AS SEB Pank

Annual Report

(translation of the Estonian original)

2017

Contents

Statement of the Management Board

Annual Report 2017 consists of the following parts and reports:

The financial and other additional information published in the Annual Report 2017 is true and complete. There is no financial or other information, missing from the Annual Report 2017, which could affect the meaning or contents of the report. Consolidated financial statements give a true and fair view of the actual financial position, results of operations and cash flows of the AS SEB Pank Group.

Consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards, as adopted by the European Union and as stipulated in § 17 of the Estonian Accounting Law. The Annual Report 2017 has been compiled in accordance with the requirements of Estonian laws. AS SEB Pank and subsidiaries of the consolidated group are assumed to be going concern.

The audit of consolidated financial statements for the year 2017 was conducted in accordance with International Standards of Auditing. The Annual Report 2017 will be submitted for the approval to the ultimate shareholder Skandinaviska Enskilda Banken AB (publ). Previous Annual Report 2016 was approved on 30.03.2017.

Members of Management Board:

"12" March 2018 ______________ Allan Parik

"12" March 2018 ______________ Artjom Sokolov

"12" March 2018 ______________ Ainar Leppänen

"12" March 2018 ______________ Kari Petteri Nikkola

I. Introduction - general information

1. Credit institution

Company name	AS SEB Pank
Address	Tornimäe Str. 2, Tallinn 15010, Estonia
Registered in	Republic of Estonia
Registry date	08.12.1995
Registry code	10004252 (Estonian Commercial Register)
Phone	+372 6 655 100
Fax	+372 6 655 102
SWIFT	EEUHEE2X
e-mail	info@seb.ee
Internet homepage	http://www.seb.ee

2. Auditor

Audit company	AS PricewaterhouseCoopers
Registry code	10142876 (Estonian Commercial Register)
Address	Pärnu Str. 15, 10141 Tallinn, Estonia
Reporting date	31.12.2017
Reporting period	01.01.2017 - 31.12.2017
Reporting currency	Euro (EUR), millions

II. Management Report

1. Credit institution's group as defined in Credit Institutions Law

1.1. Consolidated group

Company name	Registry code	Reg. date	Address	Activity	Holding (%) ***	At an acqui-sition cost (EUR mio)
AS SEB Liising	10281767	03.10.97	Tallinn, Tornimäe 2	Leasing	100.0%	1.8
AS Rentacar*	10303546	20.10.97	Haapsalu, Posti 41	Leasing	100.0%	0.0
AS SEB Varahaldus	10035169	22.05.96	Tallinn, Tornimäe 2	Asset management	100.0%	2.7
SK ID Solutions AS**	10747013	27.03.01	Tallinn, Pärnu mnt 141	Data communication services	25.0%	1.0
						5.5

All enterprises are registered in Estonian Commercial Register.

* Consolidated subsidiary of AS SEB Liising.
** Associates.
*** For all investments the percentage of holding equals to both, the holding from the number of shares as well as from the number of votes.

On 31.05.2016 AS SEB Pank sold its 20% share in Tieto Estonia Services OÜ.

Parent company of the Group is AS SEB Pank, its activity is banking (information on page 3).

The “consolidated group” in the meaning of Credit Institutions Law in Estonia and the “Group” for IFRS consolidation purposes are identical.

Non-profit association SEB Heategevusfond is an association, not belonging to the consolidation group, registered on 06.01.2006. The founders of the association are AS SEB Pank and AS SEB Elu- ja Pensionikindlustus (subsidiary of life insurance company SEB Life and Pension Holding AB which is the subsidiary of Skandinaviska Enskilda Banken AB (publ)). The association is aimed at raising and distributing funds for charitable cause to organisations, dealing with children, who have been deprived of parental care. Upon dissolution of the association, the assets remaining after satisfaction of the claims of creditors shall be transferred to a non-profit association or foundation with similar objectives, entered to the list of associations subject to income tax incentive of the Government of the Estonian Republic, or a legal person in public law, state or local government.

Non-profit association Spordiklubi United is an association, not belonging to the consolidation group, which started activity from September 2008. The association is founded by AS SEB Pank. The association is aimed at organising on hobby and competition level sport events and organising promotions for advertising of own and supporter´s activities.

Upon dissolution of the association, the assets shall be transferred to a non-profit association, foundation or other persons filling the objectives by articles in public interests.

Changes in the consolidated group during the accounting period and plans for year 2018
No such events or trends have occurred by the time of publishing the report, which would affect the strategy of the group in 2018.

1.2. Members of Management and Supervisory Board and shares held by them

Members of the Management Board at the end of 2017: Allan Parik, Artjom Sokolov, Ainar Leppänen and Kari Petteri Nikkola. Artjom Sokolov was elected as a member of the Management Board as of 16 October 2017. At the same time Eerika Vaikmäe-Koit resigned from the Management Board. The term of office of Paul Niklas Larsson in the Management Board ended on 28 February 2017.

Members of the Supervisory Board at the end of 2017: Riho Unt, Martin Johansson, Stefan Stignäs, Mats Torstendahl, Erkka Näsäkkälä and Aušra Matusevičiene. Mats Torstendahl and Aušra Matusevičiene were elected to the Supervisory Board as of 9 June 2017. Tony Kylberg and Susanne Tamm resigned from the Supervisory Board on 8 June 2017.

Members of AS SEB Pank Management and Supervisory Board and their relatives as well as commercial undertakings controlled jointly or severally by the above mentioned persons did not hold any shares in AS SEB Pank as of 31.12.2017.

1.3. Statement of AS SEB Pank management procedure

AS SEB Pank management board members in supervisory boards of SEB Group companies
AS SEB Pank Management Board members belong to the supervisory boards of SEB Group companies. Allan Parik and Ainar Leppänen are the members of the Supervisory Board in AS SEB Liising, AS SEB Varahaldus and AS SEB Elu- ja Pensionikindlustus. Artjom Sokolov is the member of the Supervisory Board in AS SEB Liising.

Recruitment principles for selecting a member of the management body
Recruitment of the Management and Supervisory Board members in AS SEB Pank is based on Credit Institutions Act, European Central Bank Guide and the EBA (European Banking Authority) Guidelines on the assessment of the suitability of members of the management body and key function holders.

Job advertisements are published in different channels. By using various channels the SEB Pank Group guarantees information of a possibly large number of potentially fitting applicants to the vacant position and the requirements established hereto.

A job advertisement is always published also on the internal website of the SEB Pank Group. In case of equal candidates, the employees of the SEB Pank Group are preferred.

Upon recruitment of a member of a management body also headhunting is used.

A member of the bank's Management and Supervisory Board shall be a person with the necessary expertise, skills, experience, education, professional qualifications and impeccable business reputation, which is required for the management of a credit institution.

Before electing a person as a member of the bank's Management or Supervisory Board, the candidate shall present an overview of their education, work experience, participation in entrepreneurship and any punishments entered in the punishment register and confirmation that there are no such circumstances, which preclude their right to be a manager of a credit institution. The procedure of presenting data and documents, confirming the person's trustworthiness, suitability and correspondence to the requirements has been established by Eesti Pank.

Suitability of potential members of the Management and Supervisory Board shall be assessed by the Remuneration Committee of the bank's Supervisory Board, which fulfils the tasks of nomination committee required by Credit Institutions Act. When assessing a member of a management body, the nature, scale and complexity of the business of AS SEB Pank is considered, as well as the responsibilities of the position. The committee shall assess the reputation of the candidate for a member of the management body and experience required for the position. Assessment and the results thereof shall be documented.

When presenting the candidates for the membership in the Management and Supervisory Board, the committee shall ensure the balance of knowledge, skills and experience of the candidates and implementation of diversity principles established for the membership in management bodies.

Recruitment of the Management Board members and assessment of suitability is coordinated by the HR and Training Division.

Policy on diversity

AS SEB Pank believes that diversity enriches the business. AS SEB Pank shall offer equal opportunities and equal rights to all, irrespective of gender, national or ethnic origin, age, sexual orientation, gender identity or expression or religious conviction. General principles of diversity also apply to electing members of management bodies.

As a result of the bank's Management and Supervisory Board member selection, the membership of the Supervisory and Management Board shall be sufficiently diversified for the management of the bank, enabling more extensive integration of different experience and knowledge into the work of the management bodies. When establishing the bank's Management and Supervisory Board, AS SEB Pank shall ensure in addition to knowledge and experience diversity based on the age, gender, geographical origin, education and work experience.

Risk Committee

The risk committee of the Supervisory Board was established at the beginning of 2015. Risk Committee meetings are held four times a year.

During 2017, the auditor of the Group has provided other assurance services which are required to be performed by auditors according to Credit Institutions Act, Securities Market Act and Investment Funds Act and other advisory services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

1.4. Strategy and organisation

The 100% owner of AS SEB Pank is the publicly traded parent company Skandinaviska Enskilda Banken AB (publ), which is the parent company of SEB Group, a Nordic provider of financial services with a long history. SEB Group is a leading Nordic financial services group. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of financial services. In Denmark, Finland, Norway and Germany, the bank's operations have a strong focus on corporate and investment banking based on a full-service offered corporate and institutional clients. The international nature of SEB's business is reflected in its presence in about 20 countries worldwide. SEB Group has 15,300 employees.

AS SEB Pank is an Estonian financial group belonging to SEB Group, which provides services to private persons, companies and the public sector. We believe that entrepreneurial minds and innovative companies are the key in creating a better world. We are here to enable them to achieve their aspirations and succeed through good times and bad. Our vision is to deliver world-class service to our customers. We strive for our customers to perceive us as knowledge sharing, having a deep understanding of their needs, being proactive and making their lives easier.

The more than 753 900 customers of SEB Pank Group are served by 1041 employees. The customers are served through many different channels such as 20 branch offices, 235 ATMs, 9480 POS-terminals. There are more than 529 100 debit and credit cards in use. In addition, over 74% of our customers use internet bank services.

2. Highlights

Corporate customers

After several quarters of decline, corporate profits started to improve in 2017 and the sentiment indicators imply a positive outlook. At the end of the year, the corporate credit portfolio once again started to increase after declining by almost 7% in October, which hopefully translates to increased investments of Estonian companies in tangible assets.

In 2017, SEB's loan portfolio for large corporations increased by 4.2% while large corporations' deposits decreased by 3% due to low interest levels.

SEB continued its tradition, and for the fourth year in a row, we organised the CFO Forum for the CFOs of large corporations and for the fifth time, conducted a CFO survey among large Baltic corporations to map their forecasts and challenges of the next year.

In 2017, SEB continuously supported our clients' investments into the expansion and improvement of production facilities and acquisitions.

SEB financing portfolio for small and medium enterprises (SMEs) increased by 15.1% in 2017. At the same time, deposits decreased by 6.2%.

In October – November 2017, the survey Baltic Business Outlook in the SME field was conducted in three Baltic countries. SEB will introduce the results of Estonia, Latvia and Lithuania in Q1 2018.

In spring 2017, SEB opened its Innovation Centre in Tallinn with the aim of helping enterprises advance their business and enhance competitiveness. At the heart of the Innovation Centre lies a special Growth Programme, which helps enterprises take a step forward in their business pursuits within a period of only three to six months. In March, the first batch enterprises participated in the Growth Programme. In 2017, the SEB Innovation Centre was visited by more than 2,000 entrepreneurial minds.

In spring, SEB opened an e-learning programme called e-Academy at http://eakadeemia.seb.ee, which contributes to the quicker growth of start-ups and small enterprises. This is the biggest Baltic project by SEB, targeting young companies. At the end of the year 2017, more than 27,000 start-ups had already visited SEB's e-learning programme.

Private customers

High wage growth and strong performance of the labour market continued in 2017, as the average salary growth amounted to 6.6% during the three quarters of 2017 while the employment rate remained at 68.3% in Q3, which is the highest in the whole eurozone.

Wage growth has allowed families to improve their living standards and that also reflects in the loan portfolio for private customers, which increased by 9.0% in 2017. The volume of private customer's deposits increased by 9.9% in 2017.

SEB is the home bank for 260,000 private persons, with an increase of 1.5% in 2017 compared to 2016; the home bank customer base increased by 4,000 customers in 2017.

SEB introduced a number of digital novelties for private customers in 2017.

SEB introduced a new mobile app, which became much simpler and allows for the use of a number of innovative services. In addition to traditional services, the new app allows one to make transfers to other mobile app users without having to enter an account number; request a transfer from other mobile app users, which can be paid by the payer with the press of a single button; quickly view all of one's account balances, simply by entering the required four-digit password; conveniently perform transfers between one's accounts.

SEB introduced the new electronic identity solution Smart-ID together with Swedbank. Neither a special SIM card or a card reader are necessary to use Smart-ID. The only thing required is an active internet connection. Smart-ID is not dependent on state borders and thus, is very easy to implement across the world. In addition to Swedbank and SEB, Smart-ID has been implemented in the e-services of the school management system eKool, by Tallinna Kaubamaja Grupp, and the TV and internet service provider Elisa.

From May 2017, SEB started offering its customers pension, investment, savings and loan counselling by means of a video call. The service, previously available for years only in our offices, is now fully accessible to all SEB clients, whether they are Estonian residents or living abroad. The innovation makes access to SEB's services simpler and more convenient.

In June, SEB started offering its customers contactless bank cards. In Estonia, contactless payments can be made within the limit of 25 euros.

Starting from the 4th of December, SEB Estonia and SEB Latvia made instant payments available to all their clients. This service allows SEB's clients to make intra-European and domestic transfers of up to 15,000 euros around the clock in just a few seconds. SEB Estonia and SEB Latvia were among the first banks in Europe to enable instant payments.

Organisation

As of March 2017, there are four SEB management board members instead of five, including Chairman of the Management Board, Head of Corporates and Institutions Area, Head of Retail Banking Area, and Head of Credits and Risk Area.

In March, Petteri Nikkola was appointed the new Head of Credits and Risk Area, replacing the former area manager Niklas Larsson. Petteri Nikkola was previously responsible for the Financial Management and Operations Area.

In October, Artjom Sokolov was appointed the new Head of Corporates and Institutions Area, replacing Eerika Vaikmäe-Koit. Artjom Sokolov has long-term experience as a top manager in the financial sector, having held different positions at the European Bank for Reconstruction and Development, Swedbank as well as on the management boards of Estonian Cell and G4S.

In 2017, AS SEB Pank received several awards and recognitions:

- The Banker: the Best Bank in Estonia
- Global Finance: the Best Digital Bank in Estonia
- Tallinn Enterprise Association: nominee of 'Responsible Business 2017'
- Swedish Business Award: nominee of 'Sustainable Growth'
- Responsible Business Index: silver level
- Euromoney: the Best Bank in Estonia
- Global Finance: the Best Foreign Exchange Bank

Social responsibility and sponsorship

AS SEB Pank has set the objective to become the best advisory bank in the Baltic countries, which for customers means advisory services and sharing of financial literacy. In 2017, certain actions took place to achieve this aim.

For the past three years, SEB has invested a lot of time and effort to bring the basics of financial literacy into local schools. 45 employees took part in the initiative, giving up to 75 financial literacy lessons all over Estonia. SEB was inspired by the international MOOC (Mass Open Online Course) initiatives and proposed its own version of financial literacy e-courses, making a full course consisting of 10 lectures. Every topic includes a test, a task that is recommended to solve with the class, and a list of additional reading or watching. The course is held in Estonian and Russian (website https://www.seb.ee/rahatarkus).

Together with sharing knowledge, SEB is also developing products and services that help customers cope with everyday management and save more. As a good example, we can highlight is the Digital Coin Jar, which has notably changed the saving habits of customers.

Corporate sustainability is important for SEB. We organise meetings on sustainability with corporate customers and suppliers. By advising the customers, we offer them added value about how to act sustainably in the market.

SEB Group prepares SEB's sustainability report, which is available on website at www.sebgroup.com. AS SEB Pank Group provides input to that report as a member of the SEB Group. AS SEB Pank Group's approach to corporate sustainability is available on the website at www.seb.ee.

For the fourth year in a row, SEB is organising a seminar-workshop InnovationLab for SMEs who are interested in expanding to new markets and increasing their sales through innovation.

SEB is participating in the smart device security project 'Nutikaitse 2017' by advising on how to safely use banking services on smart devices.

SEB organises seminars for start-ups and social enterprises at the SEB Innovation Centre.

SEB prepares regular economic surveys to spread knowledge about economics: Nordic Outlook, Baltic Household Outlook, Baltic Business Outlook, CFO survey, SEB Investment Outlook.

Making a sustainable impact on our communities:

- SEB is a member of the Board of Responsible Business Forum Estonia (RBF Estonia);
- SEB is a member of the Council of the Estonian Chamber of Commerce and Industry, 'a network of entrepreneurship';
- SEB is a member of the Estonian Diversity Charter.

AS SEB Pank made a contribution to the society:

- SEB supported recreational sports: almost 15,000 people participated in SEB May Run.
- Almost 20,000 people participated in the largest sports event in the Baltic countries, SEB Tallinn Marathon. SEB Tallinn Marathon is one of the 50 most prestigious marathons in the world.
- AS SEB Pank contributed to the development of young tennis players of Estonia, supporting the Estonian Tennis Association and SEB Tallink Tennis Team.
- As a gold sponsor of the Estonian National Opera, AS SEB Pank contributed to the future of opera in 2017, issuing the fifth public award to a female and male soloist, who were chosen by the visitors. Around 3,000 people voted.

Activities of SEB are targeted at sustainable development of the society and our objective is to contribute to the future through supporting children, entrepreneurial studies, sports and culture.

In 2017, AS SEB Pank supported ‘Ajujaht’ and Junior Achievement activities

AS SEB Pank supports the leading business competition in Estonia called ‘Ajujaht’ (Brain Hunt), the objective of which is to promote the establishment of new knowledge-based companies and improve the business skills of young entrepreneurs. For the second year in a row SEB hand out a special award, the best social enterprise, in ‘Ajujaht’.

In cooperation with Junior Achievement Estonia, SEB contributed to the development of entrepreneurship in Estonia. SEB supported the student enterprise and mini enterprise programmes at basic schools and upper secondary schools of Estonia.

In 2017, AS SEB Pank supported the activity of MTÜ SEB Heategevusfond (Charity Fund), the objective of which is to improve the well-being of children without parental care.

In 2017, various scholarships were granted, such as study scholarship, and scholarship for young mothers and for hobbies. In addition, a Christmas tree project was held for 1,000 children in orphanage, organising everyone Christmas presents. During the year, more than 30 special events were organised. The number of children participating in the events was above one thousand.

3. SEB Pank Group information on the remuneration policy and its implementation

SEB Pank Group has an approved remuneration policy, which is aligned with the remuneration policy of the AS SEB Pank´s shareholder Skandinaviska Enskilda Banken AB (publ).

SEB Pank Group vision is to deliver world-class service to our customers. To drive and support the achievement of this vision, it is of vital importance that SEB Pank Group is able to attract, retain, develop and reward the right talents. The Remuneration Policy of SEB Pank Group provides a framework for rewarding sustainable long-term value creation in line with shareholders’ interest. It is based on the efficient performance culture in combination with sound risk management, also taking into account sufficient capital and the necessary liquidity. SEB Pank Group believes in and promotes a sound and dynamic performance culture as a means for achieving long-term success and encourages performance and the right behaviours. Further, the Remuneration Policy shall prevent the risk that the remuneration models drive excessive risk-taking or conflicts of interest detriment to the best interest of SEB Pank Group clients. A cornerstone in the performance culture is the performance management process with transparent and aligned target setting, evaluation and rewards.

Information concerning the decision-making process used for determining the remuneration policy, including information on the remuneration committee (composition and mandate)

The Remuneration Policy was adopted by the Supervisory Board of AS SEB Pank on 6 February 2017. All of the SEB Pank Group companies have implemented the remuneration policy requirements. When developing the remuneration policy, no external advisers were engaged.

The Head of HR and Training Division conducts a yearly review of the Remuneration Policy and after having consulted the heads of the AS SEB Pank control functions will propose amendments to the policy, if necessary. The Head of HR and Training Division presents the proposal to the Remuneration Committee and the Management Board, who shall forward the policy to the Supervisory Board for approval.

REMUNERATION AND HUMAN RESOURCES COMMITTEE (31 December 2017)

The SEB Group Remuneration and Human Resources Committee is responsible for monitoring the remuneration policy and remuneration practice within the SEB Group, which includes SEB Pank Group.

AS SEB Pank has established a Remuneration Committee. The Remuneration Committee is responsible for the preparation of decisions regarding remuneration and for the assessment of their effect on the risk management of SEB Pank Group. When preparing the decisions regarding remuneration, the Remuneration Committee takes into account the long-term interests of shareholders, investors and other stakeholders of the credit institution. The chairman and the members of the Remuneration Committee do not perform any executive functions in SEB Pank Group.

The membership candidates of the Remuneration Committee are approved by the supervisory council of the AS SEB Pank. The chairman or members of the Remuneration Committee may not be persons related to the AS SEB Pank or its subsidiary companies by labour relations. Addition, members of the AS SEB Pank management board may not be elected to be the chairman or members of the Remuneration Committee.

None of the members of the Remuneration Committee have shares in the AS SEB Pank.

Knut Jonas Martin Johansson
Skandinaviska Enskilda Banken AB (publ) Head of Business Support Division.

Riho Unt
Skandinaviska Enskilda Banken AB (publ) Head of Baltic Division.

Mats Torstendahl
Skandinaviska Enskilda Banken AB (publ) Co-Head Corporate & Private Customers.

Information on the relation between the remuneration and performance

In SEB Pank Group, financial performance is measured on group, divisional and business unit level. Skandinaviska Enskilda Banken AB (publ) has an established model for calculating the risk capital and allocating it into business. The allocation of risk capital reflects the risk exposure of each line of business. The risk adjustment of financial performance is based on this allocation model, further the competitive situation and estimated current and future risks are taken into account. Individual performance and behaviour are also important parameters in the remuneration model. Skandinaviska Enskilda Banken AB (publ) has a group wide process for evaluating and documenting the performance and behaviour of each employee, in which setting and evaluating qualitative as well as quantitative individual targets is of major importance.

Individual performance is evaluated based on the financial and non-financial indicators within the SEB Pank Group target areas derived from the applicable business plan and the ambition to deliver world-class service to our customers. Individual behaviour is evaluated based on the SEB Pank Group core values as a starting point.

The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and adjustment, deferral policy and vesting criteria

SEB Pank Group employees' remuneration consist of the following three elements:

- base pay (monthly fixed salary);
- variable remuneration:
    - All Employee Programme;
    - short-term cash-based incentive (STI);
    - one-off bonuses;
- employer's pension and other benefits.

