 17 |
| Baltic countries | 7 |
| Germany and the UK | 11 |
| Other | 2 |

1) Distribution based on SEB's operations.

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

## Balanced growth in the Baltic countries

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

Lockdowns were implemented in all three Baltic countries when the pandemic erupted. The economic impact turned out to be less severe than initially expected, however, as comprehensive government support programmes were put in place. Corporate and household activity picked up gradually during the third quarter, and in total SEB's Baltic credit portfolio was unchanged at SEK 188bn.

## Increased market risk

Market risk arises in SEB's customer-driven trading activity and in its liquidity portfolio. It also arises in the form of interest rate risk in the banking book as a result of balance sheet mismatches in currencies, interest terms and interest rate periods. Risk in customer-driven trading is measured as Value-at-Risk (VaR), which estimates the maximum loss the bank expects to make during a period of ten trading days, with 99 per cent probability.

When the Covid-19 pandemic started in the first quarter of the year, financial market volatility exceeded levels seen during the financial crisis in 2007–2008 and VaR reached a peak of SEK 420m. The volatility was managed by reducing risk in certain portfolios while at the same time supporting customer needs. Financial markets recovered swiftly after the initial turmoil but VaR, which is based on changes in market risk factors over the past twelve months, has remained at an elevated level, averaging SEK 210m for the year (98).

## Unchanged insurance risk

SEB's life insurance business consists mainly of unit-linked products, where the market risk remains with the customer. In 2020, unit-linked products accounted for 67 per cent of total premium income (63). In addition to unit-linked, SEB also offers traditional life and risk insurance as well as occupational pension and private health insurance products in Sweden. The traditional life insurance portfolios expose SEB to financial market risk due to the guaranteed elements of the products. However, the difference between the value of the assets and the guaranteed commitments serves as a buffer against earnings volatility. While these buffers decreased in the first quarter 2020 due to the volatile financial markets, the subsequent market recovery and new business volumes resulted in slightly higher levels for the year. An environment with continued low interest rates is challenging for the life insurance industry both with regards to capitalisation and to generating competitive asset returns. While portfolio allocations to alternative investments have been somewhat lower than previous years, they are likely to remain material at around 40 per cent.

## Managing operational risks during the pandemic

Crisis management plans were activated across SEB at the outbreak of the pandemic. A pandemic response scenario devised in 2008 as part of SEB's business continuity planning formed the backbone of the bank's response and has evolved in pace with the progression of the Covid-19 pandemic. Crisis management has resulted in completely new ways of working and an enormous speed of change. There were some initial challenges related to having a large share of employees working remotely but these were managed without any major disturbances to the bank's significant processes.

Net operational losses from incidents increased to SEK 1,235m in 2020 (120), mainly due to the SEK 1bn administrative fine issued by the Swedish FSA (see p. 61). By continuously developing and improving governance and risk practices, SEB strives to mitigate operational risks – both traditional and emerging risks – in its daily business and in processes.

### Cybersecurity and data management

The cyber threat environment is becoming increasingly sophisticated. In order to ensure availability of the bank's services and protect assets, SEB takes a holistic approach to cybersecurity and works at various levels to identify, protect and respond to cyber threats. All security functions have been gathered in one global organisation. IT-systems and applications, networks and devices are systematically tested for vulnerabilities and monitored with the help of machine learning to detect any deviant behaviour.

Risk awareness training and proactive communication to all SEB employees are important parts of the security work. External and internal assessments and audits are performed regularly to test the operational resilience. In January 2021, SEB established a Cyber Risk and Cybersecurity Committee to support the Board of Directors, the President and the CRO with knowledge, skills and expertise in their decision-making and risk assessment. At the same, the cyber-related framework was updated and a new group-wide cyber risk policy was adopted. SEB took a number of actions that handle specific challenges in cybersecurity that occurred in the wake of the pandemic.

Data management and data ethics continue to grow in importance as regulatory requirements related to, for instance, financial reporting, the Payment Services Directive (PSD2) and money laundering are leading to an increased need for data and data processing as well as for data-sharing with third-party providers. SEB's well-defined processes for managing such risks are being continuously adapted. In 2020, a group-wide information governance framework was implemented, including the establishment of group-wide data councils and data management tools and processes. Model risk is another area affected by evolving regulatory requirements. A model risk policy framework has been in place for a few years. During 2020, significant improvements were made to the independent validation of models used for financial crime prevention, pricing of lending products and algorithmic trading.

### Continuous strengthening of the risk culture

SEB's credibility and reputation are essential to the bank's success and are built on long-term customer relationships, a strong business and risk culture based on high ethical standards, social and environmental responsibility and professionalism.

