AS SEB Pank

Annual Report

(translation of the Estonian original)

2019

Contents

Introduction - general information

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

Auditor

Audit company	Ernst & Young Baltic AS
Registry code	10877299 (Estonian Commercial Register)
Address	Rävala puiestee 4, 10143 Tallinn, Estonia

Reporting date	31/12/2019
Reporting period	1 January 2019 - 31 December 2019
Reporting currency	Euro (EUR), millions

Management Report

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

1.1. Consolidated group

Company name	Registry code	Registration 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.

Parent company of the Group is AS SEB Pank, its activity is banking (information on page 2).
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 January 2006. The association was founded by AS SEB Pank and AS SEB Elu- ja Pensionikindlustus .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 2020
No such events have occurred by the time of publishing the report, which would affect the strategy of the group in 2020.

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

Members of the Management Board in 2019: Allan Parik, Artjom Sokolov, Ainar Leppänen, Eve Kümnik and Marko Rintala.
Members of the Supervisory Board in 2019: Riho Unt, Stefan Stignäs, Mats Torstendahl, Erkka Näsäkkälä, Aušra Matusevičiene and Juha Kotajoki.

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 December 2019.

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 and AS SEB Varahaldus. 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 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.

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 Criminal Records Database and confirmation that there are no such circumstances, which preclude their right to be a manager of a credit institution.

Suitability of potential members of the Management and Supervisory Board shall be assessed by the Remuneration Committee of the bank's Supervisory Board, which performs the tasks of nomination committee required by the 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, knowledge, skills and experience required for the position, also their independence and time commitment. 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 at least four times a year.

Other assurance services provided by the auditorof the Group

During 2019, 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 permitted according to 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. SEB Group has around 15,000 employees.

SEB is the bank of choice for large corporations and financial institutions in Sweden and holds a forefront position in providing corporate services in Norway, Denmark, Finland and the United Kingdom. SEB provides universal banking services in Sweden, Estonia, Latvia and Lithuania. In Germany, the operations have a strong focus on corporate and investment banking based on a full-service offering to corporations, institutional customers and internationally operating real estate investors. SEB is well positioned to serve corporate customers from the Nordic countries, the United Kingdom and Germany around the globe, with offices in international financial centres such as New York and London, in Asia via offices in Shanghai, Beijing, Hong Kong and Singapore. SEB's international network is also highly instrumental in offering global financial institutions access to investment opportunities in Nordic assets – an area in which SEB is the leader.

AS SEB Pank is an Estonian financial group belonging to SEB Group, which provides services to private persons, companies, and the public sector. SEB believes that entrepreneurial minds and innovative companies are the key in creating a better world. SEB's vision is to deliver world-class service to its customers. SEB strives for its customers to be perceived us as knowledge-sharing, having a deep understanding of their needs, being proactive and making their lives easier.

The more than 748,200 customers of SEB Pank Group are served by 1,019 employees. The customers are served through many different channels such as 18 branch offices; 229 ATMs; 10,123 POS-terminals. There are more than 519,900 debit and credit cards in use. In addition, over 71% of our customers use internet bank services.

2. Highlights

Corporate clients

Lending activity in 2019 had a rather stable growth through the entire year and was broad-based across the wide spectrum of sectors. Investment activity and sentiment of companies was a bit milder than a year ago, but still resulted in healthy growth in the bank's financing portfolio. Also, the consolidation of banking landscape in Estonia that started couple of years ago continued triggering business clients of other banks to seek for new home banks, and that opened up new client relationship possibilities for SEB.

In total, SEB's financing portfolio of large corporate customers **increased strongly** – by 16%, compared to 2018.

SEB continued its tradition and for the sixth year in a row, organised the **CFO Forum** for the CFOs of large corporations, and conducted an annual survey among CFOs of large Baltic corporations to identify their strategic issues on their business agenda as well as challenges for the next year.

Seeing that corporate sustainability, which comprises, *inter alia,* environmental, social and ethical aspects of conducting business, is becoming more and more important for the society in general, SEB has brought into its client relationship interactions also intensive dialogues around these issues and has taken on the role to help its clients to navigate in the evolving corporate sustainability topic.

Small and Medium Enterprises

Clients are more actively using the the digital services of the bank. Good examples from 2019: the remote opening of SME accounts increased **by 9% year over year**. Corporate customers can meet with their client executives via video meeting.