In addition to SEB Pank Group variable pay and benefits, the employees may get involved in the Skandinaviska Enskilda Banken AB (publ) offered variable pay programmes in accordance with their terms and conditions (such as long-term equity-based incentive programmes - LTI).

Base pay – the wages established in an employee's labour contract.

Variable remuneration – a mean to drive the performance and behaviour and motivate the employee and reward their performance in creating the shareholder value. At SEB Pank Group, the variable pay-outs are determined by operational performance as well as the related risks. Variable pay models can be long-term as well as short-term and be based on collective as well as on individual performance.

SEB's All Employee Programme ('AEP') is a SEB Group-wide profit sharing programme that encourages a holistic perspective of SEB and has a strong connection to the long-term performance and the interests of shareholders of Skandinaviska Enskilda Banken AB (publ). If payment of the AEP outcome is decided, all employees of the SEB Group companies shall be entitled to participate in the programme according to AEP Terms and Conditions. Skandinaviska Enskilda Banken AB (publ) establishes the country-based AEP Terms and Conditions each year for the specific financial year. The AEP outcome is set by the SEB Pank Remuneration Committee based on the decisions of the Annual General Meeting of Skandinaviska Enskilda Banken AB (publ) and the Skandinaviska Enskilda Banken AB (publ) Remuneration Committee.

Employer's pension and other benefits – the purpose of other benefits in SEB Pank Group is to make SEB attractive employer and secure long-term commitment of the employees. Other benefits are cash-based and non-cash based.

The remuneration policy establishes that principles for the determination and payment of variable remuneration to risk-takers must be in line with the SEB Pank Group long-term continued activities interests, business strategy, objectives, values, would encourage reliable and effective risk management, and would not encourage to take risk that is excessive and unacceptable to the SEB Pank Group.

Variable remuneration to the SEB Pank Group employees whose professional activities and/or decisions taken may have a significant impact on the risks assumed by the SEB Pank Group is established according to the impact of their decisions on risk. In accordance with the law, AS SEB Pank has defined the so-called “Identified Staff”:

- senior management (including members of Management Board);
- responsible persons within control functions;
- risk takers; i.e. employees having material impact on the risk profile of the credit institution (taking decisions that have an effect on the bank’s the risk positions), incl. risk managers;
- employees within the same remuneration bracket as members of the Management Board.

The special requirements for payment of variable remuneration applied to the Group’s Identified Staff are set in the Remuneration Policy.

Identified Staff´s certain part of variable pay is deferred for three to five years in order to evaluate the operational performance used in determining the variable pay, as well as the sustainability thereof and any risks associated with it. The deferred portion is allocated during the entire deferral period, and its payment is started no earlier than after expiry of 1 year of the date of the employee’s performance appraisal and is paid no more often than once a year.

The AS SEB Pank Supervisory Board approves the Identified Staff List twice a year according to the Management Board’s proposal. Changes in the list are made more frequently, when the employees or the organisational structure of the SEB Group company changes. The Identified Staff List is coordinated with the Risk Control and Compliance department before approval.

Based on Credit Institutions Act, Article 57’, subsection 2, considering the nature, scope and complexity of the AS SEB Pank business operations and the fact that for practical reasons it was not considered possible to develop a programme for issuing the shares of AS SEB Pank (the 100% owner of the shares of which is Skandinaviska Enskilda Banken AB (publ)) to the AS SEB Pank employees, the SEB Pank Group has decided not to implement payment of variable pay in the form of the shares of a credit institution, stock options or other similar rights and establish the following procedure for the payment of variable pay.

For employees in categories referred to as Identified Staff, with an annual variable pay of:

a) 10,000 euros or more and;

b) exceeding 40% of employee’s total compensation annually (not applied to employees included in Skandinaviska Enskilda Banken AB (publ)’s Identified Staff List, as defined by Skandinaviska Enskilda Banken AB (publ)’s remuneration policy), are subject to a deferral of the variable pay, the deferral is at least 40% of employee’s total annual variable pay. AS SEB Pank has defined 70 employees as Identified Staff, including the Management Board members.

The long-term share-based variable pay system, established in the SEB Group, is a programme based on the shares of Skandinaviska Enskilda Banken AB (publ), established throughout the SEB Group and is applicable to the selected managers and key employees. AS SEB Pank Management Board shall decide on who are the key employees and Remuneration Committee will approve the decision.

The ratios between fixed and variable remuneration

SEB Pank Group provides a sound balance between fixed and variable pay and aligns the pay-out horizon of variable pay with the risk horizon. This implies that certain maximum levels and deferral arrangements apply for Identified Staff upon remuneration. Variable pay may not exceed 100% of annual base salary.

Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

SEB Pank Group reserves the right to withhold a part of or the whole variable payment or reduce its amount or demand partial or full repayment of the disbursed variable pay following the evaluation of the performance in the accounting year, should the performance of SEB Pank Group fall short of the set business targets.

SEB Pank Group believes in encouraging strong performance, desired behaviours and balanced risk-taking. Variable pay aims to drive and reward performance and behaviours that create short and long term shareholder value, and is also an important method for achieving flexible labour costs. At SEB Pank Group, the variable pay-outs are determined considering operational performance as well as risks.

All pay outs are subject to risk adjustment which might reduce the final pay-out of the deferred amount. SEB Pank Group implementation of the current regulations on risk adjustment of variable compensation stipulates that the deferred amount may be disbursed taking into account the following terms:

- sustainability of the AS SEB Pank and/or the SEB Pank Group’s financial standing;
- implemented annual objectives of an employee and adherence to the requirements of the internal legal acts.

The above-indicated terms are assessed prior to the disbursement of each deferred portion of the variable remuneration.

General quantitative information on remuneration 2017

Comments and definitions on tables below:

- All amounts are presented excluding employer’s social costs
- Number of employees are defined as at date December 31, 2017
- Table 1, Remuneration - General quantitative information on remuneration (fixed remuneration, variable pay, deferred, severance pay, etc.) to employees of SEB Pank Group, distributed by board members, specially regulated staff
- Table 2, Remuneration by divisions - General quantitative information on remuneration of SEB Pank Group by business area

Remuneration
(millions of EUR)

2017	Remuneration: Board*	Remuneration: Specially regulated staff	Remuneration: Other employees	Remuneration: TOTAL	Number of employees: Board*	Number of employees: Specially regulated staff	Number of employees: Other employees	Number of employees: TOTAL
Fixed remuneration	0.8	2.9	19.8	23.5	12	70	1 064	1 146 **
Variable Pay	0.3	0.6	2.6	3.5	7	68	972	1047
whereof:								
*Short-term cash-based (incl.AEP)*** **	*0.1*	*0.4*	*2.4*	*2.9*				
Long-term equity-based	*0.2*	*0.2*	*0.2*	*0.6*				
Ratio between fixed and variable remuneration	39%	21%	13%	14%				
Deferred variable pay	*0.3*	*0.3*	*1.1*	*1.7*				
Accrued and paid remuneration	*1.1*	*3.7*	*24.1*	*28.9*				
Amounts of outstanding deferred remuneration - vested amount*****	0.0	0.1	0.0	0.1				
Amounts of outstanding deferred remuneration - unvested amount*****	0.2	0.2	0.1	0.5				
Amounts of new sign-on payments	0.0	0.0	0.0	0.0				
Severance pay ***				0.1				20
Agreed but not yet paid severance pay				-				

* board members of the bank and subsidiaries
** 105 of them are non-active employees
*** Highest single amount was 11 712 euros
**** AEP = All Employee Program
***** Only LTI

2016	Remuneration: Board*	Remuneration: Specially regulated staff	Remuneration: Other employees	Remuneration: TOTAL	Number of employees: Board*	Number of employees: Specially regulated staff	Number of employees: Other employees	Number of employees: TOTAL
Fixed remuneration	0.8	2.8	21.4	25.0	10	70	1 081	1 161 **
Variable Pay	0.2	0.6	2.2	3.0	8	90	973	1 071
whereof:								
*Short-term cash-based (incl.AEP)*** **	*0.1*	*0.3*	*1.9*	*2.3*				
Long-term equity-based	*0.1*	*0.3*	*0.3*	*0.7*				
Ratio between fixed and variable remuneration	28%	23%	10%	12%				
Deferred variable pay	*0.2*	*0.4*	*1.1*	*1.7*				
Accrued and paid remuneration	*1.1*	*3.5*	*24.4*	*29.0*				
Amounts of outstanding deferred remuneration - vested amount*****	0.0	0.1	0.0	0.1				
Amounts of outstanding deferred remuneration - unvested amount*****	0.1	0.2	0.2	0.5				
Amounts of new sign-on payments	0.0	0.0	0.0	0.0				
Severance pay ***				0.3				42
Agreed but not yet paid severance pay				-				

* board members of the bank and subsidiaries
** 117 of them are non-active employees
*** Highest single amount was 36 555 euros
**** AEP = All Employee Program
***** Only LTI

Remuneration by divisions

2017	Fixed remuneration		Variable Pay		Ratio between variable and fixed remuneration
	Remuneration	FTEs*	Remuneration	FTEs	
Corporate	2.4	82	0.4	86	17%
Retail	7.9	542	1.3	593	16%
Other	14.0	522	1.8	368	13%
Total	**24.3**	**1146**	**3.5**	**1047**	**14%**

2016	Fixed remuneration		Variable Pay		Ratio between variable and fixed remuneration
	Remuneration	FTEs	Remuneration	FTEs	
Corporate	2.4	85	0.3	72	11%
Retail	10.5	649	1.1	601	11%
Other	12.1	427	1.6	398	14%
Total	**25.0**	**1 161**	**3.0**	**1 071**	12%

*Full Time Employees

4. Capital management

The Group's Capital Policy defines how capital management should support the business goals. Shareholders' return requirement shall be balanced against the capital requirements of the regulators and the equity necessary to conduct the business of the Group.

Asset and Liability Committee (ALCO) and the Chief Financial Officer are responsible for the process linked to overall business planning, to assess capital requirements in relation to the Group's risk profile, and for proposing a strategy for maintaining the desired capital levels. The Group's capitalisation shall be risk-based and built on an assessment of all risks incurred in the Group's business. It shall be forward-looking and aligned with short- and long-term business plans as well as with expected macroeconomic developments. Internal Capital Adequacy Assessment Process (ICAAP) is managed by Treasury.

Together with continuous monitoring, and reporting of the capital adequacy to the Management Board, this ensures that the relationships between shareholders' equity, ICAAP and regulatory based requirements are managed in such a way that the Group does not jeopardise the profitability of the business and the financial strength of the Group.

Capital ratios are the main communication vehicle for capital strength. Good risk management notwithstanding, the Group must keep capital buffers against unexpected losses. In the SEB Group capital is managed centrally, meeting also local requirements as regards statutory and internal capital. Following the SEB Group Capital Policy the parent company shall be promptly arrange for additional capital if SEB Pank requires capital injections to meet the decided level.

Capital adequacy
(millions of EUR)

	CAPITAL BASE	31.12.17	31.12.16
	OWN FUNDS	**958.6**	**945.0**
1.	**TIER 1 CAPITAL**	**958.6**	**945.0**
1.1.	**COMMON EQUITY TIER 1 CAPITAL**	**958.6**	**945.0**
1.1.1.	Capital instruments eligible as CET1 Capital	128.8	128.8
	Paid up capital instruments	*42.5*	*42.5*
	Share premium	86.3	86.3
1.1.2.	Retained earnings *	822.7	806.8
1.1.3.	Accumulated other comprehensive income	1.6	0.9
1.1.4.	Other reserves	19.4	19.4
1.1.5.	Adjustments to CET1 due to prudential filters	-0.1	0.0
1.1.6.	(-) Intangible assets	-3.9	-3.0
1.1.7.	(-) IRB shortfall of credit risk adjustments to expected losses	-9.8	-7.7
1.1.8.	Other transitional adjustments to CET1 Capital	-0.1	-0.2
2.	**TIER 2 CAPITAL**	**0.0**	**0.0**

	RISK WEIGHTED ASSETS (RWA)	31.12.17	31.12.16
	TOTAL RISK EXPOSURE AMOUNT	**2 484.1**	**2 426.1**
1.	**RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES**	**2 325.0**	**2 285.0**
1.1.	**Standardised approach (SA)**	**309.4**	**248.8**
	Central governments or central banks	16.8	20.3
	Regional governments or local authorities	13.8	0.0
	Public sector entities	29.1	0.7
	Retail	198.2	176.9
	Exposures in default	1.3	1.5
	Collective investments undertakings (CIU)	4.2	6.9
	Equity	4.1	3.4
	Other items	41.9	39.1
1.2.	**Internal ratings based Approach (IRB)**	**2 015.6**	**2 036.2**
1.2.1.	IRB approaches when neither own estimates of LGD nor Conversion Factors are used	1 701.6	1 737.3
	Institutions	55.6	218.2
	Corporates - SME	947.6	818.4
	Corporates - Specialised Lending	43.8	45.3
	Corporates - Other	654.6	655.4
1.2.2.	IRB approaches when own estimates of LGD and/or Conversion Factors are used	314.0	298.9
	Retail - Secured by real estate SME	9.7	10.4
	Retail - Secured by real estate non-SME	217.5	212.4
	Retail - Other SME	16.5	16.4
	Retail - Other non-SME	70.3	59.7
2.	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS**	**24.0**	**17.4**
3.	**TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (AMA)**	**134.9**	**123.3**
4.	**TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT**	**0.2**	**0.4**

* Prognosis of dividends have been deducted from retained earnings.

CAPITAL RATIOS

	31.12.17	31.12.16
OWN FUNDS	**958.6**	**945.0**
TOTAL RISK EXPOSURE AMOUNT Basel III (without additional risk exposure amount due to application of Basel I floor	**2 484.1**	**2 426.1**
Own fund requirement (8%)	198.7	194.1
Total capital ratio	38.6%	39.0%
Tier 1 Capital ratio	38.6%	39.0%
CET1 Capital ratio	38.6%	39.0%
Tier 2 Capital ratio	0.0%	0.0%
TOTAL RISK EXPOSURE AMOUNT Basel III (with additional risk exposure amount due to application of Basel I floor)	**3 346.2**	**3 189.8**
Own fund requirement (8%)	267.7	255.2
Total capital ratio	28.6%	29.6%
Tier 1 Capital ratio	28.6%	29.6%
CET1 Capital ratio	28.6%	29.6%
Tier 2 Capital ratio	0.0%	0.0%

MEMBERS OF CONSOLIDATION GROUP, INCLUDED TO CAPITAL ADEQUACY CALCULATION

AS SEB Pank
AS SEB Liising Group
AS SEB Varahaldus

CAPITAL REQUIREMENTS AND BUFFERS

	31.12.17			31.12.16		
OWN FUNDS	**Total capital**	**Tier 1 capital**	**CET1 capital**	**Total capital**	**Tier 1 capital**	**CET1 capital**
Capital amount	958.6	958.6	958.6	945.0	945.0	945.0
Total risk exposure amount *	2 484.1	2 484.1	2 484.1	2 426.1	2 426.1	2 426.1
Capital adequacy ratio	38.6%	38.6%	38.6%	39.0%	39.0%	39.0%
Total capital requirements, incl. buffers	**387.5**	**337.8**	**300.6**	**400.3**	**351.8**	**315.4**
	15.6%	13.6%	12.1%	16.5%	14.5%	13.0%
including:						
Base capital requirement	198.7	149.0	111.8	194.1	145.6	109.2
	8%	6%	4.5%	8%	6%	4.5%
Capital conservation buffer	62.1	62.1	62.1	60.7	60.7	60.7
	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer	24.8	24.8	24.8	24.3	24.3	24.3
	1%	1%	1%	1%	1%	1%
Other Systemically Important Institution buffer	49.7	49.7	49.7	48.5	48.5	48.5
	2%	2%	2%	2%	2%	2%
Own funds Surplus(+) of total capital requirements, incl. buffers	**571.1**	**620.8**	**658.0**	**544.7**	**593.2**	**629.6**

* Total risk exposure amount without additional risk exposure amount due to application of Basel I floor

LEVERAGE RATIO

	31.12.17	31.12.16
Exposure measure for leverage ratio calculation	6 683.7	6 236.4
of which on balance sheet items	6 108.5	5 764.1
of which off balance sheet items	575.2	472.3
Leverage ratio	14.3%	15.2%

5. Key figures

(millions of EUR)

	31.12.17	31.12.16
Net profit	85.3	84.7
Average equity	1 014.2	959.2
Return on equity (ROE), %	8.41	8.83
Average assets	5 949.8	5 504.7
Return on assets (ROA), %	1.43	1.54
Net interest income	90.3	82.9
Average interest earning assets	5 827.1	5 376.6
Net interest margin (NIM), %	1.55	1.54
Credit losses adjusted net interest income	95.3	84.3
Average interest earning assets	5 827.1	5 376.6
Credit losses adjusted net interest margin, %	1.64	1.57
Interest income	99.8	91.9
Average interest earning assets	5 827.1	5 376.6
Yield on interest earning assets, %	1.71	1.71
Interest expense	9.5	9.0
Interest bearing liabilities, average	4 820.1	4 441.5
Cost of interest bearing liabilities, %	0.20	0.20
Spread, %	1.51	1.51
Cost / Income ratio, %	39.7	40.8
Ratio of individually impaired loans, %	0.30	0.33

Explanations

Return on equity (ROE) = Net profit/Average equity * 100

Average equity = (Equity of current year end + Equity of previous year end)/2

Return on assets (ROA) = Net profit/Average assets * 100

Average assets = (Assets of current year end + Assets of previous year end)/2

Net interest margin (NIM) = Net interest income/Average assets exposed to interest rate risk * 100

Yield on interest earning assets = Interest income/Average assets exposed to interest rate risk *100

Cost of interest bearing liabilities = Interest expenses/Average liabilities exposed to interest rate risk *100

Spread = Yield on interest earning assets - Cost of interest bearing liabilities

Cost/Income Ratio = Total Operating Expenses/Total Income * 100

Ratio of individually impaired loans = Individually impaired loans/Loans to customers and credit institutions * 100

<u>Assets exposed to interest rate risk:</u>
Balances with central bank
Loans and advances to credit institutions
Loans and advances to customers
Debt securities and other fixed income securities
(all without accrued interests)

<u>Liabilities exposed to interest rate risk:</u>
Due to credit institutions
Due to customers
(all without accrued interests)

<u>Total Operating Expenses:</u>
Personnel expenses
Other expenses
Depreciation, amortisation and impairment of tangible and intangible assets

<u>Total Income:</u>
Net Interest Income
Net fee and commission income
Net income from foreign exchange
Gains less losses from financial assets at fair value through profit or loss
Income from dividends
Gains less losses from investment securities
Share of profit of associates
Other income

Assets quality

(millions of EUR)	**31.12.17**	**31.12.16**
Total assets	6 124.2	5 775.4
Overdue loans and receivables	24.4	30.8
Overdue loans and receivables / Total assets, %	0.40	0.53
Allowances for losses on amounts due from customers and credit institutions	19.7	24.6

III. Consolidated Financial Statements

1. Consolidated income statement

(millions of EUR)	Note	2017	2016
Interest and similar income	3	*99.8*	*91.9*
Interest expenses and similar charges	4	*-9.5*	*-9.0*
Net Interest Income		90.3	82.9
Fee and commission income	5	64.0	*60.0*
Fee and commission expense	6	*-16.3*	*-15.6*
Net fee and commission income		47.7	44.4
Net income from foreign exchange	7	4.8	4.7
Gains less losses from financial assets at fair value through profit or loss	8	1.2	0.8
Income from dividends		0.1	0.0
Gains less losses from investment securities		0.3	16.1
Share of profit of associates	19	0.2	0.0
Other income	9	1.3	1.2
Personnel expenses	10	-38.0	-38.4
Other expenses	11	-15.7	-19.5
Depreciation, amortisation and impairment of tangible and intangible assets	20, 21	-4.4	-3.9
Profit before impairment losses on loans and advances		**87.8**	**88.3**
Impairment losses on loans and advances	12	5.0	1.4
Profit before income tax		**92.8**	**89.7**
Income tax		-7.5	-5.0
Net profit		**85.3**	**84.7**
Profit attributable to the sole equity holder		85.3	84.7

2. Consolidated statement of comprehensive income

(millions of EUR)	Note	2017	2016
Net profit		**85.3**	**84.7**
Other comprehensive income/expense			
Items that may subsequently be reclassified to the income statement:			
Revaluation of available-for-sale financial assets	16	0.7	-11.9
Total other comprehensive income/expense		**0.7**	**-11.9**
Total comprehensive income		**86.0**	**72.8**
Sole equity holder of the parent entity (total)		86.0	72.8
Total comprehensive income from continued operations		86.0	72.8

The notes on pages 26 - 96 are integral part of these consolidated financial statements.

3. Consolidated statement of financial position

(millions of EUR)	Note	31.12.17	31.12.16
ASSETS			
Cash		41.3	41.7
Balances with central bank	13	1 009.9	250.9
Loans and advances to credit institutions	14	172.2	983.3
Loans and advances to customers	15	4 734.1	4 337.5
Financial assets held for trading	16	23.6	23.4
Financial assets designated at fair value through profit or loss at inception	16	89.2	86.7
Available-for-sale financial assets	16	7.3	9.3
Other assets	17	17.0	18.3
Accruals and prepaid expenses	18	15.0	11.8
Investments in associates	19	1.0	0.8
Intangible assets	20	3.9	2.9
Property, plant and equipment	21	9.7	8.8
TOTAL ASSETS		**6 124.2**	**5 775.4**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to credit institutions	22	1 214.5	992.4
Due to customers	23	3 747.2	3 687.0
Other liabilities	24	78.7	68.6
Accrued expenses and prepayments	25	18.1	17.9
Financial liabilities at fair value through profit or loss	26	23.2	23.5
Provisions	27	0.0	0.1
Total Liabilities		**5 081.7**	**4 789.5**
Share capital	28	42.5	42.5
Share premium		86.3	86.3
Other reserves	30	21.0	20.3
Retained earnings		892.7	836.8
Total shareholders' equity		**1 042.5**	**985.9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6 124.2**	**5 775.4**

The notes on pages 26 - 96 are integral part of these consolidated financial statements.