SEB's reputation is also dependent on the type of customers SEB is associated with. In 2020 a new unit called Customer Risk was established within the CRO function with the responsibility for performing second-line assessment of the new customer on-boarding process and reviewing existing customers. The assessment will be done in line with SEB's new Customer Acceptance Standards that were put in place in 2020 to further reinforce a sound risk culture in the area of customer acceptance.

The work to detect and prevent fraud, both internally and in cooperation with the police, is continuously evolving to adjust to new criminal behaviours. SEB's Code of Conduct and core values, mandatory training and dialogues on ethical and value-related dilemmas strengthen employees' awareness of the importance of their conduct. Employees and others are urged to report unethical or illegal incidents, if needed through an independent, external whistle-blowing procedure.

### Prevention of corruption, money laundering and financing of terrorism

By being active in the financial market with a diverse and global offering, SEB as a bank is exposed to the risk of being used for corruption, money laundering and financing of terrorism. SEB works actively to prevent such risks in line with applicable rules and regulations as well as its own high ethical standards. Knowledge, awareness and a strong risk culture are firmly embedded in the entire organisation, from the Board of Directors to individual employees.

SEB's Customer Acceptance Standards (CAS) represent what the bank considers to be critical requirements when accepting new and existing customers. They complement internal and external rules and aim to further institutionalise and reinforce SEB's sound risk culture. In situations where legal requirements, the CAS and other relevant SEB policies, procedures and instructions are not fulfilled, the decision to onboard a new customer or maintain an existing relationship, needs to be escalated to the appropriate higher decision-making body. At the same time long-term customer relationships are at the core of SEB's risk culture, and potential conflicts with CAS are to be discussed openly with the customers.

The principles for SEB's Customer Acceptance Standards are:
1. SEB's active choice. To be a customer of SEB shall be the result of an active decision by the bank. Customer relationships are built on trust, and the relationship will be reviewed as required.
2. The purpose of the relationship must be fully understood. SEB shall have a good understanding of the customer's purpose for using SEB and why it makes sense that SEB provides those services.
3. Transparency is a requirement. Openness and the ability to provide satisfactory information is a requirement to become and remain a customer of SEB.
4. Customers shall comply with laws and regulations with a respectful distance to grey zones.
5. Customers in industries with a significant negative climate impact and without a credible plan to manage the transition to a low-carbon economy shall be avoided. SEB is committed to aligning its business strategy with the Paris Climate Agreement and encourages sustainable practices in partnership with customers.
6. Industries with negative social impact shall be avoided. SEB is committed to aligning its business with the UN Guiding Principles on Business and Human Rights and therefore has a very restrictive attitude to business activities in industries that could be seen as creating negative conditions for people involved in them.
7. Customers domiciled in high risk countries, where legal systems, infrastructures or financial disclosures are considered deficient and where corruption is high, shall be avoided.
8. Customers with heightened money laundering or sanction risk shall be treated with caution. Certain customers carry, by virtue of their activities, domicile, ownership, employees or payment patterns, a heightened risk for money laundering.
9. Customer acceptance shall be based on an approved business strategy, and SEB shall have the capacity to follow up and control customers and related risks.

In June 2020, the Swedish FSA announced a sanction decision related to SEB's routines and processes to avoid being exploited for money laundering in its Baltic subsidiary banks. The FSA issued SEB a remark, which is a lower degree of administrative sanction that is issued when a breach has not been deemed to be severe. The FSA also assessed SEB an administrative fine of SEK 1bn. Work to strengthen SEB's defence against money laundering will continue to be of high priority for the bank.

SEB has a clear governance model for its preventive work against corruption, money laundering and financing of terrorism, with mandates, instructions and responsibilities. The preventive work is constantly being developed to adapt to new criminal behaviour and to be aligned with evolving regulation. To understand how the bank could be used for money laundering or financing of terrorism, risk assessments are performed and serve as the basis for developing internal procedures to mitigate identified risks.

One of the most important processes of the preventive work is the risk-based customer due diligence process. In this process, information to understand the business relationship and potential risks associated with the customer is collected and assessed. Customer due diligence is performed both when onboarding new customers and on an ongoing basis throughout the relationship. Enhanced due diligence is applied for customers in areas where the bank is believed to be more exposed, such as for customers with specific products or that have ties with high-risk countries.