More and more of SEB's corporate customers enter the Internet Bank via smart devices, which is why the bank opened a **mobile application for business customers**. According to Ainar Leppänen, Head of Retail Banking of SEB, customers can see the balances and bank statements of their euro accounts in the upgraded application, make transfers in euros, confirm payments, and find information on bank offices or ATMs through the mobile application.

The fifth and sixth Growth Programme took place; altogether 44 ideas were developed in the SEB Innovation Centre in 2019. Allan Parik, Chairman of the Management Board of SEB, said that the innovation centre is one of the ways of how SEB has taken on the role of an active leader in developing and supporting Estonia's economic life. The opening of the innovation centre in Tallinn was mainly triggered by the wish to help business clients advance their operations, improve their competitiveness, and thereby contribute even more to Estonia's economic growth. According to Parik, one should also definitely not underestimate the events and training offered by the innovation centre, targeted at private clients and students, which have quickly gained popularity.

SEB's robot makes enterprises grow. **Growby** is a solution based on artificial intelligence and machine learning, which learns from the experience of enterprises and knows how to transmit the gathered knowledge to other enterprises. By means of machine learning, the robot brings together the most innovative and fast-growing experience of enterprises, as well as the experience which has been acquired during the SEB Growth Programme, in which 20 Estonian enterprises from different areas took part.

SEB's new service provides momentum for the **creation of innovative financial solutions**. SEB Internet Bank provides an overview of the clients' SEB, LHV, Citadele and Swedbank accounts throughout the Baltics. SEB private and corporate clients can now add the information of their SEB and Swedbank accounts in all three Baltic states to their Internet Bank. The update provides an opportunity to view one's account balance and statements in SEB Internet Bank.

Over two years ago, SEB opened the **e-learning programme e-Academy** at http://eakadeemia.seb.ee/, which contributes to the quicker growth of start-ups and small enterprises. This is SEB's biggest Baltic project that targets start-ups.

Different events have been arranged for SME customers: the Markets and Transaction Service Products Morning for clients; the Macro Morning Seminar for SME-s; e-Academy live seminars; Housing Association's seminars.

In December, the survey **Baltic Business Outlook** in the SME field was conducted in three Baltic countries. More than 5,000 respondents took part in the survey and SEB will introduce the results of Estonia, Latvia, and Lithuania in the first quarter of 2020.

SEB and **EveryPay signed a cooperation agreement** to provide the bank's business customers with a new level of **accepting online card payments**. Artjom Sokolov, Head of Corporate Banking of SEB, said that SEB is happy to cooperate with an Estonian company, together with whom the bank can provide its business clients a modern solution for servicing their clients around the world.

SEB will invest in 10–20 Baltic start-ups over the next five years, and the investment per one start-up will generally be between 50,000 and 200,000 euros. SEB's funding is intended for start-ups in the field of financial services as well as for companies whose ideas have potential in the financial sector and who provide, for example, automation, machine learning, or artificial intelligence solutions.

SEB launched new programme to open further opportunities for Baltic fintechs. SEB, in cooperation with Mastercard and NFT Ventures, is about to launch the Lighthouse programme in Estonia. Designed for smart fintechs, the programme allows to further develop products and enhance cooperation with banks and investors. The Lighthouse programme was launched in autumn 2018 in Vilnius, Stockholm and Helsinki.

Private clients

One of the biggest highlights of 2019 for the Estonian private client segment is the **increase in the number of clients for whom SEB is the home bank** – over 2,500 over the year. Along with the stable economic growth and increase in the population's income, SEB Estonia did a great job in on-boarding new clients, service personalisation, and the development of the best product offers on the Estonian market.

In February 2019, in accordance with the timeframes of the European Commission, SEB Estonia **phased out the use of code cards**, finalising the large amount of work done in this field throughout 2018. Over the last two years, the bank organised a widespread informative campaign to attract its clients to use more secure and contemporary authentication solutions. In Estonia, four different possibilities were offered to the clients and, at the end of 2019, the most popular solutions were the ID-card (34% of users) and Smart-ID, a solution developed jointly by SEB, Swedbank, and Telia (32% of all clients).

SEB's new client solutions, such as **the mobile app, instant payments, Smart-ID, and video meetings**, are gaining popularity among clients. The mobile app, which was made available also to business clients last year, gained up to 4,000 clients monthly, achieving by the end of 2019 a record number of 140,000 users. New features and developments also supported mobile app' popularity.