4. Consolidated statement of cash flows

(millions of EUR)

	Note	2017	2016
I. Cash flows from operating activities			
Interest received		99.9	91.2
Interest paid		-9.6	-8.9
Dividends received		0.1	0.0
Fee and commission received	5	64.0	60.0
Fee and commission paid	6	-16.3	-15.6
Net trading income and other operating income		7.3	7.2
Personnel expenses and other operating expenses		-52.9	-56.7
Income tax paid		-7.5	-5.0
Cash flows from operating activities before changes in the operating assets and liabilities		**85.0**	**72.2**
Changes in operating assets:			
Loans and advances to credit institutions and mandatory reserve in central bank		20.0	-49.4
Loans and advances to customers		-391.7	-240.4
Other assets		1.5	-0.7
Changes of operating liabilities:			
Due to credit institutions		233.5	116.3
Due to customers		60.7	370.6
Other liabilities		-1.9	1.0
Cash flow from (used in) operating activities		**7.1**	**269.6**
II. Cash flows from investing activities			
Proceeds from investment portfolio securities		3.2	13.2
Purchase of tangible and intangible assets	20, 21	-6.3	-4.4
Cash flow from (used in) investing activities		**-3.1**	**8.8**
III. Cash flows from financing activities			
Dividends paid		-30.0	-20.0
Cash used in financing activities		**-30.0**	**-20.0**
Net decrease/increase in cash and cash equivalents		**-26.0**	**258.4**
Cash and cash equivalents at the beginning of period		**1 270.9**	**1 012.5**
Effect of exchange rate changes on cash and cash equivalents		0.0	0.0
Cash and cash equivalents at the end of period		**1 244.9**	**1 270.9**

Cash and cash equivalents includes:	**31.12.17**	**31.12.16**
Cash on hand	41.3	41.7
Balances with the central bank without mandatory reserve	965.8	210.0
Liquid deposits in other credit institutions	148.5	932.5
Liquidity securities	89.3	86.7
	1 244.9	**1 270.9**

The notes on pages 26 - 96 are integral part of these consolidated financial statements.

5. Consolidated statement of changes in shareholders' equity

(millions of EUR)

	Share capital (Note 28)	Share premium	Other reserves (Note 30)	Retained earnings	Total share-holders' equity
Year beginning 01.01.2016	**42.5**	**86.3**	**32.2**	**771.4**	**932.4**
Dividend paid	0.0	0.0	0.0	-20.0	-20.0
Other	0.0	0.0	0.0	0.7	0.7
Net profit	0.0	0.0	0.0	84.7	84.7
Other comprehensive income / expense:					
Net change in available-for-sale financial assets	0.0	0.0	-11.9	0.0	-11.9
Total other comprehensive expense	0.0	0.0	-11.9	0.0	-11.9
Total comprehensive income / expense	**0.0**	**0.0**	**-11.9**	**84.7**	**72.8**
Final balance 31.12.2016	**42.5**	**86.3**	**20.3**	**836.8**	**985.9**

Year beginning 01.01.2017	**42.5**	**86.3**	**20.3**	**836.8**	**985.9**
Dividend paid	0.0	0.0	0.0	-30.0	-30.0
Other	0.0	0.0	0.0	0.6	0.6
Net profit	0.0	0.0	0.0	85.3	85.3
Other comprehensive income:					
Net change in available-for-sale financial assets	0	0	0.7	0	0.7
Total other comprehensive income	0	0	0.7	0	0.7
Total comprehensive income	**0.0**	**0.0**	**0.7**	**85.3**	**86.0**
Final balance 31.12.2017	**42.5**	**86.3**	**21.0**	**892.7**	**1 042.5**

The notes on pages 26 - 96 are integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. Introduction and accounting principles

AS SEB Pank (Reg. No. 10004252) is a credit institution registered in Tallinn (Estonia), Tornimäe Street 2, the sole shareholder of which is Skandinaviska Enskilda Banken AB (publ), who is also the ultimate controlling party, registered in Sweden (Note 28).

As at the end of year 2017 SEB Pank Group employed 1041 people (2016: 1044). These consolidated financial statements for the year ended 31 December 2017 have been approved for issue by the Management Board and are subject to approval by the ultimate shareholder.

Company name	Registry code	Reg. date	Address	Activity	Holding (%)	At an acquisition cost (EUR mio)
AS SEB Liising	10281767	03.10.97	Tallinn, Tornimäe 2	Leasing	100.0%	1.8
AS Rentacar	10303546	20.10.97	Haapsalu, Posti 41	Leasing	100.0%	0.0
AS SEB Varahaldus	10035169	22.05.96	Tallinn, Tornimäe 2	Asset management	100.0%	2.7
SK ID Solutions AS	10747013	27.03.01	Tallinn, Pärnu mnt 141	Data communication services	25.0%	1.0
						5.5

Functional and presentation currency
The functional currency of the parent company AS SEB Pank and the subsidiaries is euro. 2017 consolidated financial statements have been presented in euros.

For the convenience of the users, these consolidated financial statements have been presented in millions of euros, unless stated otherwise.

1.1. Basis of preparation

These consolidated financial statements of SEB Pank Group (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below (i.e. financial assets at fair value). Financial statements have been prepared according to accrual principle of accounting. The group classifies its expenses by nature of expense method.

When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts for the previous period are also reclassified, if not referred differently in specific accounting principle.

1.2. Critical accounting estimates and judgements

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge and judgement of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.

Critical estimates and judgements are primarily used in the following areas:

a) Loan allowances, incl. fair value assessment of collateral (Note 1.6.1. and 2.2);
b) Fair value of financial assets and liabilities (Note 1.6.2 and 2.7).

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions change. Management believes that the underlying assumptions are appropriate and the Group´s financial statements therefore present the financial position and results fairly.

1.3. Consolidation

These consolidated financial statements of the SEB Pank Group comprise of the financial statements of the parent company AS SEB Pank and its subsidiaries as of 31 December 2017. The subsidiaries being consolidated are listed on page 4 (see Table 1.1).

In the group's consolidated financial statements the financial statements of the parent bank and its subsidiaries have been combined on a line-by-line basis. Intra-group balances and intra-group transactions and unrealised gains on transactions between group companies have been eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. All the subsidiaries that are controlled by AS SEB Pank have been consolidated. The accounts of the subsidiaries used for consolidation have been prepared in conformity with the accounting principles of the parent company.

<u>Subsidiaries</u>

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

Associates
Associate is an entity over which the Group has significant influence, but which it does not control. Generally, significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights.
Investments in associates are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Investments in associates are accounted for under the equity method of accounting. Under this method, the investment in Group financial statements is increased by the share of post-acquisition profit and reduced by the share of loss or distribution of profit received from the associated company and attributable to the Group and any goodwill impairment. The Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates. The Group's share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income and presented separately. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Parent company separate financial statements – primary statements
In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 34), the investments into the shares of subsidiaries and associated companies are accounted for at cost less any impairment recognised.

1.4. Foreign currency transactions and assets and liabilities denominated in a foreign currency

All other currencies except for the functional currency (the functional currency of the parent company and subsidiaries is Euro) constitute foreign currencies. Foreign currency transactions have been translated to functional currencies based on the foreign currency exchange rates of the European Central Bank prevailing on the transaction date. Monetary assets and liabilities denominated in a foreign currency have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date. Foreign exchange gains and losses are recognised in the income statement as income or expenses of that period. Non-monetary assets and liabilities denominated in a foreign currency measured at fair value, have been translated into functional currency based on the foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date.
Translation differences from non-monetary items, classified as available-for-sale financial assets, are recognised in other comprehensive income.

1.5. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are cash at hand, available for use deposits due from Central Bank and readily available deposits in other credit institutions and short-dated liquid and trading securities.

1.6. Financial assets

The SEB Pank Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="3">Class (as determined by the Group)</th></tr>
<tr><td rowspan="14">Financial assets</td><td rowspan="5">Loans and receivables</td><td colspan="3">Loans and advances to credit institutions</td></tr>
<tr><td rowspan="4">Loans and advances to customers</td><td rowspan="2">Loans to individuals</td><td>Housing loans</td></tr>
<tr><td>Other loans to Private individuals</td></tr>
<tr><td rowspan="2">Loans to corporate entities</td><td>Loans to Corporates</td></tr>
<tr><td>Loans to Public sector</td></tr>
<tr><td rowspan="5">Financial assets at fair value through profit or loss</td><td rowspan="3">Financial assets held for trading</td><td colspan="2">Debt securities</td></tr>
<tr><td colspan="2">Equity securities</td></tr>
<tr><td colspan="2">Derivatives – non-hedging</td></tr>
<tr><td rowspan="2">Financial assets designated at fair value through profit or loss at inception</td><td colspan="2">Debt securities</td></tr>
<tr><td colspan="2">Equity securities</td></tr>
<tr><td rowspan="4">Available-for-sale financial assets</td><td rowspan="2">Investment securities – debt securities</td><td colspan="2">Listed</td></tr>
<tr><td colspan="2">Unlisted</td></tr>
<tr><td rowspan="2">Investment securities – equity securities</td><td colspan="2">Listed</td></tr>
<tr><td colspan="2">Unlisted</td></tr>
</table>

Financial assets are any assets that are cash, a contractual right to receive cash or another financial asset from another party, a contractual right to exchange financial instruments with another party under conditions that are potentially favourable or an equity instrument of another party. Financial assets are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all risks and rewards.

Management determines the classification of its investments at initial recognition. The SEB Pank Group has not classified any financial assets to the category “Held to maturity” in the reporting period.

1.6.1. Loans and receivables

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the SEB Pank Group provides money, goods or services directly to a debtor with no intention of trading the resulting receivable.

Loans and receivables are initially recognised in the consolidated statement of financial position at fair value including any transaction costs, when the cash is paid to the borrower or right to demand payment has arisen and are derecognised only when they are repaid, transferred or written-off, regardless of the fact that part of them may be recognised as costs through providing allowances for loans. Past due loan is a loan in which the scheduled instalments, interest or fee payment have not been received. The loan allowances are presented on the respective line of statement of financial position at negative value. Loans have been recognised in the statement of financial position at amortised cost using the effective interest rate method. Accrued interest on the loans is recorded in the respective line of statement of financial position. For overdrafts and credit cards, the actual use of the limit by the borrower is stated in the statement of financial position. The unused credit limit is recognised as contingent liability.

Leasing receivables

Financial lease claims include receivables from financial lease, factoring and instalment sale and agreements of payments. A financial lease is a lease transaction where all major risks and rights deriving from the use of the leased assets are transferred from the leasing firm to the lessee. Legal ownership to the property may be transferred to the lessee at the end of the lease period.

The receivables from the financial lease agreements are recognised in net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and financial income. Financial income is recognised over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. Initial service fees collected at issuance are included into the calculation of effective interest rate and lessor's net investment. Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract. Allowances for lease receivables are presented on the respective line of statement of financial position at negative value.

The lease receivable from the client is recognised in the statement of financial position as of the moment of delivering the assets being the object of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognised in the statement of financial position as prepayments of buyers in on line "Accrued expenses and deferred income". The amounts paid by the leasing firm for the assets under lease agreements not yet delivered are recognised in the statement of financial position as prepayments to suppliers on line "Accrued income and prepaid expenses".

Factoring and warehouse receipt financing receivables

Factoring transactions are considered to be financing transactions where the leasing firm provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The leasing firm acquires the right for the receivables payable by the buyer subject to the sales contract.

Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre-specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to claim. The claim is booked in statement of financial position until payment is received or recourse is expired. If contract does not include seller's guarantee and leasing company acquires control of all rights at the moment of selling the claim, the transactions is booked as acquisition of claim in fair value. Subsequently on it is booked in acquisition cost. Derecognition of factoring assets and liabilities follows the regulation in IAS 39 and the assessment is made based on each specific agreement type and status.

Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

Factoring and warehouse receipt financing receivables are recorded in the statement of financial position at amortised cost, from which the payments of principal claim collected have been deducted. Allowances for factoring receivables are presented on the respective line of statement of financial position at negative value. The receivable to the client is recognised as of the moment of factoring the purchase-sale agreement, i.e. as of assuming the receivable.

Valuation of loans and receivables

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Examples of objective evidence that one or more events have occurred which may affect estimated future cash flows include:

- significant financial difficulty of the issuer or obligor,
- concession granted to the borrower as a consequence of financial difficulty, which normally would not have been granted to the borrower,
- a breach of contract, such as a default or delinquency in the payment of interest or principal,
- the probability that the borrower will go bankrupt or undergo some other kind of financial reconstruction,
- deterioration in the value of collateral.

For valuation of loans and receivables several risks are prudently considered. AS SEB Pank introduced a customer rating system for evaluating corporate loans. Valuation of the customer receivables is based on the legal entities financial position, situation of the industry, trustworthiness of the borrower, competence of the management of the client, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans. Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral, age, educational status, length of employment, saving practices and other factors, affecting the credit risk.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realisation of collateral, discounted at the financial asset's original effective interest rate (excluding future credit losses that have not been incurred), which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (recoverable amount). For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Specific and collective (based on incurred loss estimation on the group basis) allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in "Impairment losses on loans and advances".

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due and are treated as normal loans.

Interest income on loans is presented on the income statement on line "Interest and similar income".

Impaired loans

A loan should be classified as impaired if it is probable that the contractual payments will not be fulfilled and the expected proceeds available from the realisation of the collateral do not cover both principal and accrued interest including penalty fees, i.e. the recoverable amount from expected future cash flows (including from realisation of collateral) discounted using original effective interest rate (if the loan has floating interest rate then the rate used for the current interest period adjusted by origination fees) is less than the carrying amount. In these cases all the borrower's loans in the SEB Pank Group shall be considered for impairment, unless there are specific reasons calling for a different evaluation.

1.6.2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include:
• financial assets held for trading
• financial assets designated at fair value through profit or loss at inception

Financial assets held for trading

This group of financial assets includes securities acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives.

Securities acquired for the purpose of selling or repurchasing in the near term

This group includes shares and bonds acquired for trading purpose. Trading securities are initially recognised at fair value excluding transaction costs on the trade date and are subsequently presented in fair value.

The fair value of held for trading securities quoted on an active market are based on current mid-prices, because trading portfolio is maintained to enable client trading and assets and liabilities to have an offsetting market risk.

The best evidence of fair value is quoted prices in an active market for identical assets or liabilities. Quoted prices cannot be overlooked without evidence. However, the market prices should be adjusted in rare cases if it does not represent fair value at the measurement date.

The shares and debt securities not actively traded on an active market are valued in fair value according to the last quotation from an acknowledged provider with a presumption that there have been regular quotations available for the shares / debt securities and the price volatility has been in normal range for similar instruments. If the price is not available from quotations or there is no sufficient regularity of the quotations or the volatility of the instrument price quotations is outside the normal range, the shares / debt securities are revaluated into fair value based on all available information regarding the issuer to benchmark the financial instrument price against similar instruments available on active market to determine the fair value. For held for trading debt securities, for which the quoted prices from an active market are not available, cash flows are discounted at market interest rates, issuer's risk added. For fund participations (units) NAV bid quotation is used for fair value assessment.

In any case, if the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, benchmarking to another instrument with similar characteristics, reference to recent transactions as long as there has been no significant change in economic circumstances and other valuation techniques commonly used by market participants.

The unrealised and realised result of the trading securities is recorded in income statement under "Gains less losses from financial assets at fair value through profit or loss".
Dividend income from financial assets that are classified as held for trading, is recognised in income statement on line "Gains less losses from financial assets at fair value through profit or loss" when the entity's right to receive payment is established.

Derivatives
Derivatives (forward-, swap- and option transactions) are initially recognised at fair value excluding transaction costs on the trade date and are subsequently presented at fair value. If derivatives are quoted on an active market, market value is used as a fair value. If not, the valuation techniques are used to estimate the fair value.

These transactions are booked in the statement of financial position as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in the statement of financial position are not netted. The Group does not apply hedge accounting principles for the accounting of derivative financial instruments.

Currency forwards, currency and interest rate swaps are valued by discounting future cash flows using market interest rate. Respective interest income and the realised profit and unrealised gain / loss from the revaluation of derivatives is recorded in the income statement under "Gains less losses from financial assets at fair value through profit or loss".

Currency and equity options are revalued to market value, using market price if active market exists. If a reliable market value cannot be obtained, the fair value of options is calculated by using the Black-Scholes model.

As part of the fair value measurement, valuation adjustments are made when valuing derivative financial instruments, to incorporate counterparty and own credit risk. The methodologies for estimating valuation adjustments are continuously revised as a result of changing market practices in response to regulatory and accounting policy changes, as well as general market developments.

Financial assets designated at fair value through profit or loss at inception
Securities at fair value through profit or loss are designated irrevocably, at initial recognition, into this category. Management designates securities into this category, because a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management and investment strategy.

In the current reporting period this class of securities included the portfolio of liquidity bonds. The intention of the investment is to keep local liquidity reserves in liquid securities, which can be pledged with Central Bank in order to create cash liquidity whenever necessary.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Interest income on these instruments are recognised in income statement under “Interest income”. The realized and unrealized result from the revaluation of these securities is recorded in the income statement under “Gains less losses from financial assets at fair value through profit or loss”.

1.6.3. Available-for-sale financial assets

Securities are classified as available-for-sale financial assets, if they do not belong to one of the aforementioned categories: financial assets held for trading or other financial assets designated at fair value through profit or loss. Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices; or investments with strategic purpose for long-term holding.

Available-for-sale financial assets are recorded at fair value. Subsequently they are carried at fair value. If the assessment of fair value is not reliable, the securities will be presented at cost. The gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the consolidated statement of comprehensive income on line “revaluation of available-for-sale financial assets”.

The Group assesses consistently whether there is objective evidence that a financial asset available-for-sale is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from statement of comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. In a subsequent period, if the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

When the financial asset is derecognised the cumulative gain previously recognised in statement of comprehensive income on that specific instrument is to the extent reversed from the statement of comprehensive income and the remaining portion is recognised in income statement.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

1.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only, when there is a legally enforceable right to offset and there is an intention to settle on net basis or realise the asset and settle the liability simultaneously.

1.8. Tangible and intangible assets other than goodwill

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognised in the statement of financial position as tangible non-current assets. Intangible assets are identifiable, non-monetary assets without physical substance and currently comprise of acquired software and other intangible assets.

Tangible non-current assets and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset into use.

The subsequent expenditure of an item of property, plant and equipment shall be recognised as an asset if these are in accordance with definition of fixed assets and if it is probable that future economic benefits associated with the item will flow to the entity. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Tangible non-current assets and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation / amortisation and any impairment losses. Depreciation / amortisation is calculated starting from the month of acquisition until the carrying value reaches the residual value of the asset or if that is considered being insignificant the asset is fully depreciated. For assets having a substantial residual value, only the difference between the acquisition cost and the residual value is depreciated to expense over the useful lifetime of the asset. Assets are depreciated / amortised on straight-line basis.

Depreciation / amortisation calculation is based on useful life of the asset, which serves as basis for forming the depreciation / amortisation rates. Buildings are depreciated over 20-50 years (capitalized rebuildings are depreciated according to agreement), intangible assets with limited lifetime are amortised over 3-8 years, and other non-current tangible assets are depreciated over 3-10 years, land and art is not depreciated The appropriateness of depreciation/amortisation rates, methods and residual values are each reporting date assessed.

Depreciation, amortisation and impairment is recorded in the income statement on line “Depreciation, amortisation and impairment losses of tangible and intangible assets”.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income / expenses in the income statement.

<u>Capitalisation of expenses</u>
Reconstruction expenditures of leased premises are capitalised as tangible assets and are subsequently charged to the income statement on a straight-line basis during their expected useful life of 5 years, or during remaining lease term, of shorter.

Development costs
Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:
· it is technically feasible to complete the software so that it will be available for use
· management intends to complete the software and use it
· there is an ability to use the software
· it can be demonstrated how the software will generate probable future economic benefits
· adequate technical, financial and other resources to complete the development and to use the software are available, and
· the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and external consultancy costs. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. IT development project is continuing and its costs in 2017 are being capitalized.

1.9. Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortisation / depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances the recoverable value of the asset is assessed and compared to its carrying value. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10. Leases – the group is the lessee

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.
Finance leases are capitalised at the commencement date of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period (effective interest rate method). Tangible non-current assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Operating lease payments are recognised in income statement as expense over the rental period on straight line basis. The Group uses operating lease mainly for renting the buildings / premises. Rental expense is recognised in income statement as "Other expenses".

1.11. Financial liabilities

The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Group)</th></tr>
<tr><td rowspan="8">Financial liabilities</td><td rowspan="6">Financial liabilities at amortised cost</td><td colspan="2">Deposits from credit institutions</td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Corporate customers</td></tr>
<tr><td>Public sector</td></tr>
<tr><td>Households</td></tr>
<tr><td colspan="2">Debt securities in issue</td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td rowspan="2">Financial liabilities at fair value through profit or loss</td><td colspan="2">Financial liabilities held for trading (Derivatives – Non Hedging only)</td></tr>
<tr><td colspan="2">Designated at fair value through profit and loss – Debt securities in issue</td></tr>
<tr><td rowspan="2">Contingent liabilities</td><td colspan="3">Loan commitments</td></tr>
<tr><td colspan="3">Guarantees and other financial facilities</td></tr>
</table>

Deposits from credit institutions and customers

Deposits are recognised in the statement of financial position on their settlement date at fair value net of transaction costs and subsequently measured at amortised cost using effective interest rate method and recorded on lines "Due to credit institutions" and "Due to customers", accrued interests is presented on a respective lines in liabilities. Interest expenses are recorded in the income statement on line "Interest expenses and similar charges".
Financial liabilities are derecognised when extinguished, that is, when the obligation is discharged, cancelled or expired.

Borrowings and issued securities

Borrowings and issued securities are recognised initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings and issued securities are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the instrument using effective interest rate.

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the income statement together with the interest expenses. The respective interest expenses are recorded in the income statement on line "Interest expenses and similar charges".

In case there is an unused limit for any borrowings, this is presented as contingent asset.

Short-term and termination benefits to employees

Short-term employee benefits are employee benefits (other than termination benefits) which fall due within twelve months after the end of the period in which the employees render the related services. Short-term employee benefits include items such as wages, salaries and social security contributions; benefits related to temporary suspension of the employment contract (such as vacation pay).

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits due more than 12 months after the reporting date are discounted to present value.

1.12. Embedded derivatives

Some combined contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative.

Embedded derivatives are usually separated from the host contract and accounted for in the same way as other derivatives (Note 1.6.2.). Embedded derivatives are not separated, if their economic characteristics and risks are closely related to the economic characteristics and risks of the host contract. However, in some circumstances also not closely related embedded derivatives may be not separated.

Combined instruments (for example index-linked deposits) are separated, so that host contract is recognised as deposit and measured at amortised cost using effective interest rate method, and embedded derivatives are recognised and measured at fair value.

1.13. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to credit institutions, financial institutions, companies and other bodies on behalf of customers to secure loans, other banking facilities and liabilities to other parties.

Financial guarantees are initially recognised in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognised at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognised straight-line basis over the life of the guarantee. In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period. At the end of each reporting period, the commitments are reflected either i) contract value at the time of reporting ii) contract value and in addition provision in balance sheet. The amounts disbursed to settle the guarantee obligation are recognised in the statement of financial position on the date it is disbursed.