Another important process is transaction monitoring, which is used to detect suspicious transactions and behaviours. Any suspicious activity that is discovered is reported to the relevant authorities. In such cases SEB will consider terminating or limiting the business relationship if the identified risk cannot be managed. In 2020 SEB reported more than 3,000 Suspicious Activity Reports to the authorities in the countries where it operates. SEB also performs sanction screening to prevent payments to and from persons or entities on sanctions lists.

SEB works continuously to develop its capabilities in the above areas by reinforcing internal controls and procedures in the business units and at the geographic locations where the bank operates, utilising new technologies and conducting employee training to strengthen awareness.

External cooperation is also an essential part of the preventive work. In 2020 SEB continued to work with the joint know-your-customer platform that was established together with five other Nordic banks in 2019. A cooperation with the Swedish Police Authority to form an anti-money laundering intelligence task force with the aim to increase information sharing was initiated during the year together with the large Swedish banks.

### Sustainability risks in credit analysis and customer onboarding

As a bank, SEB plays an important role in society by providing credit and managing financial assets in ways that promote sustainable economic growth and prosperity. Both in its customer onboarding and credit granting processes, SEB considers sustainability risks and the extent to which such risks can impact SEB's ambition to be a sustainable bank as well as the customer's ultimate repayment capacity. SEB's sustainability-related policies define how the bank is to consider sustainability risks.

Tools for identifying, defining, monitoring, measuring and controlling sustainability risks are developed continuously. For example, during 2020 SEB developed a classification model for assessing the climate impact of its corporate and real estate customers. The model can be used both for identifying and mitigating transition risks and for aggregating and measuring the credit portfolio's alignment with the Paris Agreement. SEB's strategic initiatives to manage and report on climate-related risks are further described in the Task Force on Climate-related Financial Disclosures (TCFD) report on p. 52.

### Human rights and labour law

Conducting responsible business entails an obligation to respect and promote human rights and labour law. SEB assesses the risk for human rights violations in accordance with SEB's Human Rights Policy and international agreements. A customer with low human rights ambitions, that might expose people to, for example, danger or violations, could in addition to the risk of causing negative impacts on human beings present a credit risk for the bank. In addition, investing in such companies also carries a high reputational risk. This type of risk is to be assessed and monitored in the credit and investment processes. SEB's Human Rights Policy, sector policies and ESG data from external suppliers serve as guidance.

SEB's fund company has strict criteria for how its actively managed funds shall relate to holdings that verifiably breach international norms regarding human rights criteria. Moreover, SEB engages directly in dialogue with companies' managements and boards regarding how to achieve improvements.

## Liquidity and capital management

### Sound liquidity and funding strategy

Access to the liquidity and funding markets is vital in all circumstances. SEB's liquidity and funding strategy is managed from three perspectives: (1) optimising the liquidity structure of the balance sheet to ensure that less-liquid assets are matched with stable funding, (2) monitoring wholesale funding dependence, and (3) ensuring that the bank has sufficient liquidity reserves to withstand a severely stressed scenario.

In 2020, deposits significantly outgrew lending, resulting in a historically low loan to deposit ratio of 122 per cent (143) and a lower need for funding in the financial markets. Financial markets were well functioning and offered attractive funding opportunities supported by central banks' quantitative easing measures. SEB raised long-term funding in an amount of SEK 117bn. SEB maintained its ratings during 2020. A high credit rating is important as it is the basis for the cost for SEB's wholesale funding.

→ See p. 64 for credit ratings and composition of new funding.

The Core Gap ratio, which is SEB's internal measure of the extent to which long-term lending is matched by long-term funding, was 113 per cent (109), which is well within the Board's risk tolerance for a sound structural liquidity risk position. SEB also manages its liquidity position in line with the upcoming Net Stable Funding Ratio (NSFR) regulatory requirement of at least 100 per cent, which enters into force in 2021.

SEB's liquid assets amounted to SEK 617bn at year-end (470). The size and composition of liquid assets are regularly analysed and assessed against estimated needs.

The Liquidity Coverage Ratio (LCR) measures to what extent SEB's liquid assets are sufficient to cover short-term cash outflows in a short-term stressed scenario. SEB's LCR was 163 per cent at year-end (218) and is thus in compliance with the minimum requirement of 100 per cent. SEB also meets the minimum LCR requirement for individual currencies, including euro, dollar and other significant currencies.

## Strong capital position

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

On 29 December 2020 new capital requirements started to apply for Swedish banks, since the EU Banking package was transposed into Swedish law. Capital requirements are built up of four main parts:

1. A Pillar 1 minimum requirement
2. Pillar 2 requirements (P2R)
3. A combined buffer requirement and
4. A Pillar 2 guidance (P2G)

The Swedish FSA requirement on SEB's Common Equity Tier 1 capital ratio (CET1) per the end of the year was 12.6 per cent (15.1), of which the pillar 2 requirement was 1.5 per cent and the combined buffer requirement was 6.6 per cent. As part of the 2021 Supervisory Review and Evaluation Process (SREP) the Swedish FSA will introduce the Pillar 2 Guidance (P2G).