The boost of digital services was supported throughout the year by **marketing and communications activities,** achieving a significant 58% of digital sales by the end of the year**.**

In summer 2019, the new **SEB summer internship programme - YouthLAB** - was re-launched, attracting almost 240 young people to the bank. The programme was based on the innovative start-up work processes, while the aim for the interns was to create banking for themselves. While spending their summer in SEB, one group of interns launched their video blog, supported with a communication campaign and blogging, to widen the positive publicity and attention of the project. At the end of the internship period, every 4th intern stayed at work in SEB, supporting the young talents' development program.

As one of the key development goals, **the investment sphere** gained a lot of attention. Investment seminars held in spring and autumn of 2019 gained big coverage and popularity all over Estonia, and not only in the biggest cities like Tallinn and Tartu. On the basis of the video material, SEB produced its investment lectures disseminated through its online Financial Literacy studies. A new media format– 'Investment Minutes', launched in 2018, prolonged its development, helping SEB to achieve the second/third place in overall media reach on investment topics.

In 2019, in co-operation with Estonia's own kid brand, the cartoon and entertainment park Lottemaa, **SEB continued its support to the kids' inventing contest**. In 2019, the marketing and communication activities regarding the contest surpassed the reach of 300,000. In 2019, the third contest was launched attracting a few hundreds of inventions. The aim of SEB concerning this initiative is to strengthen the bank's brand awareness among kids and their parents and to support the popularity of innovation and entrepreneurship values among children.

SEB pays a lot of attention to **sharing its expertise in the field of financial literacy**. In 2019, the bank continued on its own initiative the voluntary financial literacy lessons, supporting also Estonian Banking Association with voluntary teachers, who gave lessons all over Estonia and renewed its online financial literacy education materials. A traditional event of SEB and Estonian Banking Association: Estonian online- financial literacy lesson - also took place on May 31st, engaging tens of schools and classes all over the state.

In 2019, the bank launched co-operation with the state's oldest university, the **University of Tartu and its subsidiary Science School** responsible for the additional education of youngsters, who want to get more of school education. The aim of **SEB is to support its brand awareness among the youngsters, support the Science School in digitalisation and renewal of its materials** and also to allocate marketing support to the institution in order to widen its popularity among all Estonian schools and pupils. Together with the Science School, SEB developed a new online educational platform for Estonian school pupils. The new platform is offering online courses and quizzes with a future plan to enlarge the number of courses up to 50 and quizzes in 5 different disciplines; additional information on the new platform is available at https://e-oppekeskus.ee/.

Organisation

In 2019, AS SEB Pank received several awards and recognitions:

- Global Finance: Best Bank in Estonia
- Responsible Business index: Gold Label
- Global Finance: The Best Sub-custodian Bank in Estonia
- Estonian Human Resource Management Association PARE: The Best HR project "Digital Academy"
- Mystery shopping survey by DIVE Group: 2nd place in customer service in Estonia
- Global Finance: The Best Digital Bank in Estonia
- SEB Estonia was one of the finalists for the title "Estonian Dream Employer"
- Estonian Chamber of Commerce and industry: 3rd place in the Estonian Companies' Competitiveness Ranking among financial intermediaries

Social responsibility and sponsorship

SEB was recognised with a **gold badge** at the Responsible Business Awards Gala. SEB had the honour of being awarded with a gold badge for the first time.

AS SEB Pank has set an objective to become the **best advisory bank** in the Baltic countries, which for customers means advisory services and the sharing of financial literacy. In 2019, certain actions took place to achieve this aim.

SEB was the first among Estonian banks, to start addressing the topic of sustainable investments (Ethical and Sustainable Funds and Investments) in 2019, opening to media and wider audience the main principles of sustainable investments and SEB's main indicators in this sphere. Being devoted to the sustainability topics, SEB will continue this communication work and engage its clients in the discussions on critical environmental, sustainability and ethical investment topics.

SEB's main youth channel, launched in 2018, the **Instagram account, reached a meaningful level of 2,000-followers,** engaging the youth through financial literacy, innovation and entrepreneurship values. The top topics for SEB Instagram channel through the year were also environment, sustainability and investments, for which numerous Estonian influencers were attracted as SEB's ambassadors.

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

SEB Group prepares SEB's sustainability report, which is available on their website at http://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 their website at http://www.seb.ee.

SEB organises a seminar-workshop **InnovationLab for SMEs**, who are interested in expanding to new markets and increasing their sales through innovation.

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, RRI, 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 Swedish Chamber of Commerce, a network of entrepreneurship
• SEB is a member of the Estonian Diversity Charter.