1.14. Provisions for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognisedbased on the management's estimates regarding the amount and timing of the expected outflows.

When it is probable that the provision is expected to realise later than 12 months after the reporting date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial. Expense from provisions and from change in carrying value of provisions is recorded in the income statement for the period.

1.15. Revenue recognition

Interest income and expense

Interest income and expense is recognised in income statement for all interest-bearing financial instruments carried at amortised cost using the effective interest rate method. Interest income includes also similar income on interest bearing financial instruments classified at fair value through profit or loss (i.e. traded bonds etc).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Revenue is recognised in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are generally recognised on an accrual basis when the service has been provided (e.g. payment cards related commissions). Credit issuance fees for loans / leases are deferred and recognised as an adjustment to the effective interest rate on the credit. Portfolio management and other advisory service fees, as well as wealth management and custody service fees are recognised based on the applicable service contracts, usually on an accrual basis. Asset management fees related to management of investment funds are recognised over the period the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.
Other transaction fee income and other income are recognised on accrual basis at the moment of executing the respective transactions.

1.16. Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.17. Recognition of day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits on day one can be recognised when a valuation technique is used whose variables include data from observable markets. In other circumstances the day one profit is deferred over the life of transaction.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument (separated embedded derivative) is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

1.18. Share-based payments

Group employees receive compensation through share-based incentive programmes, based on Skandinaviska Enskilda Banken AB (publ) shares. The programmes, referred to above, are the Share Deferral Program (SDP) and Share Matching Program (SMP). Only key persons can participate in those programmes. The recording of expenses will last until the end of the qualification period of the respective programs. The expenses related to these programs and the accrued social charges, if applicable, are recorded according to the rules established by the Group. The allocation of this amount implies that profit and loss are impacted at the same time as the corresponding increase in equity is recognised.

The Group engages in equity settled share-based payment transactions in return for the services received from certain of its employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in return for the shares or share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period.

1.19. Taxation

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the taxation at the rate of 20/80 on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. Income tax cost is accounted for only in cases when the taxable event occurs (like payment of dividends and payments decreasing the equity). From 2019, tax rate of 14/86 can be applied to profit distribution. The more beneficial tax rate can be used for profit distribution in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

1.20. Fiduciary activities

The Group provides asset management services and offers fund management services. The assets owned by third parties, but managed by the Group, and income arising thereon, are excluded from these financial statements, as they are not assets of the Group. Commissions received from fiduciary activities are shown in fee and commission income.

1.21. New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee

Adoption of New or Revised Standards and Interpretations.
There are certain new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1.01.2017 that would be expected to have a impact to the Group.

Disclosure Initiative - Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. This change have not had a material effect on the financial statements of the Group as the group does not present liabilities arising from financing activities.

New Accounting Pronouncements.
Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1.01.2018 and which the Group has not early adopted.

IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
● Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
● Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
● Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
● Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be

required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

● IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

● Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. Group does not apply hedge accounting.

Group has not adopted IFRS 9 in previous reporting periods. The application of IFRS 9 with regards to impairment results in increased provisions with 3,2 millions of EUR and an overall reduction of retained earnings of same amount.

As a result of change in classification and measurement, the Group has changed classification of equity instruments previously classified as available for sale under IAS 39 to measured at fair value through profit or loss category. The effect with regard to classification and measurement is that a positive market valuation of 1,6 millions of EUR is removed from Revaluation reserve of available for sale financial assets to Retained earnings. Business model for all other assets is “hold to collect” and these will be carried at amortised cost, except debt securities which will be carried at fair value through profit and loss.

The impairment requirements are based on an expected credit loss (ECL) model. The Group uses internally developed macro-economic forecasts as the basis for forward looking information incorporated in ECL measurement and at least three scenarios are used. The scenarios are benchmarked to external sources. The assessment whether there has been a significant change in credit risk is based on payments past due > 30 and < 90 and financial assets which have been classified as watch-list or with forbearance measures. SEB applies a definition of default for accounting purposes that is consistent with how it is defined in the capital requirements regulation, which include financial assets past due more than 90 days.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. Group has chosen to apply IFRS 15 retrospectively to each prior reporting period presented. The effect should therefore be recognised as a reduction of retained earnings at 1 January 2017. According to the assessment of IFRS 15 impact, Group does not have any transition effect on annual financial statements.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019).The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
The accounting for lessors is in practice unchanged. Group's current assessment is that the new standard mainly will increase the Group's balance sheet total in the accounting for property leases.

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The standards IAS 23 Borrowing Costs, IAS 12 Income Taxes, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements have been amended. The changes did not have a material effect on the financial statements of the Group.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a significant impact on the Group.

2. Risk policy and management

2.1. Risk policy and structure

Managing risk is a core activity in a bank and therefore fundamental to long-term profitability and stability. Risk is closely related to business activities and business development and, therefore, to customer needs. Of the various risks that SEB Pank Group assumes in providing its customers with financial solutions and products, credit risk is the most significant.

The Supervisory Board sets the overall level of risk that SEB Pank Group is willing to accept. In its overarching risk tolerance statements, the Supervisory Board lays out its long-term view of SEB Pank Group's risk level, overall funding structure and necessary liquidity buffers, as well as capital targets. Risk tolerance levels and limits are set based on the Board of Directors of Skandinaviska Enskilda Banken AB (publ) risk tolerance statements and are followed up regularly by the risk organisation, the Management Board and the Supervisory Board. The risk tolerance framework is reviewed annually in connection with the business planning.

SEB Pank Group's profitability is directly dependent upon its ability to evaluate, manage and price the risks encountered, while maintaining an adequate capitalization to meet unforeseen events. To secure SEB Pank Group's financial stability, risk and capital-related issues are identified, monitored and managed at an early stage. They also form an integral part of the long-term strategic planning and operational business planning processes performed throughout the SEB Pank Group.

SEB Pank Group defines risk as the possibility of a negative deviation from an expected financial outcome. The risks arising from financial instruments to which SEB Pank Group is exposed to are financial risks, which include credit risk, liquidity risk, market risk and to operational risk.

Risk management includes all activities relating to risk-taking, risk mitigation, risk analysis, risk control and follow-up. There is established three-level risk management system in SEB Pank Group. Business units subordinating to the Management Board as the first line of defence are directly responsible for their risks. Initial risk assessments – both of the customer relationship and the individual proposed transaction - ensure that the correct decision is made.

The business units ensure that transactions are correctly priced and that the resulting risks are managed throughout the life of the transaction. The business units are responsible for ensuring that their activities comply with applicable rules.

The Risk Control and Compliance organisations constitute the second line of defence and are independent from business activities. Internal Audit function constitute the third line of defence. Closer description of control functions is presented in ch 2.10.

The Supervisory Board is responsible for that the risk management systems put in place are adequate with regard to SEB Pank Group's profile and strategy.

The Risk Committee of the Supervisory Board shall support the Supervisory Board in establishing and reviewing that SEB Pank Group is organised and managed in such a way that all risks inherent in the activities of SEB Pank Group are identified and defined as well as measured, monitored and controlled in accordance with external and internal rules as well as overseeing SEB Pank Group's risk management systems and the overall current and future risk tolerance/appetite and strategy and the implementation of said strategy.

The Management Board is responsible for establishing the main principles for management, control and co-ordination of all risks of SEB Pank Group and to decide on the limits for the various risks. Board supervision, an explicit decision-making structure, high level risk awareness among staff, common definitions and principles and controlled risk-taking within established limits are the cornerstones of SEB Pank Group's risk and capital management.

Subordinated to the Management Board are established different committees with mandates to make decisions depending upon the type of risk. Asset and Liability Committee (*ALCO*) is a SEB Pank Group-wide decision and consultative body that handles risk and capital issues and the issues concerning the development of the balance sheet. The Committee also establishes and reviews that all risks inherent in the activities of SEB Pank Group are identified and defined as well as measured, monitored and controlled in accordance with external and internal rules.

Operational Risk Committee guides and coordinates management of operational risks.
New Product Approval Committee identifies and approves proposals related to new or amended products to ensure high quality in SEB Pank Group's products and services. Credit Committees are responsible for credit decisions according to the Credit Instruction adopted by the Supervisory Board.

Risk profile

Risk type	The risk is identified, measured and managed	The risk is controlled with internal limits	The risk is subject to regulatory capital requirements	Risk description
Credit risk Risk of loss due to the failure of an obligor to fulfil its obligations towards SEB Pank Group. The definition comprises loans, counterparty risk, country risk and settlement risk. Concentration risk is also considered.	✓	✓	✓	SEB Pank Group has a well-balanced credit portfolio, with main focus on corporations and mortgage lending. The risk in the corporate credit portfolio is moderate given that it consists mostly of stronger counterparties in a wide range of industries. Concentration risk and large exposures are closely monitored. The household portfolio consists primarily of Estonian household mortgages which are considered to be low risk. The total credit risk has decreased significantly during recent years.
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.	✓	✓	✓	Market risk arises in the banking book when assets do not fully match the funding maturities and sources since customers demand various maturity dates and currencies. Market risk also arises in the trading book as SEB Pank Group facilitates customers' financial transactions. In general, market risk tolerance in SEB Pank Group is low.
Operational risk Risk of loss resulting from inadequate or failed internal processes and systems,human errors or external events. Operational risk includes conduct, legal and compliance risks as well as IT and information security risks.	✓		✓	Operational risks are an inherent part of all business. It is neither possible nor cost efficient to eliminate all operational risks. Therefore, smaller losses are a normal part of SEB Pank Group's operations. The bank continuously works to minimise operational losses and, in particular, to avoid larger loss incidents.
Liquidity risk Risk that SEB Pank Group is unable to refinance its existing assets or is unable to meet demand for additional liquidity. It also entails the risk that SEB Pank Group is forced to borrow at unfavourable rates or to sell assets at a loss in order to meet its payment commitments.	✓	✓		The primary source of funding is customer deposits, which to large extent are stable. SEB Pank Group has a diversified funding base to ensure that payment obligations are met as they fall due. Various risk management tools, including stress tests, ensure that liquid assets are sufficient.
Business risk Risk of lower revenues due to reduced volumes, price pressure or competition. The definition includes venture decision risk, i.e., risks related to large undertakings such as acquisitions, large IT projects, reorganisatios, outsourcing, etc. Related risks include strategic and reputational risks.	✓			Business, strategic and reputational risks are inherent in doing business. Digitalisation in the banking industry is accelerating, and new types of competitors are emerging. The extensive new regulatory framework for banking and financial institutions is significantly impacting the industry. Sustainability plays an increasingly important part of a company's reputation. SEB Pank Group continuously works to mitigate business, strategic and reputational risks in many ways, for example, with established strategic business planning, proactive cost management, an agile step-by-step IT development approach, and an ambitious sustainability agenda.

2.2. Credit risk

Definition

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

The predominant risk in SEB Pank Group is credit risk, which arises in lending activities and through commitments to customers, including corporates, financial institutions, public sector entities and private individuals. In addition to the credit portfolio, SEB Pank Group's credit exposure includes also debt instruments.

Risk management

Credit policy and approval process

The main principle in SEB Pank Group's credit policy is that all lending is based on credit analysis and is proportionate to the customer's cash flow and ability to repay. The customer shall be known to the bank and the purpose of the loan shall be fully understood.

A credit approval is based on an evaluation of the customer's creditworthiness and 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 (e.g., retail, corporate or institutional), risk level, and size and type of transaction. Independent and professional credit analysis is particularly important for large corporate customers. For households and small businesses, the credit approval is often based on credit scoring systems. Deciding on the risk taking is performed collegially by credit committees or by the authorised persons in accordance with the decision-making limits established by the bank's management.

SEB Pank Group's credit policies reflect the SEB Pank Group's approach to corporate sustainability as described in the Corporate Sustainability Policy, the Environmental Policy and the Credit Policy on Corporate Sustainability. Position statements on climate change, child labour and access to fresh water as well as industry sector policies support customer dialogues in the credit granting process.

Risk mitigation

SEB Pank Group uses a number of methods to mitigate credit risk. The method used depends on its suitability for the product and the 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 and guarantees. The most common types of pledges are real estate, floating charges and financial securities. The main guarantors are state, municipalities and credit institutions whose creditworthiness is assessed by the same methods and the frequency as the same customer group borrowers creditworthiness. In the trading operations, daily margin arrangements are frequently used to mitigate net open counterparty exposures at any point in time. For large corporate customers, credit risk is often mitigated by the use of restrictive covenants in the credit agreements.

Limits and monitoring

To manage the credit risk for individual customers or customer groups, a limit is established that reflects the maximum exposure that SEB Pank Group is willing to accept.

SEB Pank Group 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 Credit Instruction, adopted by the Management Board).

For regular monitoring of private individuals and small corporates - retail portfolio - the behavioural scoring models are in use. The models are based on the application scoring models used in loans analysis process. Client executives have an obligation to update financials of small corporates at least once a year. Behavioural score is calculated monthly for all private individuals and small corporates loans.

Client executives have an obligation to review collateral values at least once a year and update if necessary. Non-retail collateral values are normally reviewed by credit committees in the process of customer annual review. Collateral values of living spaces and land are being adjusted with indexes calculated in-house based on transaction statistics of Estonian Land Board.

Weak or impaired exposures are monitored more closely and reviewed at least quarterly in terms 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 and to work together with the customer towards a solution that enables the customer to meet its financial obligations and SEB Pank Group to avoid or reduce credit losses.

Loans where the contractual terms have been amended in favour of the customer due to 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 can also be considered impaired. A relevant credit approval body shall approve the forbearance measures as well as the classification of the loan as being forborne or not.

Problem exposures and recovering written-off loans are handled by Special Credit Management Division by using several methods: negotiations with clients, rehabilitation, execution, bankruptcy proceedings. Special Credit Management Division specialists are involved with problem loans (or potential problem loans) at the early stage to ensure most valuable outcome for both the client and the bank.

Impairment provisioning process

Allowances are made for probable credit losses on individually assessed loans and for portfolio assessed loans. Loans to corporate, real estate and institutional counterparties are primarily individually assessed and specific allowances are made for identified impaired loans (individually assessed impaired loans).

Loans that have not been deemed to be impaired on an individual basis and which have similar credit risk characteristics are grouped together and assessed collectively for impairment. Valuations of loans to private individuals and small businesses are to a large extent made on a portfolio basis (portfolio assessed loans).

Credit portfolio analysis and stress tests

The risk organisation regularly reviews and assesses the aggregate credit portfolio based on industry, geography, risk class, product type, size and other parameters. Risk concentrations in geographic and industry sectors as well as in large single names are thoroughly analysed, both in respect of direct and indirect exposures and in the form of collateral, guarantees and credit derivatives.

Stress tests of the credit portfolio, including reverse stress tests, are performed regularly as a part of SEB Pank Group's annual internal capital adequacy assessment process. Specific analyses and stress tests of certain sectors or sub-portfolios are performed as required.

Risk measurement

Credit risk is measured for all exposures, both in the banking book and the trading book.

SEB Pank Group divides loan portfolio into two broad segments:

A) corporate portfolio including loans to legal entities belonging to counterparty group's with credit risk assumed by SEB Pank Group exceeding 500 000 euros (2016: 500 000 euros) and

B) retail portfolio consisting of small corporates' and private individuals' sub-segments.

SEB Pank Group uses internal rating system for corporate customer risk assessment and also since the beginning of July 1st 2008 for calculation of capital amount needed to cover credit risk. The risk classification scale for corporate clients with credit limits 500 000 euros and and more has 16 classes with 1 being the best possible risk and 16 being the default class. Sixteen risk classes belong to 5 quality classes of businesses. At the end of 2017 the corporate portfolio amounted to 48% of total loan portfolio (2016: 56%), incl. advances to credit institutions 3% (2016: 18%).

SEB received approval for a significant change of its risk classification system for the non-retail portfolio in the SEB AB at the end of 2015. The approval for SEB's Baltic subsidiaries, incl. SEB Pank Group is still pending.

According to the risk classification system the risk class assignment is not required for companies or a group of companies with credit risk assumed by the SEB Pank Group less than 500 000 euros i.e. small corporates belonging to retail portfolio. Scoring model is used for evaluation of these borrowers.

The scoring model for small corporates considers financial condition based on last two annual reports, credit history with the bank and based on external credit history register, experience of the customer. The outcome of the scoring model is credit score, expressing risk level and determining decision-making level. Depending on the score clients are divided into quality classes A, B, C and D, where A is the best and D is the worst quality class. Small corporates amounted to 5% of the total portfolio as of end of 2017 (2016: 4%).

In analysing loans to private individuals the credit scoring and left-to-live model (this measures the customer's ability to service the loan taking into account net income and cost of living) is used. The output of the model is credit score. Based on the score the clients are divided into quality classes A, B, C, and D, where A is the best and D is the worst quality class. Private individuals amounted to 47% of the total portfolio as of end of 2017 (2016: 40%).

The distribution of non-retail portfolio by the quality classes (gross) is given in the next table.

Risk class	Business quality class
1	Ordinary Business
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	Restricted Business
12	Special Observation
13	Watch-list
14	
15	
16	Default

Corporate Portfolio by risk classes	% of rated portfolio 31.12.17	31.12.16
Ordinary Business	88.7%	89.6%
Restricted Business	5.6%	4.3%
Special Observation	4.0%	3.5%
Watch-list	0.7%	1.8%
Default	1.0%	0.8%
Insufficient information	0.0%	0.0%
Total	**100.0%**	**100.0%**

The distribution of retail portfolio by quality classes (gross) is given in the next table.

Score	Business quality class
A	Ordinary Business
B	
C	Special Observation
D	
E	Default
N	Insufficient information

Retail portfolio by behavioural scores	% of scored portfolio 31.12.17	31.12.16
Ordinary Business	90.8%	89.1%
Special Observation	7.3%	8.6%
Default	1.4%	1.7%
Insufficient information	0.5%	0.6%
Total	**100.0%**	**100.0%**

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Loans and advances to customers and credit institutions by quality classes (gross)
(millions of EUR)

31.12.17	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Ordinary Business	172.2	1 971.6	127.0	1 879.2	275.4	4 425.4
Restricted Business	0.0	133.3	0.0	0.0	0.0	133.3
Special Observation	0.0	159.2	0.0	100.3	22.6	282.1
Watch-list	0.0	16.9	0.0	0.0	0.0	16.9
Default	0.0	24.7	0.0	31.9	1.6	58.2
Not Classified	0.0	14.2	0.0	0.0	0.0	14.2
Accrued Interests	0.0	2.0	0.1	1.8	1.1	5.0
Deferred Origination Fees	0.0	-4.4	-0.1	-2.9	-1.7	-9.1
	172.2	**2 317.5**	**127.0**	**2 010.3**	**299.0**	**4 926.0**

31.12.16	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Ordinary Business	983.3	1 742.7	112.7	1 694.7	246.7	4 780.1
Restricted Business	0.0	127.6	0.0	0.0	0.0	127.6
Special Observation	0.0	173.0	0.0	112.1	22.4	307.5
Watch-list	0.0	55.0	0.0	0.0	0.0	55.0
Default	0.0	26.6	0.0	35.3	1.2	63.1
Not Classified	0.0	15.8	0.0	0.0	0.0	15.8
Accrued Interests	0.0	2.2	0.1	1.5	1.1	4.9
Deferred Origination Fees	0.0	-4.3	-0.1	-2.6	-1.6	-8.6
	983.3	**2 138.6**	**112.7**	**1 841.0**	**269.8**	**5 345.4**

Counterparty risk in derivative contracts

AS SEB Pank enters into derivatives contracts primarily to support customers in the management of their financial exposures and then normally manages the resulting positions by entering offsetting contracts with the parent company.

Counterparty risk in derivative contracts is the risk of a counterparty not living up to its contractual obligations where AS SEB Pank has a claim on the counterparty. The claim on the counterparty corresponds to a net positive exposure in favour of AS SEB Pank. Since the market value of a derivative fluctuates during the term to maturity, the uncertainty of future market conditions must be taken into account and a credit risk equivalent is calculated.

Credit risk related to derivatives is handled in p 2.7. Fair value of financial assets and liabilities. So in Credit risk chapter (p.2.2.) we concentrate on credit risk arising from loans and receivables from customers and credit institutions (other credit institutions).

Counterparty risk in derivative contracts also affects the profit and loss through credit/debit valuation adjustments (CVA/DVA) reflecting the credit risk associated with derivative positions. These adjustments depend on market risk factors such as interest rate, foreign exchange rates and credit spreads.

Loans against collateral
(millions of EUR)

31.12.17	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individual	TOTAL
Mortgage, real estate	0.0	1 517.3	0.0	2 009.1	13.7	3 540.1
Securities and deposits	0.0	25.0	0.0	0.0	0.5	25.5
Guarantee by state, central bank or municipality	0.0	0.0	90.8	0.0	31.1	121.9
Guarantee by credit institutions	172.2	0.0	0.0	0.0	0.0	172.2
Unsecured loans*	0.0	23.8	0.0	0.0	76.0	99.8
Repos with customers (securities as collateral)	0.0	0.0	0.0	0.0	0.0	0.0
Factoring (receivables as collateral)	0.0	140.1	0.0	0.0	0.0	140.1
Leasing (leased assets as collateral)	0.0	379.0	36.1	1.2	176.5	592.8
Other (floating charges, vehicles, warranties, other)	0.0	232.3	0.1	0.0	1.2	233.6
Allowances	0.0	-11.6	0.0	-6.2	-1.9	-19.7
TOTAL**	**172.2**	**2 305.9**	**127.0**	**2 004.1**	**297.1**	**4 906.3**

31.12.16	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individual	TOTAL
Mortgage, real estate	0.0	1 466.6	0.0	1 839.5	11.6	3 317.7
Securities and deposits	0.0	3.5	0.0	0.0	0.3	3.8
Guarantee by state, central bank or municipality	0.0	0.0	75.5	0.0	37.2	112.7
Guarantee by credit institutions	983.3	0.0	0.0	0.0	0.0	983.3
Unsecured loans*	0.0	12.0	0.0	0.0	66.2	78.2
Repos with customers (securities as collateral)	0.0	0.0	0.0	0.0	0.0	0.0
Factoring (receivables as collateral)	0.0	121.2	0.0	0.0	0.0	121.2
Leasing (leased assets as collateral)	0.0	327.4	37.1	1.5	153.1	519.1
Other (floating charges, vehicles, warranties, other)	0.0	207.9	0.1	0.0	1.4	209.4
Allowances	0	-15.2	0	-7.6	-1.8	-24.6
TOTAL**	**983.3**	**2 123.4**	**112.7**	**1 833.4**	**268.0**	**5 320.8**

* Includes credit cards and other unsecured loans.
** Includes loans and advances to customers and credit institutions (Notes 14, 15) by type of the main collateral.