At year-end, SEB's CET1 capital ratio was 21.0 per cent (17.6), implying a buffer of 840bps above the regulatory requirement. The risk exposure amount decreased to SEK 726bn (746) mainly as a result of foreign exchange effects. With the 2020 result and given that no dividend for 2019 was made, the CET1 capital increased to SEK 152bn (131).

SEB's leverage ratio, a non-risk-based ratio of Tier 1 capital to total assets, was 5.1 per cent at year-end (5.1), which is above the requirement of 3 per cent, which will be implemented in 2021.

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

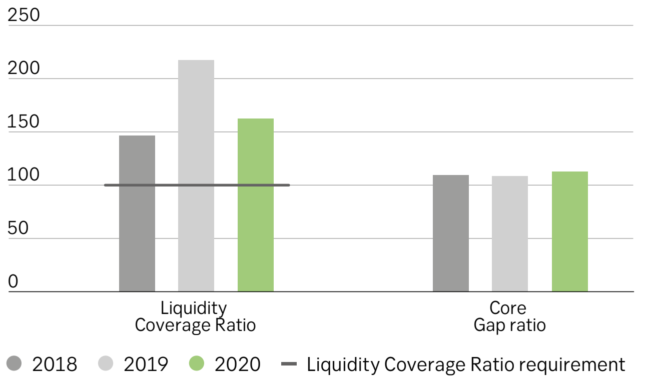
→ For information on the Board's capital-related financial targets, see p. 66.

## Reform packages to increase banks' financial stability

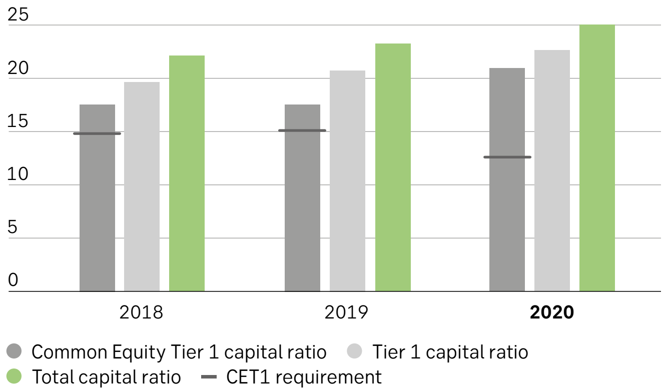
Ever since the 2008 financial crisis, regulators have taken initiatives to increase the resilience and stability of the financial system, and improvements are still ongoing.

In 2017, the Basel Committee agreed on a reform package for capital adequacy (the so-called Basel IV package) that sets restrictions for internal risk models along with minimum requirements for measured results. In 2020 the Basel Committee changed the implementation timeline of Basel IV. The Implementation date was deferred one year to 1 January 2023 and the transitional arrangements for the output floor was also extended one year to 1 January 2028. The European Commission is planning to release its proposal for the implementation of Basel IV into EU legislation by 2021. Following the release, political negotiations will commence. In 2019, the Basel Committee began expanding its focus areas to include future structural risks such as cyberattacks, the growth in financial technology, crypto-assets and the transition from Libor to new benchmark rates. Future regulatory requirements in these areas may impact the financial market.

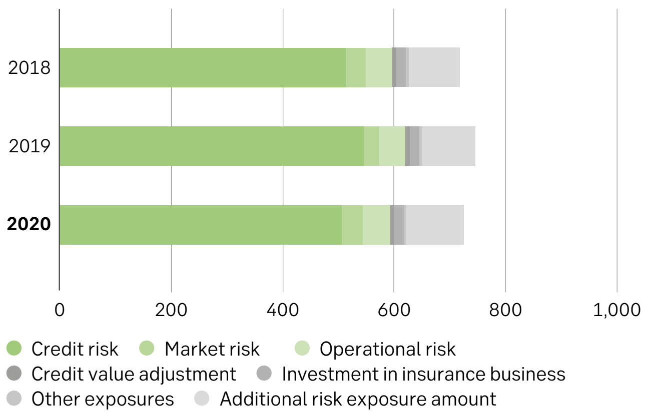
**Liquidity coverage and Core Gap ratio** Per cent




**Capital adequacy** Per cent




**Development of risk exposure amount (REA)** SEK bn




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