AS SEB Pank made a contribution to the society:
• AS SEB Pank contributed to the **development of young tennis players** of Estonia, supporting the Estonian Tennis Association and the SEB Tallink Tennis Team.
• As a gold sponsor of the **Estonian National Opera**, AS SEB Pank contributed to the future of opera in 2019, issuing the seventh public award to one female and one male soloist, who were chosen by the audience. Around 3,000 people voted.

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

In 2019, AS SEB Pank supported the **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 handed out a special award for the best social enterprise during 'Ajujaht'.

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

In 2019, 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 2019, **various scholarships were granted**, such as the study scholarship and scholarships for young mothers and for hobbies. In addition, a Christmas tree project was held for 800 children in orphanages, organising Christmas presents for everyone. During the year of 2019, more than 30 special events were organised. The number of children participating in the events was over 1,000.

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 motivate 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 18 January 2019. 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 commitee

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.

Members of the Remuneration and Human Resources Committee are:

Mats Torstendahl
Skandinaviska Enskilda Banken AB (publ) Executive Vice President, Head of Corporate & Private Customers.

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

Juha Kotajoki
Member of the Supervisory Board of AS SEB Pank.

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 (AEP);
    - 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 68 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 2019

Comments and definitions on tables below:

- All amounts are presented excluding employer's social tax costs
- Number of employees are defined as at date 31 December 2019

- Table 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 Remuneration by divisions - General quantitative information on remuneration of SEB Pank Group by business area

Remuneration
(millions of EUR)

2019	Remuneration				Number of employees				
	Board*	Specially regulated staff	Other employees	Total	Board*	Specially regulated staff	Other employees	Total	
Fixed remuneration	1.0	3.9	22.4	27.3	13	68	1,024	1,105	**
Variable Pay	0.2	0.5	2.7	3.4	9	61	954	1,024	
whereof:									
*Short-term cash-based (incl.AEP)******	*0.0*	*0.4*	*2.4*	*2.8*					
Long-term equity-based	*0.2*	*0.1*	*0.3*	*0.6*					
Ratio between fixed and variable remuneration	18%	13%	12%	12%					
Deferred variable pay	*0.2*	*0.3*	*1.4*	*1.9*					
Accrued and paid remuneration	*1.2*	*4.7*	*26.2*	*32.1*					
Amounts of outstanding deferred remuneration - vested amount*****	0.1	0.1	0.1	0.3					
Amounts of outstanding deferred remuneration - unvested amount*****	0.0	0.1	0.1	0.2					
Severance pay ***				0.1				14	
Agreed but not yet paid severance pay				-					

* board members of the bank and subsidiaries
** 86 of them are non-active employees
*** Highest single amount was 10,934 euros
**** AEP = All Employee Program
***** Only LTI

2018	Remuneration				Number of employees				
	Board*	Specially regulated staff	Other employees	Total	Board*	Specially regulated staff	Other employees	Total	
Fixed remuneration	0.9	3.8	20.9	25.6	13	70	1,021	1,104	**
Variable Pay	0.3	0.5	2.2	3.0	8	61	974	1,043	
whereof:									
*Short-term cash-based (incl.AEP)******	*0.0*	*0.3*	*2.0*	*2.3*					
Long-term equity-based	*0.3*	*0.2*	*0.2*	*0.7*					
Ratio between fixed and variable remuneration	32%	14%	11%	12%					
Deferred variable pay	*0.3*	*0.4*	*1.2*	*1.9*					
Accrued and paid remuneration	*1.2*	*4.5*	*24.2*	*29.9*					
Amounts of outstanding deferred remuneration - vested amount*****	0.1	0.1	0.0	0.2					
Amounts of outstanding deferred remuneration - unvested amount*****	0.1	0.2	0.2	0.5					
Severance pay ***				0.2				19	
Agreed but not yet paid severance pay				-					

* board members of the bank and subsidiaries
** 81 of them are non-active employees
*** Highest single amount was 11,592 euros
**** AEP = All Employee Program
***** Only LTI

Remuneration by divisions

2019	**Fixed remuneration**		**Variable Pay**		**Ratio between variable and fixed remuneration**
	Remuneration	FTEs*	Remuneration	FTEs*	
Corporate	2.5	75	0.3	67	13%
Retail	9.0	523	1.0	450	12%
Other	15.8	507	2.0	507	13%
Total	**27.3**	**1,105**	**3.3**	**1,024**	**12%**