Financial effect of collateral, individually assessed loans and contingent liabilities (gross), (Watch-list or Default clients)*

Financial effect of collateral, individually assessed loans and contingent liabilities (gross), (Watch-list or Default clients)*

2017	Credit-institutions	Loans to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Over-collateralised assets	0	14.0	0	0	0	14.0
Under-collateralised assets	0	26.8	0	0	0	26.8
Fair value of collateral	*0*	*17.4*	*0*	*0*	*0*	*17.4*

2016	Credit-institutions	Loans to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Over-collateralised assets	0	23.5	0	0	0	23.5
Under-collateralised assets	0	58.1	0	0	0	58.1
Fair value of collateral	*0*	*47.8*	*0*	*0*	*0*	*47.8*

* The effect of collateral is not taken into account if client risk class is 1-12, because these liabilities are presumed to be fulfilled from primary cash flow.

Individually impaired loans and allowances

(millions of EUR)	31.12.17	31.12.16
Total individually impaired loans	**14.8**	**17.8**
Specific allowances	-6.5	-7.2
Collective allowances on individually assessed loans	-0.2	-0.2
Collective allowances for homogeneous groups	-9.6	-11.1
Other collective allowances for incurred but not identified losses	-3.4	-6.1
Total allowances	**-19.7**	**-24.6**
Specific allowance ratio (Specific allowances / Individually impaired loans)	44%	41%
Ratio of impaired loans (Individually impaired loans / Loans to customers and credit institutions)	0.30%	0.33%

All individually impaired loan counterparties are Estonian residents.

Loans and advances to customers and credit institutions by classes
(millions of EUR)

31.12.17	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
1) Neither past due nor impaired	**172.2**	**2 267.8**	**126.8**	**1 970.1**	**292.5**	**4 829.4**
Ordinary Business	172.2	1 952.7	126.8	1 877.7	274.0	4 403.4
Restricted Business	0.0	130.5	0.0	0.0	0.0	130.5
Special Observation	0.0	152.1	0.0	81.4	18.4	251.9
Watch-list	0.0	12.4	0.0	0.0	0.0	12.4
Default	0.0	5.9	0.0	11.0	0.1	17.0
Not classified	0.0	14.2	0.0	0.0	0.0	14.2
2) Past due, but not impaired	**0.0**	**37.3**	**0.2**	**41.3**	**7.1**	**85.9**
3) Individually impaired	**0.0**	**14.8**	**0.0**	**0.0**	**0.0**	**14.8**
4) Accrued interests	**0.0**	**2.0**	**0.1**	**1.8**	**1.1**	**5.0**
5) Deferred origination fees	**0.0**	**-4.4**	**-0.1**	**-2.9**	**-1.7**	**-9.1**
Total gross	**172.2**	**2 317.5**	**127.0**	**2 010.3**	**299.0**	**4 926.0**
Specific allowances	0.0	-6.5	0.0	0.0	0.0	-6.5
Collective allowances	0.0	-3.6	0.0	0.0	0.0	-3.6
Group allowances (homogeneous)	0.0	-1.5	0.0	-6.2	-1.9	-9.6
Total net of allowances	**172.2**	**2 305.9**	**127.0**	**2 004.1**	**297.1**	**4 906.3**

31.12.16	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
1) Neither past due nor impaired	**983.3**	**2 101.3**	**112.7**	**1 789.8**	**264.1**	**5 251.2**
Ordinary Business	983.3	1 739.6	112.7	1 691.9	245.4	4 772.9
Restricted Business	0.0	124.7	0.0	0.0	0.0	124.7
Special Observation	0.0	166.0	0.0	89.8	18.7	274.5
Watch-list	0.0	52.3	0.0	0.0	0.0	52.3
Default	0.0	2.9	0.0	8.1	0.0	11.0
Not classified	0.0	15.8	0.0	0.0	0.0	15.8
2) Past due, but not impaired	**0.0**	**21.6**	**0.0**	**52.3**	**6.2**	**80.1**
3) Individually impaired	**0.0**	**17.8**	**0.0**	**0.0**	**0.0**	**17.8**
4) Accrued interests	**0.0**	**2.2**	**0.1**	**1.5**	**1.1**	**4.9**
5) Deferred origination fees	**0.0**	**-4.3**	**-0.1**	**-2.6**	**-1.6**	**-8.6**
Total gross	**983.3**	**2 138.6**	**112.7**	**1 841.0**	**269.8**	**5 345.4**
Specific allowances	0.0	-7.2	0.0	0.0	0.0	-7.2
Collective allowances	0.0	-6.3	0.0	0.0	0.0	-6.3
Group allowances (homogeneous)	0.0	-1.7	0.0	-7.6	-1.8	-11.1
Total net of allowances	**983.3**	**2 123.4**	**112.7**	**1 833.4**	**268.0**	**5 320.8**

Quality of loans by classes
(millions of EUR)

31.12.17	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Normal loans	172.2	2 305.1	127.0	2 011.4	299.6	4 915.3
Impaired loans	0.0	14.8	0.0	0.0	0.0	14.8
Accrued interest receivable	0.0	2.0	0.1	1.8	1.1	5.0
Deferred origination fees	0.0	-4.4	-0.1	-2.9	-1.7	-9.1
	172.2	**2 317.5**	**127.0**	**2 010.3**	**299.0**	**4 926.0**
Specific allowances	0.0	-6.5	0.0	0.0	0.0	-6.5
Collective and group allowances	0.0	-5.1	0.0	-6.2	-1.9	-13.2
	172.2	**2 305.9**	**127.0**	**2 004.1**	**297.1**	**4 906.3**

31.12.16	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Normal loans	983.3	2 122.9	112.7	1 842.1	270.3	5 331.3
Impaired loans	0.0	17.8	0.0	0.0	0.0	17.8
Accrued interest receivable	0.0	2.2	0.1	1.5	1.1	4.9
Deferred origination fees	0.0	-4.3	-0.1	-2.6	-1.6	-8.6
	983.3	**2 138.6**	**112.7**	**1 841.0**	**269.8**	**5 345.4**
Specific allowances	0.0	-7.2	0.0	0.0	0.0	-7.2
Collective and group allowances	0.0	-8.0	0.0	-7.6	-1.8	-17.4
	983.3	**2 123.4**	**112.7**	**1 833.4**	**268.0**	**5 320.8**

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore loans and advances less than 60 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Also not all impaired loans and advances are past due.

Past due by maturity period of overdue by classes
(millions of EUR)

31.12.17	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	Accrued interest receivable	TOTAL
< 30 days	0.0	31.4	0.2	25.5	5.3	0.0	62.4
incl. impaired	0.0	0.0	0.0	0.0	0.0		0.0
30 < 60 days	0.0	1.7	0.0	3.4	0.5	0.0	5.6
incl. impaired	0.0	0.0	0.0	0.0	0.0		0.0
over 60 days	0.0	13.2	0.0	12.4	1.3	0.0	26.9
incl. impaired	0.0	9.0	0.0	0.0	0.0		9.0
	0.0	**46.3**	**0.2**	**41.3**	**7.1**	**0.0**	**94.9**

31.12.16	Credit insti-tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	Accrued interest receivable	TOTAL
< 30 days	0.0	13.3	0.0	34.0	4.3	0.1	51.7
incl. impaired	0.0	0.0	0.0	0.0	0.0		0.0
30 < 60 days	0.0	4.8	0.0	4.1	0.5	0.0	9.4
incl. impaired	0.0	2.9	0.0	0.0	0.0		2.9
over 60 days	0.0	20.6	0.0	14.2	1.4	0.0	36.2
incl. impaired	0.0	14.1	0.0	0.0	0.0		14.1
	0.0	**38.7**	**0.0**	**52.3**	**6.2**	**0.1**	**97.3**

The table indicates the total exposure of the credit where part is overdue as of 31.12.17 and 31.12.16.

Maximum exposure to credit risk before collateral held or other enhancements
(millions of EUR)

	31.12.17	31.12.16
Loans and advances to credit institutions and central bank	1 182.1	1 234.2
Loans and advances to customers	4 734.1	4 337.5
Financial assets held for trading		
Derivative financial instruments	23.5	23.3
Financial assets designated at fair value through profit or loss at inception		
Debt securities	0.0	0.0
Available for sale financial assets		
Equity securities	7.4	9.3
Other assets	31.9	30.2
	5 979.0	**5 634.5**
Exposures related to off-balance sheet items and guarantees	1 257.6	1 096.3
Maximum exposure	7 236.6	6 730.8

Large exposures

	31.12.17		31.12.16	
	Number/ Amount	% from net own funds	Number/ Amount	% from net own funds
Number of customers with large exposures	6	-	4	-
Due from customers with large exposures (EUR mio)	527.7	55.05	294.4	31.15
Due from management board members and related persons (EUR mio)	0.4	0.04	2.2	0.23
	528.1	**55.09**	**296.6**	**31.39**
Own funds included in calculation of capital adequacy	958.6		945.0	

Large exposures contain due from central bank, credit institutions or customers (loans, interests, securities) and off-balance sheet commitments to central bank, credit institutions or customers, which may turn into claims.

The following is deducted from large exposures:
- claims to the parent company of the bank and their subsidiaries which are under the consolidated supervision of financial inspections of concerned states;
- state guaranteed study loans (credit risk 0%);
- due from central bank, central government and government authorities, which belong to a group with credit risk considered at 0%.

Large credit risk exposure is defined by the Credit Institutions Law and is the total exposure of one party or related parties to the group which exceeds 10% of the group's net own funds, 95.9 million euros as at 31.12.2017 (94.5 million euros as at 31.12.2016), see Note 2.8. All instruments where credit risk may arise to the group are taken into consideration. The limit of the total exposure of one party or related parties is 25%. As of 31.12.2017 the SEB Pank Group had 6 large risk exposures (4 large risk exposures in 31.12.2016). Total exposure of any group of related parties in did not exceed the limit of 25% in SEB Pank Group.

2.3. Market risk

Definition

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. A clear 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.

Risk management

Market risks in the trading book arise from bank’s customer-driven trading activity and in the liquidity portfolio. The liquidity portfolio, which is managed by the treasury function, is part of bank’s liquidity reserve and consists of investments in pledgeable and highly liquid bonds.

Market risk in the banking book arises as a result of balance sheet mismatches in currencies, interest terms and interest rate periods. The treasury function has overall responsibility for managing these risks.

The Supervisory Board defines how much market risk is acceptable by setting the overall market risk tolerance, risk limits and general instructions. The market risk tolerance and limits are defined for the trading book and banking book.

SEB Pank Group's market risk appetite is low. SEB Pank Group measures the risks using different methods of risk valuation and management pursuant to the type of risk. Important role in risk prevention is diversification of risk assets and limitation for trading positions.

Maximum limits approved by the committees, which are in compliance with the limits set by the Bank of Estonia, form the basis for controlling and monitoring the risk of various instrument portfolios.

The risk organisation measures, follows up and reports the market risk taken by the various units within the SEB Pank Group on a daily basis. The risk control function monitors limit compliance and market prices at closing as well as valuation standards and the introduction of new products. Market risks are reported at least on a monthly basis to the ALCO and on a quarterly bases to the Management and Supervisory Board.

Risk measurement

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

Value at Risk and Stressed Value at Risk

VaR expresses the maximum potential loss that could arise during a certain time period with a given degree of probability. SEB Pank Group 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 exposure for all risk types and covers a wide range of risk factors in all asset classes. SEB Pank Group also uses a stressed VaR measure, where VaR is calculated for the current portfolio using market data from a historic, turbulent time period covering the Lehman Brothers' default. The VaR model is validated using back-testing analysis.

A limitation of SEB Pank Group'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.

Value at Risk (10 day)
(millions of EUR)

	Min	Max	31.12.17	Average 2017	Average 2016
Trading book	0,00	0,06	0,02	0,03	0,03
Banking book	0,21	0,63	0,27	0,29	0,88

Stress tests and scenario analysis

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. SEB Pank Group 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 (hypothetical or forward-looking scenarios).
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.

Specific risk measures

VaR and stress tests are complemented by specific risk measures including Delta 1% for interest risk, and single and aggregated FX for currency risk.

In addition, all units that handle risk for financial instruments valued at market price are limited by a stop-loss limit. The stop-loss limit indicates the maximum loss a unit can incur before mitigating actions are taken.

2.3.1. Foreign exchange risk

Foreign exchange risk arises both through the SEB Pank's foreign exchange trading and because SEB Pank Group's activities are carried out in various currencies. SEB Pank Group's main objective for taking foreign exchange risk is to facilitate smooth foreign exchange trading for its customers and to manage the flows from customers' deals effectively. Together with the customers' deals related flows SEB Pank Group manages the structural foreign exchange risk inherent in the structure of the balance sheet and earnings.

Market risks arising from the foreign exchange positions are measured internally within the overall VaR framework. As a complement ALCO has set limits for open foreign currency positions by individual currencies and also on an aggregated level as a sum of long or short positions, depending of which one is higher on absolute terms. Management of open foreign currency positions is the responsibility of the Markets department, analysis and limit follow-up is performed by the Risk department.

The table below summarises SEB Pank Group's exposure to foreign currency exchange rate risk at the reporting date.

Currency position

(millions of EUR)

31.12.17	EUR	USD	SEK	Other currencies	TOTAL
ASSETS					
Cash and balances with central bank	1 047.5	1.0	1.0	1.7	1 051.2
Loans and advances to credit institutions	47.1	59.0	23.9	42.2	172.2
Loans and advances to customers	4 722.9	9.8	0.5	0.9	4 734.1
Securities	28.5	87.9	0.0	4.7	121.1
Other assets, intangible assets, property, plant and equipment	41.1	1.4	1.6	1.5	45.6
TOTAL ASSETS	**5 887.1**	**159.1**	**27.0**	**51.0**	**6 124.2**
LIABILITIES					
Due to credit institutions	1 186.1	18.3	3.6	6.5	1 214.5
Deposits	3 564.7	136.4	13.3	32.8	3 747.2
Other liabilities, financial liabilities at fair value through profit or loss, provisions	104.8	8.2	3.8	3.2	120.0
TOTAL LIABILITIES	**4 855.6**	**162.9**	**20.7**	**42.5**	**5 081.7**
Net on-balance sheet position	**1 031.5**	**-3.8**	**6.3**	**8.5**	**1 042.5**
FX derivatives (notionals, due from)	141.5	70.5	1.0	50.6	263.6
FX derivatives (notionals, due to)	137.1	65.4	6.2	54.9	263.6
Total position	1 035.9	1.3	1.1	4.2	1 042.5

31.12.16	EUR	USD	SEK	Other currencies	TOTAL
ASSETS					
Cash and balances with central bank	288.2	1.8	0.9	1.7	292.6
Loans and advances to credit institutions	688.2	231.8	21.1	42.2	983.3
Loans and advances to customers	4 322.2	13.5	0.7	1.1	4 337.5
Securities	23.4	89.3	0.0	7.5	120.2
Other assets, intangible assets, property, plant and equipment	36.4	3.2	1.1	1.1	41.8
TOTAL ASSETS	**5 358.4**	**339.6**	**23.8**	**53.6**	**5 775.4**
LIABILITIES					
Due to credit institutions	951.3	35.1	4.8	1.2	992.4
Deposits	3 335.1	301.6	11.9	38.4	3 687.0
Other liabilities, financial liabilities at fair value through profit or loss, provisions	90.7	14.0	3.5	1.9	110.1
TOTAL LIABILITIES	**4 377.1**	**350.7**	**20.2**	**41.5**	**4 789.5**
Net on-balance sheet position	**981.3**	**-11.1**	**3.6**	**12.1**	**985.9**
FX derivatives (notionals, due from)	105.5	36.0	2.2	62.0	205.7
FX derivatives (notionals, due to)	109.0	24.7	4.8	67.2	205.7
Total position	977.8	0.2	1.0	6.9	985.9

Other FX derivative assets and liabilities include currency-related derivatives and are shown here in their contractual nominal value. Net currency position was under 2% level of net own funds, 19.2 million euros as at 31.12.2017 (18.9 million euros as at 31.12.2016).

2.3.2. Interest rate risk

Interest rate risk refers to the risk that the value of SEB Pank Group's assets, liabilities and interest-related derivatives will be negatively affected by changes in interest rates or other relevant risk factors.

The majority of SEB Pank Group's interest rate risks are structural and arise within the banking operations when there is a mismatch between the interest fixing periods of assets and liabilities, including derivatives.

To measure interest rate risk SEB Pank Group uses the VaR model and Delta 1% methodology.

SEB Pank Group uses Delta 1% methodology for measuring the ALM (assets-liability mismatch) risk, arising from the structure of Assets exposed to interest rate risk (Financial Assets) and Liabilities exposed to interest rate risk (Financial Liabilities). Delta 1% is defined as the change in market value arising from an adverse one percentage unit parallel shift in all interest rates in each currency. Delta 1% method enables to effectively measure the impact of interest rate changes to Assets exposed to interest rate risk and Liabilities exposed to interest rate risk. Delta 1% should be kept within the limit set by the Management Board. Daily management of interest rate risk is the responsibility of the Treasury department, and measuring and analysing that of the Risk department.

As per year end, NetDelta 1% was -8.21 million euros (2016 Delta 1%: -7.44 million euros). 2017 average NetDelta 1% was -8.5 million euros (2016 average Delta 1% : -8.5 million euros). SEB Pank Group Delta 1% has been negative which means that the average duration of Assets exposed to interest rate risk is higher than average duration of Liabilities exposed to interest rate risk and SEB Pank Group is more exposed to interest rate increase. The biggest contributors to the Delta 1% figure are loans from the asset side and deposits and funding from the parent company from the liabilities side which balance the mismatch from loans. Further information on interest rate sensitivity can be found through table below "Exposure to interest rate risk by interest fixation period".

SEB Pank Group has been keeping assets-liabilities mismatch at relatively low level. Flexibility to assets-liabilities mismatch management is assured by the possibility to adjust funding from parent company.

The next table summarises SEB Pank Group exposure to interest rate risk. It includes SEB Pank Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity date.

Exposure to interest rate risk by interest fixation period
(millions of EUR)

31.12.17	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total	Statement of financial position
FINANCIAL ASSETS								
Due from central bank	1 010.0	0.0	0.0	0.0	0.0	0.0	1 010.0	1 009.9
Due from credit institutions	156.9	0.0	15.5	0.0	0.0	0.0	172.4	172.2
Due from customers	1 258.4	1 626.6	1 515.2	55.2	184.3	98.6	4 738.3	4 734.1
TOTAL FINANCIAL ASSETS	**2 425.3**	**1 626.6**	**1 530.7**	**55.2**	**184.3**	**98.6**	**5 920.7**	**5 916.2**
FINANCIAL LIABILITIES								
Due to credit institutions	563.8	251.5	202.9	94.8	81.3	20.1	1 214.4	1 214.5
Due to customers	3 606.1	23.6	79.6	2.4	28.6	6.6	3 746.9	3 747.2
TOTAL FINANCIAL LIABILITIES	**4 169.9**	**275.1**	**282.5**	**97.2**	**109.9**	**26.7**	**4 961.3**	**4 961.7**
Total interest repricing gap of on-balance sheet position	**-1 744.6**	**1 351.5**	**1 248.2**	**-42.0**	**74.4**	**71.9**	**959.4**	**954.5**
Derivative assets	137.4	17.3	111.6	1.4	2.0	0.3	270.0	23.5
Derivative liabilities	137.4	17.7	112.5	3.1	3.0	0.3	274.0	23.2
Total interest repricing gap	**-1 744.6**	**1 351.1**	**1 247.3**	**-43.7**	**73.4**	**71.9**	**955.4**	**954.8**

31.12.16	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total	Statement of financial position
FINANCIAL ASSETS								
Due from central bank	250.9	0.0	0.0	0.0	0.0	0.0	250.9	250.9
Due from credit institutions	937.5	37.9	7.8	0.0	0.0	0.0	983.2	983.3
Due from customers	1 257.1	1 636.7	1 214.2	38.2	108.7	86.4	4 341.3	4 337.5
TOTAL FINANCIAL ASSETS	**2 445.5**	**1 674.6**	**1 222.0**	**38.2**	**108.7**	**86.4**	**5 575.4**	**5 571.7**
FINANCIAL LIABILITIES								
Due to credit institutions	274.6	253.6	347.7	3.9	104.4	8.2	992.4	992.4
Due to customers	3 502.8	66.6	101.2	2.7	4.0	9.0	3 686.3	3 687.0
TOTAL FINANCIAL LIABILITIES	**3 777.4**	**320.2**	**448.9**	**6.6**	**108.4**	**17.2**	**4 678.7**	**4 679.4**
Total interest repricing gap of on-balance sheet position	**-1 331.9**	**1 354.4**	**773.1**	**31.6**	**0.3**	**69.2**	**896.7**	**892.3**
Derivative assets	52.6	34.7	12.0	111.6	3.0	0.6	214.5	23.3
Derivative liabilities	52.6	34.7	12.2	112.1	3.7	0.6	215.9	23.6
Total interest repricing gap	**-1 331.9**	**1 354.4**	**772.9**	**31.1**	**-0.4**	**69.2**	**895.3**	**892.0**

The table does not include the liabilities from factoring, commissions for loans and discounting of deposits.

2.3.3. Equity price risk

Equity price risk arises within market making and trading in equities and related instruments.

Market risk is measured using VaR model. Average 10-day VaR in equity portfolio was 0.001 million euros during 2017 (0.01 million euros during 2016). Trading portfolio size is internally limited by nominal limits and market risk (VaR) limit.

2.4. Concentration of risks

(millions of EUR)

Geographic concentration of assets and liabilities

31.12.17	Cash, balances with central bank, loans and advances to credit institutions	Loans and advances to custo-mers	Securi-ties	Other assets	Total assets	Due to credit institu-tions	Due to custo-mers	Other liabili-ties	Total liabili-ties	Contin-gent liabilities
Sweden	92.3	0.8	2.0	1.2	96.3	1 150.2	9.5	23.2	1 182.9	1.0
Estonia	1 051.3	4 705.7	26.7	40.3	5 824.0	47.8	3 634.9	95.1	3 777.8	1 239.0
United Kingdom	21.3	2.4	0.0	0.4	24.1	1.2	13.0	0.5	14.7	0.7
Russia	5.0	0.1	0.0	0.0	5.1	0.0	18.3	0.0	18.3	0.0
Germany	0.2	0.6	0.0	0.2	1.0	0.0	3.8	0.2	4.0	5.2
United States	0.0	0.6	3.1	1.1	4.8	0.1	2.2	0.0	2.3	0.0
Canada	0.0	0.1	0.0	0.0	0.1	0.0	0.4	0.0	0.4	0.0
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.0
Finland	0.1	5.9	0.0	0.1	6.1	0.7	8.7	0.1	9.5	6.6
Latvia	0.4	9.1	2.1	0.1	11.7	14.1	5.0	0.0	19.1	0.5
Lithuania	24.0	0.0	87.2	0.4	111.6	0.0	2.9	0.1	3.0	0.2
Luxembourg	0.5	0.0	0.0	0.0	0.5	0.1	0.0	0.1	0.2	0.0
Netherlands	0.0	0.3	0.0	0.0	0.3	0.0	2.1	0.0	2.1	0.0
Other Western Europe	5.2	8.0	0.0	0.3	13.5	0.3	34.7	0.3	35.3	1.7
Other Eastern Europe	4.3	0.0	0.0	0.1	4.4	0.0	3.7	0.0	3.7	1.0
Other countries	18.8	0.5	0.0	1.4	20.7	0.0	7.6	0.4	8.0	1.7
	1 223.4	**4 734.1**	**121.1**	**45.6**	**6 124.2**	**1 214.5**	**3 747.2**	**120.0**	**5 081.7**	**1 257.6**

31.12.16	Cash, balances with central bank, loans and advances to credit institutions	Loans and advances to custo-mers	Securi-ties	Other assets	Total assets	Due to credit institu-tions	Due to custo-mers	Other liabili-ties	Total liabili-ties	Contin-gent liabilities
Sweden	912.1	0.8	1.5	1.1	915.5	918.1	11.9	23.2	953.2	1.5
Estonia	292.8	4 314.6	29.6	34.7	4 671.7	47.3	3 357.5	85.4	3 490.2	1 060.7
United Kingdom	32.5	2.0	0.0	0.2	34.7	1.2	18.0	0.4	19.6	0.0
Russia	0.5	0.1	0.0	0.1	0.7	0.5	26.6	0.0	27.1	0.0
Germany	1.0	0.6	0.0	0.0	1.6	3.1	3.5	0.0	6.6	5.0
United States	7.9	0.5	2.4	1.2	12.0	1.4	13.5	0.0	14.9	0.0
Canada	0.0	0.1	0.0	0.0	0.1	0.1	0.9	0.0	1.0	0.0
Japan	0.0	0.1	0.0	0.0	0.1	0.0	0.5	0.0	0.5	0.0
Finland	0.0	3.8	0.0	0.0	3.8	0.0	7.0	0.1	7.1	3.6
Latvia	0.4	8.0	0.0	2.8	11.2	19.1	3.7	0.0	22.8	0.5
Lithuania	12.9	0.0	86.7	0.1	99.7	0.0	3.7	0.1	3.8	0.3
Luxembourg	1.7	0.0	0.0	0.0	1.7	0.8	0.0	0.0	0.8	0.0
Netherlands	0.0	0.2	0.0	0.0	0.2	0.0	0.7	0.0	0.7	14.3
Other Western Europe	3.3	5.9	0.0	0.4	9.6	0.8	46.0	0.2	47.0	6.5
Other Eastern Europe	3.0	0.0	0.0	0.0	3.0	0.0	5.4	0.0	5.4	0.0
Other countries	7.8	0.8	0.0	1.2	9.8	0.0	188.1	0.7	188.8	3.9
	1 275.9	**4 337.5**	**120.2**	**41.8**	**5 775.4**	**992.4**	**3 687.0**	**110.1**	**4 789.5**	**1 096.3**

Contingent liabilities include here guarantees and pledges, loan commitments, revocable transactions, stand-by loans, other revocable transactions and are presented in contract amount of contingent liabilities, detailed view in Note 31. Securities include here financial assets held for trading, financial assets designated at fair value through profit or loss at inception, available-for-sale financial assets, investments in associates.

Concentration of assets and liabilities by economic sector

31.12.17	In the statement of financial position: Cash and loans to central bank, credit institutions and customers	In the statement of financial position: Securities	Contingent liabilities
Finance	1 287.8	7.4	11.2
Real estate	751.4	0.0	67.0
Trading	382.7	0.0	168.7
Industry	361.1	0.0	149.4
Agriculture, fishing, forestry	176.9	0.0	12.8
Transport	158.1	0.0	75.2
Energy, gas and steam plants	127.3	0.0	270.7
Government and state defence	77.6	89.2	192.9
Mining	64.1	0.0	52.3
Hotels, restaurants	54.2	0.0	0.4
Administration and assistance	45.8	0.0	7.7
Construction	44.5	0.0	88.1
Health services, social work	42.0	0.0	4.3
Professional, science and technical work	39.4	0.0	20.7
Information and telecommunication	22.2	1.0	5.8
Art, show business, leisure	11.4	0.0	2.1
Water supply, canalisation, waste management	7.9	0.0	3.5
Education	7.0	0.0	7.3
Other government and social services	6.5	0.0	0.8
Private individuals	2 309.3	0.0	116.7
Derivatives	0.0	23.5	0.0
Allowances	-19.7	-	-
	5 957.5	**121.1**	**1 257.6**

31.12.16	In the statement of financial position Cash and loans to central bank, credit institutions and customers	Securities	Contin-gent liabilities
Finance	1 302.3	9.2	39.0
Real estate	784.5	0.0	55.9
Trading	397.1	0.0	194.6
Industry	243.8	0.0	128.5
Agriculture, fishing, forestry	176.2	0.0	12.3
Energy, gas and steam plants	132.7	0.0	111.4
Transport	113.0	0.0	32.5
Mining	70.7	0.0	51.0
Government and state defence	57.7	86.7	268.8
Hotels, restaurants	42.9	0.0	0.3
Professional, science and technical work	40.1	0.0	5.7
Construction	39.7	0.0	64.4
Health services, social work	38.0	0.0	7.4
Administration and assistance	33.7	0.0	7.2
Information and telecommunication	21.5	1.0	6.5
Art, show business, leisure	12.2	0.0	2.0
Education	9.2	0.0	5.9
Water supply, canalisation, waste management	6.3	0.0	2.0
Other government and social services	5.7	0.0	0.8
Private individuals	2 110.7	0.0	100.1
Derivatives	0.0	23.3	0.0
Allowances	-24.6	-	-
	5 613.4	**120.2**	**1 096.3**

2.5. Liquidity risk

Definition

Liquidity risk is the risk that SEB Pank 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 SEB Pank Group is forced to borrow at unfavourable rates or is forced to sell assets at a loss in order to meet its payment commitments.

Liquidity management and risk measurement

Liquidity management is guided by the liquidity strategy approved by the Supervisory Board. Management Board is responsible for implementing the liquidity strategy and has established liquidity risk policy and instructions. The aim of SEB Pank Group's liquidity risk management is to ensure that SEB Pank Group has a controlled liquidity risk situation, with adequate volumes of liquid assets to meet its liquidity requirements in all foreseeable circumstances, without incurring substantial cost.

The liquidity risk is managed through the limits set by the Supervisory Board.

Treasury is responsible for the daily liquidity risk management and financing. SEB Pank Group's liquidity management process includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets to fulfil mandatory reserve requirement;
- Monitoring liquidity gaps against internal limits; and
- Managing the concentration and profile of debt maturities.

Risk department measures, analyses, performs stress-testing and reporting of liquidity risk on a daily basis.

SEB Pank Groups' liquidity risk is regulated and managed on basis of the mandatory reserve of the Bank of Estonia and internal liquidity limits determined by the Management Board. Through different risk management activities, incl. stress-testing, existence of sufficient liquid assets is ensured.

In addition to cash-flow based methods also measures based on balance sheet structure are used for measuring liquidity risks. Liquidity risk is measured under normal market conditions and in liquidity crisis situation.

Structural liquidity risk

In order to maintain a sound structural liquidity position, the structure of the liabilities 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 Pank Group, 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.

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 Pank Group 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.

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 ILAAP 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.

Liquidity risk management measures

	31.12.17	31.12.16
Core Gap ratio	103%	111%
Loan to deposit ratio	127%	118%
Liquidity Coverage ratio	223%	187%

Retail deposits, which are stable to large extent, are the most important financing source for SEB Pank Group. Belonging to the international banking group gives AS SEB Pank additional assurance to manage long-term liquidity. Liquidity is managed in co-operation with SEB Group Treasury. Through the parent company AS SEB Pank has better access to the international money markets than on individual basis.

Next table presents the cash flows payable by SEB Pank Group under financial liabilities by remaining contractual maturity at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity risk (by remaining maturity)

(millions of EUR)

31.12.17	On demand and less than 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total	Carrying value in statement of financial position
Due to credit institutions	63.7	1.4	503.7	346.1	282.4	20.3	1 217.6	1 214.5
Due to customers	3 597.0	23.7	80.0	2.8	30.1	17.0	3 750.6	3 747.2
Other liabilities	93.3	1.4	1.2	0.4	0.5	0.0	96.8	96.8
Irrevocable off-balance sheet commitments	1 257.6	0.0	0.0	0.0	0.0	0.0	1257.6	0.0
Gross settled								
Derivatives inflow	-149.1	-18.8	-2.4	-110.6	-2.0	-0.3	-283.2	-23.5
Derivatives outflow	149.1	19.2	3.3	112.2	3.0	0.3	287.1	23.1
	5 011.6	**26.9**	**585.8**	**350.9**	**314.0**	**37.3**	**6 326.5**	**5 058.1**

31.12.16	On demand and less than 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total	Carrying value in statement of financial position
Due to credit institutions	74.7	52.1	549.8	4.5	305.9	8.2	995.2	992.4
Due to customers	3 492.5	67.0	101.7	3.1	5.3	20.7	3 690.3	3 687.0
Other liabilities	83.1	1.4	1.1	0.5	0.4	0.0	86.5	86.5
Irrevocable off-balance sheet commitments	1 096.3	0.0	0.0	0.0	0.0	0.0	1 096.3	0.0
Gross settled								
Derivatives inflow	-88.5	-36.0	-19.0	-111.6	-3.0	-0.6	-258.7	-23.2
Derivatives outflow	88.5	36.0	19.2	112.1	3.7	0.6	260.1	23.4
	4 746.6	**120.5**	**652.8**	**8.6**	**312.3**	**28.9**	**5 869.7**	**4 766.1**

Assets available to meet these liabilities include cash, central bank balances, loans and advances to credit institutions and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Group would also be able to meet unexpected net cash outflows by selling securities. Reporting date spot rate of European Central Bank is used for assets / liabilities in foreign currencies.

2.6. Operational risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems (e.g., breakdown of IT systems, mistakes, fraud, other deficiencies in internal control) or from external events (natural disasters, external crime, etc.). The definition includes conduct, compliance, legal and financial reporting, information security, security and venture execution risk, but excludes strategic and reputational risk.

Risk management

Operational risk is inherent in all of SEB Pank Group's operations and the responsibility to manage operational risks rests with all managers throughout the bank. SEB Pank Group 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. 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 Pank Group from entering into unintended risk-taking that cannot be immediately managed by the organisation.

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 designed to identify and mitigate significant operational risks embedded in SEB Pank Group's various business and support processes. There is comprehensive participation by each business unit throughout the organisation. The RCSA framework is used to analyse SEB Pank Group's operational risk profile and help achieve operational excellence and high performance.

SEB Pank Group ensures that the organisation is prepared to respond to and operate throughout a period of major disruption by identifying critical activities and maintaining updated and tested business continuity plans in a group-wide system for this purpose.

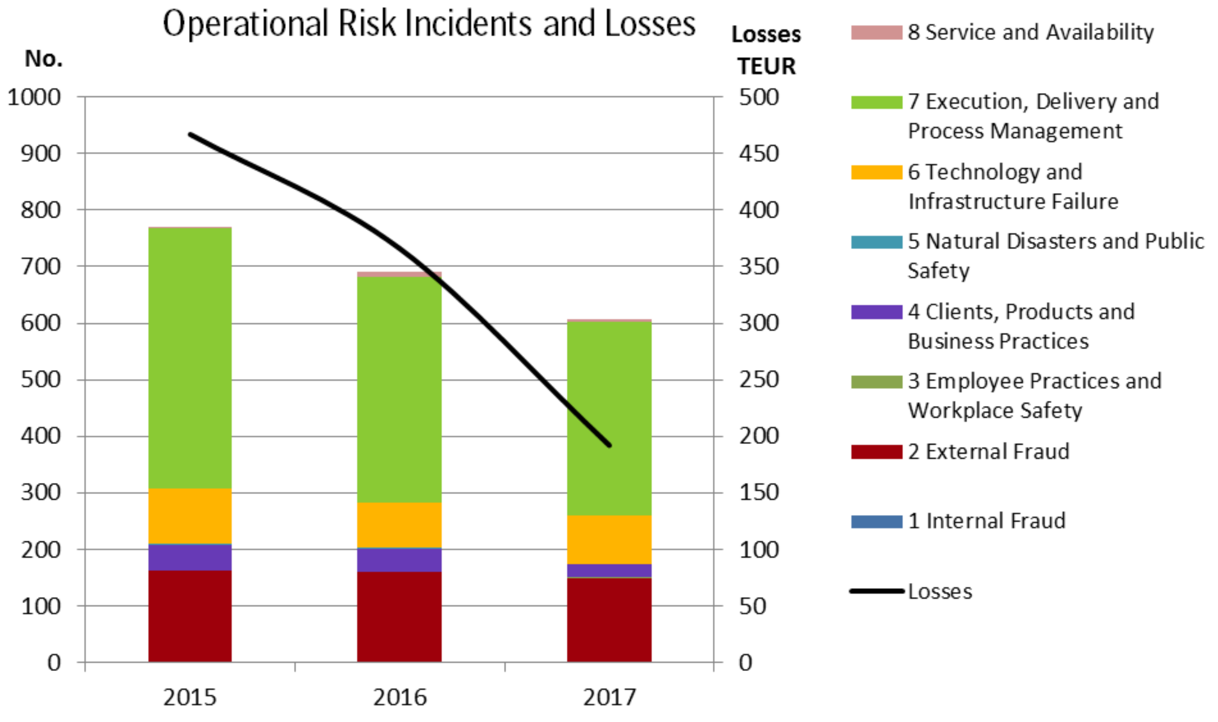
All employees are required to escalate and register risk-related events or incidents so that risks can be properly identified, assessed, monitored, mitigated and reported. SEB Pank Group uses a group-wide IT application to capture risk events and other operational risk data for analysis.

SEB Pank Group 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 Pank Group also has a formal whistle-blower procedure that encourages employees to report improprieties and unethical or illegal conduct.

The risk department is responsible for measuring and reporting SEB Pank Group's operational risks. The risk level is analysed and reported monthly to the ALCO and on a quarterly basis to the Management and Supervisory Board. The total operational losses in 2017 amounted to 192 thousand euros (2016: 363 thousand euros).

Risk measurement

SEB Pank Group uses the Advanced Measurement Approach (AMA) to calculate the regulatory capital requirement for operational risk. The regulatory capital requirement for operational risk amounted to 10,7 million euros at year-end 2017 (2016: 9,6 million euros).



2.7. Fair value of financial assets and liabilities
(millions of EUR)

A) Financial instruments measured at fair value

	31.12.17				31.12.16			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets at fair value through profit and loss								
Financial assets held for trading	**0.1**	**23.5**	**0.0**	**23.6**	**0.0**	**23.3**	**0.0**	**23.3**
Equity securities	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Derivatives	0.0	23.5	0.0	23.5	0.0	23.3	0.0	23.3
Financial assets designated at fair value through profit or loss at inception	**89.2**	**0.0**	**0.0**	**89.2**	**86.7**	**0.0**	**0.0**	**86.7**
Debt securities	89.2	0.0	0.0	89.2	**86.7**	**0.0**	**0.0**	**86.7**
Available for sale financial assets	**4.1**	**0.0**	**3.2**	**7.3**	**6.9**	**0.0**	**2.4**	**9.3**
Investment securities - equity	4.1	0.0	3.2	7.3	6.9	0.0	2.4	9.3
TOTAL ASSETS	**93.4**	**23.5**	**3.2**	**120.1**	**93.6**	**23.3**	**2.4**	**119.3**
Financial liabilities at fair value through profit and loss								
Financial liabilities held for trading	0.0	23.2	0.0	23.2	0.0	23.6	0.0	23.6
TOTAL LIABILITIES	**0.1**	**23.2**	**0.0**	**23.3**	**0.0**	**23.6**	**0.0**	**23.6**

In 2015, Visa Inc. announced its planned acquisition of Visa Europe (a membership-owned organisation) with the purpose of creating a single global Visa company. The transaction was approved by the European Commission on 3 June 2016. It consists of a combination of consideration in cash and shares. SEB Pank was a Principal member of Visa Europe.

As part of this transaction, members sold their ownership interest in Visa Europe to Visa Inc. and received cash and shares as described in the transaction agreement. The transaction closed in June 2016. AS SEB Pank received one-off income from transaction in amount 16,3 million euros. As of now, VISA Inc. forms a global card organisation, which continues servicing its members and their customers with a purpose of offering even more efficient and state-of-art service throughout the world.

Adjustment of counterparty credit risk, included in value of OTC derivatives.

The change implies an adjustment for counterparty credit risk (Credit Value Adjustment, CVA). This adjustment is relevant for OTC derivatives with a positive value classified in Level 2 and 3 of the fair value hierarchy where credit risk is typically not reflected in the pricing models. Changes attributable to the CVA effect in amount of +0,5 million euros has been be recognised as Net financial income in the income statement 2017, (2016: +0,3 million euros).

Debit value adjustment, (DVA) applied for derivatives with negative value. DVA incorporated into the value of financial liabilities recorded at fair value to reflect the impact of AS SEB Pank´s own credit quality, if this is not included in market prices or inputs in valuation models. The valuation adjustment is relevant to derivative liabilities in Level 2 and 3 in the fair value hierarchy. Changes attributable to DVA effect in amount of -0,2 million euros has been recognised as Net financial income in the income statement 2017, (2016: -0,1 million euros).

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges but also instruments quoted by market participants.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like Euro yield curve or counterparty credit risk are Bloomberg and Thomson Reuters. Valuation principales of currency and interest rate derivatives are described under subtitle "Derivatives" in Note 1.6.2.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Reconciliation of Level 3 Items	Available-for-sale financial assets	
	Investment securities - equity	Total
At 1 January 2016	**12.2**	**12.2**
Disposals	-11.9	-11.9
Purchases	2.2	2.2
Settlements	-0.1	-0.1
At 31 December 2016	**2.4**	**2.4**
Total losses for the period included in profit or loss for assets/liabilities held at 31.12.16	0.0	0.0
At 1 January 2017	**2.4**	**2.4**
Other comprehensive income	0.7	0.7
Purchases	0.1	0.1
At 31 December 2017	**3.2**	**3.2**
Total losses for the period included in profit or loss for assets/liabilities held at 31.12.17	0.0	0.0

B) Financial instruments not measured at fair value

	31.12.17		31.12.16	
	Carrying value	Fair value, Level 3	Carrying value	Fair value, Level 3
ASSETS				
Loans and advances to credit institutions	172.2	172.2	983.3	983.3
Loans and advances to customers	4 734.1	4 668.1	4 337.5	4 248.7
Loans to Corporates	*2 362.6*	*2 375.2*	*2 169.6*	*2 172.5*
Loans to households	*2 371.5*	*2 292.9*	*2 167.9*	*2 076.2*
Other assets	32.0	32.0	30.1	30.1
TOTAL ASSETS	**4 938.3**	**4 872.3**	**5 350.9**	**5 262.1**
LIABILITIES				
Due to credit institutions	1 214.5	1 214.6	992.4	989.2
Due to customers	3 747.2	3 748.8	3 687.0	3 689.3
Due to Corporates	*2 015.3*	*2 017.0*	*2 113.8*	*2 116.3*
Due to households	*1 731.9*	*1 731.8*	*1 573.2*	*1 573.0*
Other financial liabilities	96.8	96.8	86.5	86.5
TOTAL LIABILITIES	**5 058.5**	**5 060.2**	**4 765.9**	**4 765.0**

AS SEB Pank conducts assessment of fair value of financial assets and liabilities which are not presented in the Group's statement of financial position at their fair value. All financial instruments not measured at fair value are specified at Level 3 in hierarchy of valuation of fair value, because of using unobservable inputs.

When calculating fair value for floating interest rate loans and for fixed-interest rate lending, future cash flows are discounted based on the market interest curve, which has been adjusted for applicable margins of new lending. Fixed-interest rate deposits, floating interest rate and fixed-interest rate balances due to credit institutions, have been calculated similarly.

As of reporting date fair value of loans and advances to customers was 1.39% lower (31.12.2016: 2.05% lower) than the carrying amount. Fair value of balances due to credit institutions was 0.01% higher (31.12.2016: 0.33% lower) than the carrying amount. Fair value of balances due to customers was 0.04% higher (31.12.2016: 0.06% higher) than the carrying amount.

2.8. Capital requirements

The SEB Pank Group`s Own funds in amount of 958,6 million euros (2016: 945,0 million euros) consists:

1. Tier 1 Capital 958,6 million euros (2016: 945,0 million euros);
2. Tier 2 Capital 0,0 million euros (2016: 0,0 million euros).

The Group`s Tier 1 capital consists of the sum of the Common Equity Tier 1 (CET 1) capital, which includes the following items: Capital instruments eligible as CET 1, Retained earnings formally confirmed, Accumulated other comprehensive income, Other reserves and Adjustments.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital: net-owners' equity must be over 5 million euros, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above minimum of 8%, Tier 1 capital ratio above minimum 6% and CET 1 capital ratio above minimum 4,5%.

In addition the Authority requires Capital Conservation buffer 2,5%, Systemic risk buffer 2%, Other Systemically Important Institution buffer 1%, Counter-cyclical capital buffer (separately calculated amount).

According to Investment Funds Act, the share capital of a management company shall be equivalent to at least 3 million euros, if the management company manages a mandatory pension fund (AS SEB Varahaldus).

SEB Pank Group is compliant with all capital requirements. The SEB Pank Group have strategies and corresponding procedures in order to continuously maintain an adequate level of own funds on the level of the risks assumed by the Group.

<u>Internal Capital Adequacy Assessment Process</u>

Internal Capital Adequacy Assessment Process ("ICAAP") is part of the SEB Group's ICAAP. The ICAAP is a continuous work process within SEB. Ahead of the annual reporting to the Swedish Finansinspektionen (FI) and to local Financial Supervisory Authorities, a more concentrated ICAAP project starts. The yearly recurring process normally starts during Q4 and ends during the following Q1. Each year's ICAAP planning including deliveries and deadlines is communicated by Group Financial Management to responsible parties in key subsidiaries, including AS SEB Pank. Typically, at the end of January every year the responsible person, Head of Treasury, has to send the first draft of their ICAAP document to Group Financial Management. At the end of February Group Financial Management should receive the final version including comments on issues raised by Group Financial Management.