2018	**Fixed remuneration**		**Variable Pay**		**Ratio between variable and fixed remuneration**
	Remuneration	FTEs*	Remuneration	FTEs*	
Corporate	2.6	77	0.3	68	11%
Retail	9.1	514	0.9	452	10%
Other	13.9	513	1.8	523	13%
Total	**25.6**	**1,104**	**3.0**	**1,043**	**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	31/12/2019	31/12/2018
	OWN FUNDS	**956.6**	**956.7**
1.	**TIER 1 CAPITAL**	**956.6**	**956.7**
1.1.	**COMMON EQUITY TIER 1 CAPITAL**	**956.6**	**956.7**
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 *	821.4	822.4
1.1.3.	Accumulated other comprehensive income	0.0	0.0
1.1.4.	Other reserves	19.4	19.4
1.1.5.	Adjustments to CET1 due to prudential filters	-0.9	-0.1
1.1.6.	(-) Intangible assets	-5.1	-4.9
1.1.7.	(-) IRB shortfall of credit risk adjustments to expected losses	-7.0	-8.9
1.1.8.	Other transitional adjustments to CET1 Capital	0.0	0.0
2.	**TIER 2 CAPITAL**	**0.0**	**0.0**

	RISK WEIGHTED ASSETS (RWA)	31/12/2019	31/12/2018
	TOTAL RISK EXPOSURE AMOUNT	**2,981.2**	**2,616.8**
1.	RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**2,693.2**	**2,450.2**
1.1.	**Standardised approach (SA)**	**405.8**	**338.8**
	Central governments or central banks	18.6	16.6
	Regional governments or local authorities	24.7	16.0
	Public sector entities	40.0	43.0
	Corporates	12.0	10.5
	Retail	248.4	220.6
	Secured by mortgages on immovable property	0.1	0.2
	Exposures in default	0.5	0.5
	Collective investments undertakings (CIU)	5.6	4.4
	Equity	9.4	6.6
	Other items	46.5	20.4
1.2.	**Internal ratings based Approach (IRB)**	**2,287.4**	**2,111.4**
1.2.1.	IRB approaches when neither own estimates of LGD nor Conversion Factors are used	1,957.8	1,808.1
	Institutions	64.2	69.7
	Corporates - SME	770.0	719.5
	Corporates - Specialised Lending	17.1	17.1
	Corporates - Other	1,106.5	1,001.8
1.2.2.	IRB approaches when own estimates of LGD and/or Conversion Factors are used	329.6	303.3
	Retail - Secured by real estate SME	10.6	8.7
	Retail - Secured by real estate non-SME	226.6	201.7
	Retail - Other SME	19.8	17.7
	Retail - Other non-SME	72.6	75.2
2.	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS**	**22.2**	**25.7**
3.	**TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (AMA)**	**126.9**	**140.8**
4.	**TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT**	**0.1**	**0.1**
5.	**OTHER RISK EXPOSURE AMOUNTS**	**138.8**	**0.0**

* Prognosis of dividends have been deducted from retained earnings.

CAPITAL RATIOS

	31/12/2019	31/12/2018
OWN FUNDS	**956.6**	**956.7**
TOTAL RISK EXPOSURE AMOUNT Basel III (without additional risk exposure amount due to application of Basel I floor)	**2,981.2**	**2,616.8**
Own fund requirement (8%)	238.5	209.3
Total capital ratio	32.1%	36.6%
Tier 1 Capital ratio	32.1%	36.6%
CET1 Capital ratio	32.1%	36.6%
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

	31/12/2019			31/12/2018		
OWN FUNDS	Total capital	Tier 1 capital	CET1 capital	Total capital	Tier 1 capital	CET1 capital
Capital amount	956.6	956.6	956.6	956.7	956.7	956.7
Total risk exposure amount *	2,981.2	2,981.2	2,981.2	2,616.8	2,616.8	2,616.8
Capital adequacy ratio	32.1%	32.1%	32.1%	36.6%	36.6%	36.6%
Total capital requirements, incl. buffers	**499.4**	**439.7**	**395.0**	**423.9**	**371.6**	**332.3**
	16.8%	14.8%	13.3%	16.2%	14.2%	12.7%
including:						
Base capital requirement	238.5	178.9	134.2	209.3	157.0	117.8
	8%	6%	4.5%	8%	6%	4.5%
Capital conservation buffer	74.5	74.5	74.5	65.4	65.4	65.4
	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer	29.8	29.8	29.8	26.2	26.2	26.2
	1%	1%	1%	1%	1%	1%
Other Systemically Important Institution buffer	59.6	59.6	59.6	52.3	52.3	52.3
	2%	2%	2%	2%	2%	2%
Own funds Surplus(+) of total capital requirements, incl. buffers	**457.1**	**516.7**	**561.5**	**532.7**	**585.1**	**624.3**