The ICAAP Framework shall be approved by SEB Pank Management Board (the Management Board) and by the SEB Pank Supervisory Council (Council). ICAAP Framework is revised on a yearly basis. The framework will be maintained by SEB Pank Treasury in coordination with SEB Group Financial Management. Any changes or amendments need to be approved by the Management Board and Council and are to be proposed by SEB Pank Treasury after coordination with SEB Group Financial Management. The focus of SEB Group Financial Management and SEB Group Risk Control lies on methodology, while SEB Pank Treasury focuses on processes, monitoring, reporting and compliance with Estonian regulations.

2.9. Internal control system

Internal control system is a management tool that covers the activities of the entire banking Group and forms an integral part of the internal processes in the bank and in the Group. The responsibility for the establishment and operation of internal control system lies with the Management Board; the need for and the scope of controls is determined by the extent and nature of the risks involved.

The bank's Supervisory Board carries out supervision of the activities of the bank and the entire Group by establishing the general risk management principles.
To achieve the approved business goals, the Management Board of the bank establishes in accordance with the statutory requirements the necessary sub-plans, incl. competence and scope of liability as well as the internal rules that regulate activities, the accounting rules and the procedure for preparing and submitting operating reports.

2.10. Control functions

The Group has three control functions which are independent from the business operations: Risk Control, Compliance and Internal Audit.

The Group's risk control function responsibilities are to ensure that risks are identified and analysed and to measure, follow-up and report risks taken by units within the Group (see further on Notes 2.1-2.8). Risk Control function is performed by Risk department and is subordinated to the Head of Credits and Risk, Member of the Management Board. Risk Control function is reporting regularly risks that may have material impact on SEB Pank Group's financial position or operations directly to the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and ALCO.

The Compliance function in SEB Pank Group is global and independent from the business organisation. Its tasks are to mitigate compliance risks, ensure compliance quality, drive and promote compliance issues. Compliance Department, directly subordinated to the Chairman of the Management Board, supports the business and management by securing that the business in SEB Pank Group is carried out in compliance with regulatory requirements. In matters of common interest, Compliance co-operates with the Legal, Internal Audit, Risk Department and Security functions. The areas of responsibility for the Compliance function relate to areas of customer protection, market conduct, prevention of money laundering and terrorist financing, regulatory systems and controls. The SEB Pank Group's instruction for the handling of conflicts of interests, market abuse instruction, instruction on measures to prevent money laundering, Code of Conduct are of special importance.

The Internal Audit is an independent assurance function commissioned by the Supervisory Board. The Internal Audit is reporting to the Supervisory Board through the Audit and Compliance Committee, which co-ordinates the Internal Audit and Compliance work in accordance with the group's business objectives and overall risk assessment. The Internal

Audit is an integral part of SEB Group Internal Audit and functionally, the Head of Internal Audit reports to the Head of Group Internal Audit.

The Internal Audits purpose is to provide reliable and objective assurance to the Supervisory Board and Audit and Compliance Committee over the effectiveness of controls, risk management and governance processes mitigating current and evolving high risks and in doing so promoting a sound control culture within the SEB Pank Group.

Notes 3 - 34 to Consolidated Financial Statements

(millions of EUR)

3. Interest and similar income

	2017	2016
Loans and deposits	81.1	76.7
Leasing	14.2	13.3
Deposits with other banks	1.6	1.7
Fixed income securities	1.4	0.2
Other	1.5	0.0
	99.8	**91.9**

4. Interest expenses and similar charges

	2017	2016
Credit institutions	-1.6	-0.5
Time and other saving deposits	-0.7	-1.3
Demand deposits	-0.3	-1.7
From balances with central bank and credit institutions	-3.8	-2.9
Other	-3.1	-2.6
	-9.5	**-9.0**

5. Fee and commission income

	2017	2016
Payment cards related commissions	22.7	22.2
Securities market services *	10.9	10.8
Transaction fees	5.0	5.0
Credit contracts**	3.9	4.0
Insurance brokerage fees	4.4	3.6
Other settlement fees	6.4	6.0
Income from leasing agreements (full service)	0.7	0.7
Income from electronic channels	2.7	1.5
Cash handling fees	0.6	0.6
Commodity futures fees	0.2	0.3
Other	6.5	5.3
	64.0	**60.0**

* Securities market services includes asset management fees of investment funds and securties portfolios, custody services, advisory fees and other with securities transactions related fees.

** Credit contracts include loan, leasing, letter of credit and guarantee contracts, which are short-term and do not constitute interest income, but are of administrative nature for arrangement or reorganisation of credits.

6. Fee and commission expense

	2017	2016
Credit and payment cards	-10.2	-10.1
Cash collecting fees	-1.2	-1.1
Expenses to leasing agreements (full service)	-0.7	-0.7
Securities market	-1.8	-1.6
Transaction fees	-0.9	-1.1
Expenses of electronic channels	-0.4	0.0
Other	-1.1	-1.0
	-16.3	**-15.6**

7. Net income from foreign exchange

	2017	2016
Gain (loss) from transactions	4.6	5.0
Currency translation differences	0.2	-0.3
	4.8	**4.7**

8. Gains less losses from financial assets at fair value through profit or loss

	2017	2016
Gain (loss) from trading securities	**0.2**	**0.3**
Gain (loss) from fixed income securities	0.2	0.3
Derivatives	**1.0**	**0.5**
Equity derivatives	0.0	0.1
Interest derivatives	1.0	0.4
	1.2	**0.8**

Respective assets are disclosed in Notes 16 and 31.

9. Other income

	2017	2016
Gains on sales of assets	0.0	0.1
Rental income	0.6	0.5
Penalties	0.1	0.1
Other income	0.6	0.5
	1.3	**1.2**

10. Personnel expenses

	2017	2016
Personnel expenses*	-27.5	-27.8
Social security expenses**	-8.8	-8.9
Other personnel expenses (hiring, training)	-1.7	-1.7
	-38.0	**-38.4**

* Costs related to the Long Term Incentive programmes are booked under personnel expenses in total amount 0.6 EUR mio in 2017 (0.7 EUR mio in 2016). These programmes are the Share Deferral Program (SDP) and the Share Matching Program (SMP) (Note 1.18).

** Social security tax payments include contribution to state pension funds. The Group has no legal or constructive obligation to make pension or similar payments beyond social security tax.

11. Other expenses

	2017	2016
Rooms rent	-5.4	-9.4
Premises cost (utilities)	-2.2	-2.3
IT related expenses	-1.6	-1.9
Advertising and marketing	-1.7	-1.7
Other administrative cost	-2.9	-2.4
Information services	-0.5	-0.9
Other operating expenses	-1.4	-0.9
	-15.7	**-19.5**

Future minimum lease payments under non-cancelable operating leases	**< 1 years**	**1 < 5 years**	**> 5 years**
2017			
Operational lease for premises	4.1	15.8	20.1
2016			
Operational lease for premises	5.1	13.8	23.2

12. Impairment losses on loans and advances

2017	Credit insti-tutions	Corporates	Housing loans	Other loans to Private individuals	Seized assets	TOTAL
Impairment losses	**0.0**	**3.7**	**1.2**	**0.1**	**0.0**	**5.0**
impairment losses of reporting period (Note 15)	0.0	-0.1	0.0	-0.4	0.0	-0.5
recoveries from writeoffs (Note 15)	0.0	0.4	0.2	0.5	0.0	1.1
decreasing of impairment losses of previous period (Note 15)	0.0	3.4	1.0	0.0	0.0	4.4
Impairment losses for contingent liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	0.0	**3.7**	**1.2**	**0.1**	**0.0**	**5.0**

2016	Credit insti-tutions	Corporates	Housing loans	Other loans to Private individuals	Seized assets	TOTAL
Impairment losses	**0.0**	**-0.1**	**0.9**	**0.5**	**0.0**	**1.3**
impairment losses of reporting period (Note 15)	0.0	-3.1	0.0	0.0	0.0	-3.1
recoveries from writeoffs (Note 15)	0.0	1.2	0.3	0.5	0.0	2.0
decreasing of impairment losses of previous period (Note 15)	0.0	1.8	0.6	0.0	0.0	2.4
Impairment losses for contingent liabilities	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**
	0.0	**0.0**	**0.9**	**0.5**	**0.0**	**1.4**

Decrease of impairment losses of previous periods resulted, among other things, from:
- continued favorable economic environment, which led to improved credit quality in all portfolios, as well as real estate collateral value growth;
- continuous improvements in credit monitoring, validation and forbearance processes.

During 2017 there have been no changes in loan allowance principles.

13. Balances with central bank

	31.12.17	31.12.16
Demand deposits	1 010.0	250.9
incl -mandatory reserve requirement	44.2	40.9
-demand deposits, cash equivalents	965.8	210.0
Accrued interest	-0.1	0
	1 009.9	**250.9**

Mandatory reserve deposits are available for use by the Group's day-to-day business. Mandatory reserve bears interest at 0 % and the nonmandatory part of reserve (demand deposits) -0,4%. In 2017 the Group interest expenses were in amount of -0.9 thousand EUR (In 2016 expenses were in amount of -0.8 thousand EUR).

14. Loans and advances to credit institutions

	31.12.17	31.12.16
Demand deposits	113.1	924.7
Time deposits	23.9	50.7
Other	35.4	7.8
Accrued interest	-0.2	0.1
	172.2	**983.3**
Due from credit institutions, registered in EU (except Estonia)	144.6	964.5
Due from credit institutions, registered in Estonia	0.1	0.2
Due from credit institutions, registered in other countries	27.5	18.6
	172.2	**983.3**

All due from credit institutions belongs to the risk class 10 or better.

15. Loans and advances to customers

	31.12.17	31.12.16
Loans to Corporates	2 305.9	2 123.4
Public sector	127.0	112.7
Housing loans	2 004.1	1 833.4
Other loans to Private individuals	297.1	268.0
	4 734.1	**4 337.5**
Due from customers, registered in EU (except Estonia)	20.3	20.7
Due from customers, registered in Estonia	4 705.7	4 314.6
Due from customers, registered in other countries	8.1	2.2
	4 734.1	**4 337.5**

Loan portfolio by economic sector presented in Note 2 "Risk policy and management", on page 64.
Due from customers by currency is presented in Note 2, on page 60.
Due from customers by maturity is presented in interest restatement by maturity on page 67.
Past due is presented in Note 2, on page 56.
Geographic concentration of assets and liabilities is presented in Note 2, on page 63.

Loans and advances to customers by remaining maturity

	Less than 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
31.12.17	232.2	837.3	2 043.0	568.1	1 053.5	4 734.1
31.12.16	244.4	685.6	1 939.2	524.6	943.7	4 337.5

Gross and net investments on finance leases

	31.12.17	31.12.16
Gross investment	**617.5**	**541.4**
up to 1 year	196.1	176.2
1 - 5 years	409.6	356.2
over 5 years	11.8	9
Unearned future finance income on finance leases (-)	**-22.4**	**-20.1**
Net investment in finance leases*	**595.1**	**521.3**
up to 1 year	187.2	167.9
1 - 5 years	396.4	344.7
over 5 years	11.5	8.7

* Net investment in finance leases are presented above on lines: Leases to Corporates, Public sector, Housing loans, Other loans to Private individuals.

	31.12.17	31.12.16
Net investment in finance leases by interest rates	**595.1**	**521.3**
<= 5%	593.4	519.2
5-10%	1.7	2.1

	31.12.17	31.12.16
Net investment in finance leases by base currencies	**595.1**	**521.3**
EUR	595.1	521.3

Allowances for impaired debt

2017	Credit insti-tutions	Corporates	Housing loans	Other loans to Private individuals	TOTAL
At the beginning of period (January, 1)	**0.0**	**15.2**	**7.6**	**1.8**	**24.6**
Allowances of reporting period (Note 12)	0.0	0.1	0.0	0.4	0.5
Decreasing of allowances of previous period (Note 12)	0.0	-3.4	-1.0	0.0	-4.4
Loans and advances written off	0.0	-0.2	-0.5	-0.3	-1
	0.0	0.0	0.0	0.0	0
At the end of period (December, 31)	**0.0**	**11.7**	**6.1**	**1.9**	**19.7**
Recoveries from write-offs (Note 12)	0.0	-0.4	-0.2	-0.5	-1.1

2016	Credit insti-tutions	Corporates	Housing loans	Other loans to Private individuals	TOTAL
At the beginning of period (January, 1)	**0.0**	**16.3**	**10.5**	**2.2**	**29.0**
Allowances of reporting period (Note 12)	0.0	3.1	0.0	0.0	3.1
Decreasing of allowances of previous period (Note 12)	0.0	-1.8	-0.6	0.0	-2.4
Loans and advances written off	0.0	-2.4	-2.3	-0.4	-5.1
At the end of period (December, 31)	**0.0**	**15.2**	**7.6**	**1.8**	**24.6**
Recoveries from write-offs (Note 12)	0.0	-1.2	-0.3	-0.5	-2.0

16. Financial investments

	31.12.17	31.12.16
Financial assets held for trading	**23.6**	**23.4**
Securities held for trading	0.1	0.0
Shares and fund participations	0.1	0.0
incl. listed	0.1	0.0
Derivatives (Note 31)	23.5	23.4
Financial assets designated at fair value through profit or loss at inception	**89.2**	**86.7**
Debt securities (all S&P rating AA)	89.2	86.7
Available for sale financial assets	**7.3**	**9.3**
Shares and fund participations*	7.3	9.3
Total	**120.1**	**119.4**

Securities of entities, registered in EU (except Estonia)	91.3	88.2
Securities of entities, registered in Estonia	25.7	28.8
Securities of entities, registered in other countries	3.1	2.4
	120.1	**119.4**

Generally financial investments are revalued in fair value based on active market quotations.

* Includes participations in pension funds managed by AS SEB Varahaldus in the total value of 4.2 EUR mio (2016 6.9 EUR mio), ownership of which is required (1-2% of the specific managed fund) according to the Investment Fund's Act.

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Movements of financial investments

	Financial assets held for trading	Derivatives (Note 31)	Financial assets designated at fair value through profit or loss at inception	Available-for-sale financial assets	TOTAL
At the beginning of period (31.12.15)	**0.0**	**28.3**	**0.0**	**18.3**	**46.6**
Acquisitions	655.5	0.0	85.7	2.9	744.1
Disposals and redemptions	-655.5	0.0	-1.8	0.0	-657.3
Changes of value	0.0	-1.3	1.3	-11.9	-11.9
Changes of currency rate	0.0	-3.6	1.5	0.0	-2.1
At the end of period (31.12.16)	**0.0**	**23.4**	**86.7**	**9.3**	**119.4**
At the beginning of period (31.12.16)	**0.0**	**23.4**	**86.7**	**9.3**	**119.4**
Acquisitions	742.8	0.0	81.5	0.1	824.4
Disposals and redemptions	-742.7	0.0	-69.3	-2.5	-814.5
Changes of value	0.0	-3.0	0.7	0.7	-1.6
Changes of currency rate	0.0	3.1	-10.4	-0.3	-7.6
At the end of period (31.12.17)	**0.1**	**23.5**	**89.2**	**7.3**	**120.1**

17. Other assets

	31.12.17	31.12.16
Client receivables	15.5	13.9
Trade receivables	1.5	4.4
	17.0	**18.3**

All other assets are mainly short term financial assets and do not bear significant credit risk.

18. Accruals and prepaid expenses

	31.12.17	31.12.16
Prepaid taxes	1.2	1.2
Prepaid expenses	13.8	10.6
	15.0	**11.8**

19. Investments in associates

Movements of investments in associates

	At the beginning of period	Disposals and redemp-tions	Profit from equity method	Paid dividends	At the end of period
2017	**0.8**	0.0	0.2	0.0	**1.0**
2016	**0.8**	0.0	0.0	0.0	**0.8**

Associated companies

	Nominal value	Assets	Liabili-ties	Total revenues	AS SEB Pank in calculated profit/-loss	Balance value	Owner-ship, %
2017							
SK ID Solutions AS	without nominal value	7.1	3.0	6.0	0.2	1.0	25.00%
Total		**7.1**	**3.0**	**6.0**	**0.2**	**1.0**	
2016							
SK ID Solutions AS	without nominal value	5.1	1.9	4.4	0.0	0.8	25.00%
Total		**5.1**	**1.9**	**4.4**	**0.0**	**0.8**	

Acquisitions, disposals and merging of associated companies and subsidiaries

Acquisitions

No acquisitions occurred in 2017 and 2016.

Disposals

No disposals occurred in 2017. In 31.05.2016 an associate Tieto Estonia Services OÜ was sold (20% ownership held by AS SEB Pank).

20. Intangible assets

At the beginning of period (01.01.16)	
Cost	8.2
Accumulated amortisation	-6.3
Carrying value	**1.9**
Opening carrying value	**1.9**
Additions	1.6
Acquisition cost of sold assets	0.0
Amortisation charge	-0.6
Closing carrying value	**2.9**
At end of period (31.12.16)	
Cost	8.5
Accumulated amortisation	-5.6
Carrying value	**2.9**
At the beginning of period (01.01.17)	
Cost	8.5
Accumulated amortisation	-5.6
Carrying value	**2.9**
Opening carrying value	2.9
Additions	2.6
Impairment charge (carrying value)	-0.8
Amortisation charge	-0.8
Closing carrying value	**3.9**
At end of period (31.12.17)	
Cost	9.7
Accumulated amortisation	-5.8
Carrying value	**3.9**

21. Property, plant and equipment

	Buildings	Other tangible assets	Total
At the beginning of period (01.01.16)			
Cost	6.2	23.5	29.7
Accumulated depreciation	-3.1	-17.3	-20.4
Carrying value	**3.1**	**6.2**	**9.3**
Opening carrying value	**3.1**	**6.2**	**9.3**
Additions	0.3	4.2	4.5
Impairment charge (carrying value)	-0.2	-0.2	-0.4
Depreciation charge	-0.6	-2.3	-2.9
Reclassification	0.0	-1.7	-1.7
Closing carrying value	**2.6**	**6.2**	**8.8**
At end of period (31.12.16)			
Cost	5.9	23.6	29.5
Accumulated depreciation	-3.3	-17.4	-20.7
Carrying value	**2.6**	**6.2**	**8.8**
Opening carrying value	**2.6**	**6.2**	**8.8**
Additions	0.0	4.0	4.0
Impairment charge (carrying value)	0.0	0.0	0.0
Depreciation charge	-0.3	-2.5	-2.8
Reclassification	-2.3	2.0	-0.3
Closing carrying value	**0.0**	**9.7**	**9.7**
At end of period (31.12.17)			
Cost	0.0	30.5	30.5
Accumulated depreciation	0.0	-20.8	-20.8
Carrying value	**0.0**	**9.7**	**9.7**

22. Due to credit institutions

	31.12.17	31.12.16
Demand deposits	63.4	73.2
Time deposits and loans (remaining maturity up to 1 year)	0.0	1.5
Time deposits and loans (remaining maturity more than 1 year)	1 151.0	917.8
Accrued interest payable to credit institutions	0.1	-0.1
	1 214.5	**992.4**

	31.12.17	31.12.16
Due to credit institutions, registered in EU (except Estonia)	1 166.5	942.9
Due to credit institutions, registered in Estonia	47.8	47.3
Due to credit institutions, registered in other countries	0.2	2.2
	1 214.5	**992.4**

1150.1 EUR mio as at 31.12.2017 and 916,0 EUR mio as at 31.12.2016 were due from group to parent bank Skandinaviska Enskilda Banken AB (publ) (Note 33).

23. Due to customers

	31.12.17	31.12.16
Demand deposits	3 405.6	3 313.3
Time deposits and other saving deposits	325.0	338.3
Investment deposits (index-linked)	0.6	16.1
Loan funds	15.7	18.6
Accrued interest payable to customers	0.3	0.7
	3 747.2	**3 687.0**
Non-residents	112.3	329.5
Residents	3 634.9	3 357.5
	3 747.2	**3 687.0**
Due to customers by type of customer		
Due to corporate customers	1691.6	1796.4
Public sector	323.7	317.4
Due to households	1 731.9	1573.2
	3 747.2	**3 687.0**
Due to customers, registered in EU (except Estonia)	65.3	80.6
Due to customers, registered in Estonia	3 634.9	3 357.5
Due to customers, registered in other countries	47.0	248.9
	3 747.2	**3 687.0**

Due from customers by currency is presented in Note 2, on page 60.

Due from customers by maturity is presented in interest restatement by maturity on page 67.

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Customer assets under management of the group

As of 31.12.2017 the customer securities portfolios under management of the group amounted to 61.5 million euros (no more portfolios of SEB Elu- ja Pensionikindlustus included because SEB Elu- ja Pensionikindlustus started to manage his investment portfolios by itself). The total volume of aforementioned portfolios as 31.12.2016 179.7 million euros (including 114.3 million euros in portfolio of SEB Elu- ja Pensionikindlustus). Commission fee is received from management of these portfolios and no credit or market risk is born by the group.

As at 31.12.2017 the group's asset management company belonging to the Group (AS SEB Varahaldus) managed 7 pension funds (i.e. 5 mandatory pension funds and 2 voluntary pension fund) with total volume of 734.3 million euros. As at 31.12.2016 AS SEB Varahaldus managed 11 investment and pension funds (i.e. 5 open-end investment funds, 4 mandatory pension funds and 2 voluntary pension fund) with total volume of 652 million euros. Investment management service was also performed to the SEB (parent Group) Eastern-European funds (4 funds): total volume 676.8 million euros as at 31.12.2017, 733.6 million euros as 31.12.2016.

24. Other liabilities

	31.12.17	31.12.16
Client payables	77.4	67.5
Trade payables	1.3	1.1
	78.7	**68.6**

25. Accrued expenses and prepayments

	31.12.17	31.12.16
Tax debts	2.1	2.1
Accrued expences	9.4	10.9
Other liabilities	6.6	4.9
	18.1	**17.9**

26. Financial liabilities at fair value through profit or loss

	31.12.17	31.12.16
Derivatives (Note 31)	23.2	23.5
	23.2	**23.5**

AS SEB Pank has not had any security instruments in a public market since 16.06.2009. Therefore also segment analysis according to IFRS 8 is not described.