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

LEVERAGE RATIO

	31/12/2019	31/12/2018
Exposure measure for leverage ratio calculation	7,344.0	7,148.6
of which on balance sheet items	6,850.4	6,543.5
of which off balance sheet items	493.6	605.1
Leverage ratio	13.0%	13.4%

Key figures
(millions of EUR)

	31/12/2019	31/12/2018
Net profit	100.4	63.7
Average equity	1,050.6	1,036.5
Return on equity (ROE), %	9.56	6.15
Average assets	6,710.0	6,339.6
Return on assets (ROA), %	1.50	1.00
Net interest income	112.4	99.7
Average interest earning assets	6,601.5	6,228.2
Net interest margin (NIM), %	1.70	1.60
Credit losses adjusted net interest income	116.2	98.8
Average interest earning assets	6,601.5	6,228.2
Credit losses adjusted net interest margin, %	1.76	1.59
Interest income	121.8	108.8
Average interest earning assets	6,601.5	6,228.2
Yield on interest earning assets, %	1.85	1.75
Interest expense	9.4	9.1
Interest bearing liabilities, average	5,539.0	5,191.2
Cost of interest bearing liabilities, %	0.17	0.18
Spread, %	1.68	1.57
Cost / Income ratio, %	34.4	36.9

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

Assets exposed to interest rate risk:
Balances with central bank
Loans to credit institutions
Loans to the public
Debt securities
(all without accrued interests)

Liabilities exposed to interest rate risk:
Deposits from central banks and credit institutions
Deposits and borrowings from the public
(all without accrued interests)

Total Operating Expenses:
Personnel expenses
Depreciation, amortization and impairment of tangible and intangible assets
Other expenses

Total Income:
Net interest income
Net fee and commission income
Net financial income
Gains less losses from investment securities
Dividends
Profit and loss from investments in associates
Other operating income

Assets quality

(millions of EUR)	**31/12/2019**	**31/12/2018**
Total assets	6,863.6	6,558.2
Overdue loans and receivables	19.3	27.5
Overdue loans and receivables / Total assets, %	0.28	0.42
Allowances for losses on amounts due from customers and credit institutions	19.9	24.1

Consolidated Financial Statements

Consolidated Income Statement

(millions of EUR)	Note	2019	2018
Interest income	4	*121.8*	*108.8*
of which interest income at effective interest rate	4	*101.5*	*90.6*
Interest expenses	5	*-9.4*	*-9.1*
Net interest income		**112.4**	**99.7**
Fee and commission income	6	69.9	67.6
Fee and commission expenses	7	-19.2	*-19.1*
Net fee and commission income		**50.7**	**48.5**
Net financial income	8	**5.4**	**5.8**
Gains less losses from investment securities		4.7	1.2
Profit and loss from investments in associates		0.0	0.3
Other operating income	9	0.4	0.7
Net other income		**5.1**	**2.2**
Total operating income		**173.6**	**156.2**
Personnel expenses	10	-42.0	-39.7
Depreciation, amortization and impairment of tangible and intangible and right-of-use assets	19,20,21	-7.4	-3.5
Other expenses	11	-10.5	-14.3
Total operating expenses		**-59.9**	**-57.5**
Profit before credit losses		**113.7**	**98.7**
Net expected credit losses	12	3.8	-0.9
Profit before income tax		**117.5**	**97.8**
Income tax expense	13	-17.1	-34.1
Net profit for the year		**100.4**	**63.7**

Consolidated statement of comprehensive income

(millions of EUR)	2019	2018
Net profit for the year	**100.4**	**63.7**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**100.4**	**63.7**

The accompanying notes on pages 22 - 79 are integral part of these consolidated financial statements.