27. Provisions

	Provisions total
Provisions as at 01.01.16	**0.4**
Amounts used and unused amounts reversed	-0.3
Provisions as at 31.12.16	**0.1**
Provisions as at 01.01.17	**0.1**
Amounts used and unused amounts reversed	-0.1
Provisions as at 31.12.17	**0.0**

	Carrying	**Future expected undiscounted cash flows by years**				
31.12.16	amount	0-5 years	5-10 years	10-15 years	15-20 years	>20 years
Provisions	0.1	0.1	0.0	0.0	0.0	0.0

	Carrying	**Future expected undiscounted cash flows by years**				
31.12.17	amount	0-5 years	5-10 years	10-15 years	15-20 years	>20 years
Provisions	0.0	0.0	0.0	0.0	0.0	0.0

28. Shareholders

	Country	Number of shares	% from total number
Shareholders of AS SEB Pank at 31.12.2017:			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66 562 381	100.00
Shareholders of AS SEB Pank at 31.12.2016:			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66 562 381	100.00

Share capital, EUR	42 541 115
Nominal value of shares, EUR	0.64

Maximum number of shares in articles of association: 240,000,000

All issued shares are paid for.

Skandinaviska Enskilda Banken AB (publ) is the ultimate parent of AS SEB Pank. Skandinaviska Enskilda Banken AB (publ) (incorporated in Sweden) does not have a controlling parent company.

Share information	**31.12.17**	**31.12.16**
Number of shares of AS SEB Pank at end of period	66 562 381	66 562 381
Average number of shares, adjusted with issues	66 562 381	66 562 381
Net profit, EUR mio	85.3	84.7

29. Dividend policy

AS SEB Pank is 100%-owned by Skandinaviska Enskilda Banken AB (publ). In working out the strategy for equity management, profit distribution and formation of reserves the bank is following the common approach of future risks and performance strategy of the Skandinaviska Enskilda Banken AB (publ) group. On 30.03.2017 the AS SEB Pank has paid dividend 30 million euros for year 2016.

30. Other reserves

	31.12.17	31.12.16
General banking reserve	19.1	19.1
Statutory reserve	0.3	0.3
Revaluation reserve of Available-for-sale financial assets	1.6	0.9
	21.0	**20.3**

Movements of other reserves

	General banking reserve	Revaluation reserve of Available-for-sale financial assets	Statutory reserve	Total other reserves
Balance at the beginning of the period (01.01.16)	**19.1**	**12.8**	**0.3**	**32.2**
Net gain/loss from the change in fair value transferred to PNL	0.0	-11.9	0.0	-11.9
Balance at the end of the period (31.12.16)	**19.1**	**0.9**	**0.3**	**20.3**
Balance at the beginning of the period (01.01.17)	**19.1**	**0.9**	**0.3**	**20.3**
Net gain/loss from the change in fair value (Note 2.7)	0.0	0.7	0.0	0.7
Balance at the end of the period (31.12.17)	**19.1**	**1.6**	**0.3**	**21.0**

According to the Income Tax Act valid until 2000 the credit institutions were able to form a tax exempt general banking reserve up to 5% of the loan portfolio to cover potential losses. Allocations to this reserve could be deducted from the taxable income.

According to the Commercial Code at least 5% of the net income has to be transferred into the statutory reserve capital every year, until the reserve capital comprises 10% of the share capital. The statutory reserve capital may be used for covering losses.

AS SEB Pank profit for the year 1994 - 1997 has been allocated to that general banking reserve (except for 0.4 million euros from the 1995-year profit). The reserve amounts to 19.1 million euros, including also the bank's statutory reserve capital according to the Commercial Code. In 1998 - 2016 the bank made no allocations to the reserves. In 2001 - 2016 the subsidiaries of AS SEB Pank made allocations to the statutory reserves from their undistributed profits in the amount of 0.3 million euros.

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31. Contingent assets and liabilities and commitments

31.12.17	Contract amount		Balance value	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable and revocable transactions	**133.3**	**1257.6**	**0.0**	**0.0**
1.1. Guarantees and other similar off-balance sheet irrovocable liabilities and claims	133.3	324.0	0.0	0.0
incl. financial guarantees	*133.3*	*114.2*	*0.0*	*0.0*
1.2. Loan commitments	0.0	933.6	0.0	0.0
2. Derivatives (Notes 16, 26)	**622.9**	**547.1**	**23.5**	**23.2**
2.1. Currency related derivatives	276.8	276.8	17.3	17.3
2.2. Interest related derivatives	345.9	270.2	6.2	5.9
2.3. Equity related derivatives*	0.2	0.1	0.0	0.0
	756.2	**1 804.7**	**23.5**	**23.2**

31.12.16	Contract amount		Balance value	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable and revocable transactions	**103.6**	**1 096.3**	**0.0**	**0.0**
1.1. Guarantees and other similar off-balance sheet irrovocable liabilities and claims	103.6	321.2	0.0	0.0
incl. financial guarantees	103.6	133.8	0.0	0.0
1.2. Loan commitments	0.0	775.3	0.0	0.0
2. Derivatives (Notes 16, 26)	**645.8**	**626.6**	**23.3**	**23.5**
2.1. Currency related derivatives	249.9	249.9	14.2	14.1
2.2. Interest related derivatives	392.7	373.9	9.0	9.3
2.3. Equity related derivatives*	3.2	2.8	0.1	0.1
	749.4	**1 722.9**	**23.3**	**23.5**

* Derivative transactions are executed to cover the client's position and the derivative risks are not taken to own portfolio. All risks arising from these transactions are fully mitigated with parent company. The equity option prices are calculated using for all input data (e.g. underlying prices or volumes) either independently sourced input (e.g. the underlying prices) or an independent price verification is performed on the next day to compare the values to independently sourced market data (e.g. for volumes), see Note 16.

Pursuant to the Law of Obligations Act, the operating lease agreements, concluded by AS SEB Liising are partially related to a contingent liability, the likelihood and the amount of which cannot be reliably determined. According to the management of the company, based on the previous practice, realisation of the obligation is unlikely.

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Potential income tax on distribution of dividends

The retained earnings of the AS SEB Pank Group as at 31 December 2017 were 892.7 (31 December 2016: 836.8) million euros. Distribution of retained earnings as dividends to the owners is subject to the income tax at the rate of 20/80 on the amount paid out as net dividends. Therefore, taking into account regulatory requirements for Net Own funds and capital, from the retained earnings available at the reporting date, it is possible to pay out to the shareholders as dividends 405.3 million euros and the corresponding income tax would amount to 101.3 million euros. As of 31 December 2016, taking into account regulatory requirements for Net Own funds and capital, it would have been possible to pay out dividends the amount of 358.9 million euros, and the corresponding income tax would have amounted to 89.7 million euros.

As at 31 December 2017 (and 31 December 2016) 100% shares of AS SEB Pank are owned by Skandinaviska Enskilda Banken AB (publ), who makes the decisions about profit distribution.

Potential liabilities arising from tax inspection

In 2017 the tax authority did not conduct tax audit in the AS SEB Pank and subsidiaries. The tax authorities may at any time inspect the books and records of the company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.

The management of AS SEB Pank is not aware of any circumstances which may give rise to a potential material liability in this respect.

Legal disputes

There are no outstanding legal disputes from which AS SEB Pank Group could suffer major losses.

32. Subsequent events

No such material events have occurred after the end of the financial year in AS SEB Pank Group, that would affect the conditions of the assets and liabilities as at the reporting date 31.12.2017.

33 Related parties.

	31.12.17	31.12.16
Loans and advances to members of Management Board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons	0.4	2.1
Contingent liabilities to members of Management Board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons (credit lines and commitments to extend credit)	0.0	0.1
Deposits of members of management board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons	0.7	0.6
Loans and advances to parent company	119.4	947.9
In 2017, the loans and advances to parent company includes demand deposits 97,2 EUR mio and term deposits with a term up to 1 months 19,9 EUR mio with interest rate -0.4%.		
In 2016, the loans and advances to parent company includes demand deposits 907,9 EUR mio and term deposits with a term up to 1 months 38,2 EUR mio with interest rate 1.04%.		
Due to parent company	1 173.4	938.3
In 2017, due to parent company includes credit lines in EUR with contractual tenor up to 10 years, interest rate -0.23% – 4.15%, in amount of 1150,0 EUR mio (in Note 22 together with interests 1150,1 EUR mio).		
In 2016, due to parent company includes credit lines in EUR with contractual tenor up to 10 years, interest rate -0.22% – 4.58%, in amount of 915.1 EUR mio (in Note 22 together with interests 916,0 EUR mio).		
Contingent assets and commitments to parent company (received guarantees)	3.4	28.4
Contingent liabilities and commitments to parent company	0.6	0.5
Loans and advances to enterprises of parent company's consolidation group	30.2	15.2
Due to enterprises of parent company's consolidation group	28.1	18.6
In 2017, the due to enterprises of parent company's consolidation group includes investment deposits 0,01 EUR mio and demand deposits 28,0 EUR mio.		
In 2016, the due to enterprises of parent company's consolidation group includes investment deposits 0,1 EUR mio and demand deposits 18,2 EUR mio.		
Contingent assets and commitments to enterprises of parent company's consolidation group	0.0	3.2
Contingent liabilities and commitments to enterprises of parent company's consolidation group	0.1	0.5
Interest and similar income from parent company	2.7	1.3
Interest expenses and similar charges to parent company	-4.3	-2.6
Fee and commission income from parent company	0.7	0.6
Fee and commission expense to parent company	-0.1	-0.1
Interest and similar income from enterprises of parent company's consolidation group	0.1	0.2
Interest expenses and similar charges to enterprises of parent company's consolidation group	0.0	0.0
Fee and commission income from enterprises of parent company's consolidation group	3.7	2.9
Fee and commission expense to enterprises of parent company's consolidation group	-0.2	-0.9

Interest rates of the loans given to related parties do not differ materially from interest rates of the loans to customers. Transactions with related parties have been based on market terms.

Related parties are:

- parent company;
- subsidiaries of parent company;
- associates of parent company;
- associates of the Group;
- members of Management Board of AS SEB Pank and internal audit manager, also their close family members and commercial undertakings, controlled jointly or severally by the mentioned persons.

Salaries and other benefits to the management in AS SEB Pank	2017	2016
Members of Management Board	0.6	0.7
- salaries and bonuses	0.6	0.5
- termination benefits to the management leaving the group	0.0	0.1
- other benefits to the key management	0.0	0.1
Salaries and other benefits to the management in subsidiaries of AS SEB Pank		
Members of Management Board	0.3	0.3
- salaries and bonuses	0.2	0.3
- other benefits to the key management	0.1	0.0

No salary or benefits were paid in 2017 and 2016 to the members of the Supervisory Board of AS SEB Pank or its subsidiaries.

Remuneration and compensations to the Management Board members

Management Board members of AS SEB Pank and its subsidiaries are paid compensation amounting up to 12 times the average monthly pay, if they are not elected to the Management Board for a new term or are recalled pre-term. Compensation is not paid, if the person continues to work in a company belonging to SEB Group under an employment contract or is elected to the Management Board of another company belonging to SEB Group or the contract is terminated due to violation of obligations by the member of the Management Board.

The members of AS SEB Pank Management Board had a possibility to participate in different share programs:

2012 an initial allotment of 34.109 saving shares, with a 3-year qualification period at least;

2013 an initial allotment of 14.544 saving shares, with a 3-year qualification period at least;

2014 an initial allotment of 12.265 saving shares, with a 3-year qualification period at least;

2015 an initial allotment of 12.610 saving shares, with a 3-year qualification period at least;

2016 an initial allotment of 13.466 saving shares, with a 3-year qualification period at least;

2017 an initial allotment of 12.276 saving shares, with a 3-year qualification period at least.

The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 29.12.2017 was 96.30 SEK (9.78 EUR). The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 30.12.2016 was 95.55 SEK (10.00 EUR).

34. Primary statements of parent company as a separate entity

In accordance with the Estonian Accounting Act information on the separate primary financial statements of a consolidated entity shall be disclosed in the notes to the financial statements.

1. Income statement, Bank

(millions of EUR)

	2017	2016
Interest and similar income	*85.5*	*79.1*
Interest expenses and similar charges	*-9.5*	*-9.0*
Net Interest Income	76.0	70.1
Fee and commission income	*54.8*	*51.6*
Fee and commission expense	*-14.4*	*-13.7*
Net fee and commission income	40.4	37.9
Net income from foreign exchange	4.8	4.7
Gains less losses from financial assets at fair value through profit or loss	1.2	0.8
Gains less losses from investment securities	-0.1	16.1
Other income	1.4	1.2
Personnel expenses	-36.0	-36.4
Other expenses	-12.4	-16.1
Depreciation, amortisation and impairment of tangible and intangible assets	-4.4	-3.9
Profit before impairment losses on loans and advances	**70.9**	**74.4**
Impairment losses on loans and advances	3.9	1.4
Profit before income tax	**74.8**	**75.8**
Income tax	-7.5	-5.0
Net profit	**67.3**	**70.8**
Profit attributable to the sole equity holder	67.3	70.8

2. Statement of comprehensive income, Bank

(millions of EUR)

	2017	2016
Net profit	**67.3**	**70.8**
Other comprehensive income/expense		
Revaluation of available-for-sale financial assets	1.0	-12.1
Total other comprehensive income/expense	**1.0**	**-12.1**
Total comprehensive income	**68.3**	**58.7**
Sole equity holder of the parent entity (total)	68.3	58.7
Total comprehensive income from continued operations	68.3	58.7
	68.3	**58.7**

3. Statement of financial position, Bank

(millions of EUR)

	31.12.17	31.12.16
ASSETS		
Cash	41.3	41.7
Balances with central bank	1 009.9	250.9
Loans and advances to credit institutions	172.2	983.3
Loans and advances to customers	4 537.8	4 151.8
Financial assets held for trading	23.6	23.4
Financial assets designated at fair value through profit or loss at inception	89.2	86.7
Available-for-sale financial assets	3.1	2.4
Other assets	15.6	17.1
Accruals and prepaid expenses	7.4	7.2
Investments in subsidiaries and associates	5.5	5.5
Intangible assets	3.9	2.9
Property, plant and equipment	9.7	8.8
TOTAL ASSETS	**5 919.2**	**5 581.7**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Due to credit institutions	1 213.8	991.1
Due to customers	3 795.2	3 729.4
Other liabilities	53.8	42.0
Accrued expenses and prepayments	12.4	13.6
Financial liabilities at fair value through profit or loss	23.2	23.6
Provisions	0.0	0.1
Total Liabilities	**5 098.4**	**4 799.8**
Share capital	42.5	42.5
Share premium	86.1	86.1
Other reserves	20.1	19.1
Retained earnings	672.1	634.2
Total shareholders' equity	**820.8**	**781.9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5 919.2**	**5 581.7**

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4. Statement of cash flows, Bank

(millions of EUR)

	2017	2016
I. Cash flows from operating activities		
Interest received	85.7	78.5
Interest paid	-9.6	-8.9
Fee and commission received	54.8	51.6
Fee and commission paid	-14.4	-13.7
Net trading income and other operating income	7.5	9.4
Personnel expenses and other operating expenses	-47.7	-54.4
Income tax paid	-7.5	-5.0
Cash flows from operating activities before changes in the operating assets and liabilities	**68.8**	**57.5**
Changes in operating assets:		
Loans and advances to credit institutions and mandatory reserve in central bank	21.3	-49.5
Loans and advances to customers	-382.3	-225.1
Other assets	3.3	1.2
Changes of operating liabilities:		
Due to credit institutions	235.6	115.8
Due to customers	66.2	368.8
Other liabilities	-3.1	0.4
Cash flow from (used in) operating activities	**9.8**	**269.1**
II. Cash flows from investing activities		
Proceeds from investment portfolio securities	0.4	13.8
Purchase of tangible and intangible assets	-6.2	-4.5
Proceeds from sale of tangible and intangible assets	0.0	0.0
Cash flow from (used in) investing activities	**-5.8**	**9.3**
III. Cash flows from financing activities		
Dividends paid	-30.0	-20.0
Cash used in financing activities	**-30.0**	**-20.0**
Net decrease/increase in cash and cash equivalents	**-26.0**	**258.4**
Cash and cash equivalents at the beginning of period	**1 270.9**	**1 012.5**
Effect of exchange rate changes on cash and cash equivalents	0.0	0.0
Cash and cash equivalents at the end of period	**1 244.9**	**1 270.9**

Cash and cash equivalents includes:	**31.12.17**	**31.12.16**
Cash on hand	41.3	41.7
Balances with the central bank without mandatory reserve	965.8	210.0
Liquid deposits in other credit institutions	148.5	932.5
Liquidity securities	89.3	86.7
	1 244.9	**1 270.9**

5. Statement of changes in shareholders' equity, Bank

(millions of EUR)

	Share capital (Note 28)	Share premium	Other reserves (Note 30)	Retained earnings	Total share-holders' equity
Year beginning 01.01.2016	**42.5**	**86.1**	**31.2**	**582.8**	**742.6**
Dividend paid	0.0	0.0	0.0	-20.0	-20.0
Other	0.0	0.0	0.0	0.6	0.6
Net profit	0.0	0.0	0.0	70.8	70.8
Other comprehensive income / expense:					
Net change in available-for-sale financial assets	0.0	0.0	-12.1	0.0	-12.1
Total other comprehensive expense	0.0	0.0	-12.1	0.0	-12.1
Total comprehensive income / expense	**0.0**	**0.0**	**-12.1**	**70.8**	**58.7**
Final balance 31.12.2016	**42.5**	**86.1**	**19.1**	**634.2**	**781.9**
Book value of holdings under control or significant influence					5.5
Value of holdings under control or significant influence, calculated by equity method					209.5
Adjusted unconsolidated equity as at 31.12.2016	**42.5**	**86.1**	**19.1**	**634.2**	**985.9**
Year beginning 01.01.2017	**42.5**	**86.1**	**19.1**	**634.2**	**781.9**
Dividend paid	0.0	0.0	0.0	-30.0	-30.0
Other	0.0	0.0	0.0	0.6	0.6
Net profit	0.0	0.0	0.0	67.3	67.3
Other comprehensive income:					
Net change in available-for-sale financial assets	0.0	0.0	1.0	0.0	1.0
Total other comprehensive income	0.0	0.0	1.0	0.0	1.0
Total comprehensive income	**0.0**	**0.0**	**1.0**	**67.3**	**68.3**
Final balance 31.12.2017	**42.5**	**86.1**	**20.1**	**672.1**	**820.8**
Book value of holdings under control or significant influence					5.5
Value of holdings under control or significant influence, calculated by equity method					227.2
Adjusted unconsolidated equity as at 31.12.2017	**42.5**	**86.1**	**20.1**	**672.1**	**1 042.5**

Independent auditor's report

To the Shareholder of AS SEB Pank

(Translation of the Estonian original)*

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS SEB Pank and its subsidiaries (together the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated income statement for the year ended 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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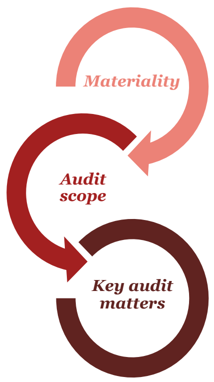
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^{1} of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

Overview



Materiality
Overall group materiality is EUR 4.6 million, which represents 5% of consolidated profit before tax.

Audit scope
A full scope audit was performed by PwC Estonia for Group entities covering substantially all of the Group's consolidated statements of financial position and income statement.

Key audit matters
- Impairment of loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 4.6 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We have applied this benchmark as profit before tax is one of the principal considerations when assessing the Group's performance and a key performance indicator for Management and Supervisory Board.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers (refer to Note 1.2 "Critical accounting estimates and judgements", Note 2.2 "Credit risk" and Note 15 "Loans and advances to customers" for further details). As at 31 December 2017, loans and advances to customers amounted to EUR 4,734.1 million, net of allowances of EUR 19.7 million and related impairment reversal for 2017 amounted to EUR 5 million. We focused on this area because recognition and measurement of financial instruments as regulated in IAS 39 is a complex and significant area with large impact on Group's business and financial reporting. The management uses various assumptions and judgements to determine the amount and timing of the impairment. The models for calculating impairment loss are complex. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and then collectively for financial assets that are not individually significant.	We assessed whether the Group's accounting policies in relation to the impairment of loans and advances to customers comply with International Financial Reporting Standards (IFRS). We assessed the design and operating effectiveness of the controls over impairment data and calculations: • We tested the design and operating effectiveness of controls related to monitoring of loans and advances. These controls included assessment of whether the clients have been assigned correct risk class and identification of which loans and advances were individually impaired and calculation of specific provision. • We tested the design and operating effectiveness of controls in homogenous groups' impairment calculation process including the retail customer scoring calculation. • We also tested controls over the collateral valuation process, including automated indexation of collaterals. We determined that we could rely on these controls for the purposes of our audit. We have performed detailed testing over: • Completeness and accuracy of data in the impairment model for non-retail and retail loans collective provision and • Completeness of loans subject to individual impairment assessment. We have also assessed reasonableness of assumptions used in the models. As a result of our work, we noted no material exceptions and no significant differences in calculations.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises of a number of subsidiaries all operating in Estonia and that are further disclosed in Note 1 of the Consolidated Financial Statements. Based on the size and risk characteristics, we performed a full scope audit of the financial information for AS SEB Pank, AS SEB Liising, AS Rentacar and AS SEB Varahaldus. At the Group level we audited the consolidation process and performed procedures to assess that the audits of the group entities covered all material items in the Group's financial statements.

Other information

The Management Board is responsible for the other information contained in the consolidated annual report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of AS SEB Pank for the financial year ended 31 December 2000. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing a total period of uninterrupted engagement appointment for AS SEB Pank of 18 years.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Kristi Ziugov
Auditor's certificate no. 650

12 March 2018

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

AS SEB PANK
Located at Tornimäe 2, Tallinn
MANAGEMENT BOARD RESOLUTION NO 43

In Tallinn March 12th, 2018

Distribution of the profit of the financial year 2017

1. The profit of the financial year 2017 was 67 316 542 EUR (sixty-seven million, three hundred and sixteen thousand, five hundred and fourty-two euros).

2. To make a proposal in accordance with audited Financial Statements to the sole shareholder to distribute the net profit of the financial year 2017 in the amount of 67 316 542 EUR and retained earnings not distributed, in the amount of 604 788 973 EUR, total in the amount of 672 105 515 EUR, as follows:

in Euros	2017
Net profit of AS SEB Pank for the reporting period, ended on 31.12.2017	67 316 542
Retained earnings, not distributed	604 788 973
Retained earnings total, not distributed	672 105 515
Dividends to pay	-70 000 000
Net balance of retained earnings, not distributed	602 105 515

3. To submit the present resolution to the Supervisory Board of AS SEB Pank for review.

Allan Parik
Chairman of the Management Board

Distribution: Management Board members, Legal Division, Financial Reporting Group

Supervisory Board approval of Annual Report 2017

The Management Board has prepared the management report and the annual accounts of AS SEB Pank for the financial year ended 31 December 2017.

The Supervisory Board of AS SEB Pank has reviewed the Annual Report 2017, prepared by the Management Board, consisting of the management report, the annual accounts, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved on March 22, 2018 the annual report for presentation to the sole shareholder.