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Consolidated statement of financial position

(millions of EUR)	Note	31/12/2019	31/12/2018
Assets			
Cash and balances with central bank	14	844.1	1,156.9
Loans to credit institutions	15,16	66.0	80.4
Loans to the public	16	5,706.9	5,153.3
Debt securities	17	159.2	109.7
Derivatives	17	6.1	6.6
Equity instruments	17	13.4	9.9
Investments in associates	18	1.4	1.4
Intangible assets	19	5.1	4.9
Property, plant and equipment	20	10.6	9.8
Right of use assets	21	20.4	-
Other financial assets	22	11.1	12.3
Other non-financial assets	23	19.4	13.0
Total assets		**6,863.7**	**6,558.2**
Liabilities and equity			
Liabilities			
Deposits from central banks and credit institutions	24	1,212.3	1,022.0
Deposits and borrowings from the public	25	4,446.1	4,399.9
Derivatives	26	7.8	6.2
Current income tax liabilities	13	6.9	10.5
Provisions	27	3.3	5.8
Other financial liabilities	28	104.1	66.0
Other non-financial liabilities	29	13.6	14.2
Total liabilities		**5,794.1**	**5,524.6**
Equity			
Share capital	30	42.5	42.5
Share premium		86.3	86.3
Other reserves	32	19.4	19.4
Retained earnings		921.4	885.4
Total equity		**1,069.6**	**1,033.6**
Total liabilities and equity		**6,863.7**	**6,558.2**

The accompanying notes on pages 22 - 79 are integral part of these consolidated financial statements.

Consolidated statement of changes in equity
(millions of EUR)

	Share capital (Note 30)	Share premium	Other reserves (Note 32)	Retained earnings	Total equity
Balance at 31 December 2017	**42.5**	**86.3**	**21.0**	**892.7**	**1,042.5**
Effect of applying IFRS9 *	-	-	-1.6	-1.6	-3.2
Balance at 01 January 2018	**42.5**	**86.3**	**19.4**	**891.1**	**1,039.3**
Net profit for the year	-	-	-	63.7	63.7
Total comprehensive income for the period	**-**	**-**	**-**	**63.7**	**63.7**
Dividends	-	-	-	-70.0	-70.0
Other	-	-	-	0.6	0.6
Balance at 31 December 2018	**42.5**	**86.3**	**19.4**	**885.4**	**1,033.6**
Balance at 31 December 2018	**42.5**	**86.3**	**19.4**	**885.4**	**1,033.6**
Effect of applying IFRS16 **	-	-	0.0	-2.0	-2.0
Balance at 01 January 2019	**42.5**	**86.3**	**19.4**	**883.4**	**1,031.6**
Net profit for the year	-	-	-	100.4	100.4
Total comprehensive income for the period	**-**	**-**	**-**	**100.4**	**100.4**
Dividends	-	-	-	-63.0	-63.0
Other	-	-	-	0.6	0.6
Balance at 31 December 2019	**42.5**	**86.3**	**19.4**	**921.4**	**1,069.6**

*IFRS 9 Financial instruments is applied from 1 January 2018
**IFRS 16 Leases agreements is applied from 1 January 2019

Dividends information is presented in Note 31.

The accompanying notes on pages 22 - 79 are integral part of these consolidated financial statements.

Consolidated statement of cash flows

(millions of EUR)

Operating activities	Note	2019	2018*
Interest received		121.8	108.1
Interest paid		-9.0	-7.8
Fee and commission received	6	69.9	67.6
Fee and commission paid	7	-19.2	-19.1
Net trading income and other operating income		5.8	6.2
Personnel expenses		-51.8	-53.2
Income tax paid		-17.1	-34.1
Net cash from (+) / used in (-) operating activities before change in operating assets and liabilities		**100.4**	**67.7**
Changes in operating assets:			
Increase (-) /decrease (+) in mandatory reserve in central bank and loans to credit institutions		38.7	-13.7
Increase(-) / decrease (+) in loans to public		-560.7	-423.0
Increase(-) / decrease (+) in other financial and non-financial assets		-26.3	18.7
Changes of operating liabilities:			
Increase (+) / decrease (-) in deposits from central bank and credit institutions		228.1	-205.1
Increase (+) / decrease (-) in deposits and borrowings from the public		46.0	652.1
Increase (+) / decrease (-) in other liabilities		-0.1	-5.4
Net cash flows from (+) / used in (-) operating activities		**-173.9**	**91.3**
Investing activities			
Net proceeds from debt securities		-49.4	-20.5
Net proceeds from investment portfolio securities		1.0	-1.2
Purchase of property, plant and equipment and intangible assets	19, 20	-10.5	-4.6
Dividends received		0.1	0.0
Net cash flows from (+) / used in (-) investing activities		**-58.8**	**-26.3**
Financing activities			
Dividends paid		-63.0	-70.0
Lease payments		-4.9	-
Net cash flows from (+) / used in (-) financing activities		**-67.9**	**-70.0**
Net increase (+) / decrease (-) in cash and cash equivalents		**-300.6**	**-5.0**
Cash and cash equivalents at 1 January		**1,150.6**	**1,155.6**
Changes on cash and cash equivalents		-300.6	-5.0
Cash and cash equivalents at 31 December		**850.0**	**1,150.6**

Cash and cash equivalents includes:		**31/12/2019**	**31/12/2018**
Cash on hand		37.8	35.9
Balances with the central bank without mandatory reserve	14	753.2	1,076.8
Demand deposits with credit institutions	15	59.0	37.9
		850.0	**1,150.6**

* 2018 information is updated due to adjustment for presentation purposes (Note 36)

The accompanying notes on pages 22 - 79 are integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements

Corporate information

AS SEB Pank (the Bank) is a credit institution registered in Tallinn (Estonia), Tornimäe Street 2. The Bank is registered with registration number 10004252. The Bank and its subsidiaries (the Group) are engaged in banking and financial services business. As of 31 December 2019 the Bank holds investments in the following subsidiaries and associate:

Company name	Registry code	Registration 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

The sole shareholder of the Bank is Skandinaviska Enskilda Banken AB (publ) (SEB Group), who is also the ultimate controlling party, registered in Sweden (Note 30).
These consolidated financial statements for the year ended 31 December 2019 have been approved by the Management Board on 13th March 2020 and are subject to approval by the ultimate shareholder.

1. Significant accounting policies

1.1. Statement of compliance

These consolidated financial statements of SEB Pank Group (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

1.2. Basis of preparation

These financial statements are prepared on historical cost basis, except for the certain financial assets and liabilities (including derivative instruments) measured at fair value. The accounting policies used in the preparation of the financial statements for the year ended 31 December 2019 are consistent with those used in the annual financial statements for the year ended 31 December 2018, apart from the accounting policy changes resulting from the adoption of IFRS 16 that is effective from 1 January 2019.

Liquidity securities were adjusted for presentation purposes in Consolidated and Bank's standalone statements of cash flows, where they were excluded from "Cash and cash equivalents". Comparable data of 2018 are adjusted respectively (see Note 36).

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

1.3. Consolidation

The subsidiaries being consolidated are listed under "Corporate information". Investments in subsidiaries and associates in the Bank's standalone financial statements (see Note 37) are accounted for using the cost method less impairment and are initially recognized at cost.

1.3.1. Subsidiaries
These financial statements combine the financial statements of the parent company and its subsidiaries. Subsidiaries are companies, over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement and has the ability to use its power to affect the amount of the returns. Control is deemed to exist when the parent company (i) has power to direct relevant activities of the investee 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 financial statements of the parent company and the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the Group. A subsidiary is included in the consolidated accounts from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated accounts until the date when control over the company ceases to exist.
The consolidated accounts are prepared in accordance with the acquisition method. The acquisition value is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on acquisition date, irrespective of the extent of any non-controlling interest. Intra-group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

1.3.2. Associates
The consolidated accounts also include associated companies that are companies in which the Group has significant influence, but not control. Significant influence means that the Group can participate in the financial and operating policy decisions of the company, whilst not determining or controlling such financial and operating policies. A significant influence is generally deemed to exist if the Group, directly or indirectly, holds between 20 and 50 per cent of the voting rights of an entity.
According to the main principle, associated companies are accounted for using the equity method. This means that the holding is initially reported at its acquisition cost. Associated companies are subsequently carried at a value that corresponds to the Group's share of the net assets.

1.4. Foreign currency transactions

The functional and presentation currency of the parent company and subsidiaries is Euro. Foreign currency transactions are translated into the functional currency using the exchange rates of the European Central Bank prevailing at the dates of the transactions. On subsequent balance sheet dates monetary items in foreign currency are translated using the closing rate. Non-monetary items, which are measured in terms of historical cost in foreign currency, are translated using the exchange rate on the date of the transaction. Non-monetary items, which are measured at fair value in a foreign currency, are translated applying the exchange rate of the European Central Bank on the date on which the fair value is determined.
Gains and losses arising as a result of exchange rate differences on settlement or translation of monetary items are recognised in profit or loss. Translation differences on non-monetary items, classified as financial assets or financial liabilities at fair value through profit or loss, are included in the change in fair value of those items.

1. 5. Cash and cash equivalents

For the purposes of presentation in the cash flow statement, cash and cash equivalents are cash at hand, available for use deposits due from Central Bank and deposits in other credit institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

1.6. Financial assets

Financial assets are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Transaction costs are included in the fair value on initial recognition except for financial assets at fair value through profit or loss where transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows have expired, the Group has transferred substantially all risks and rewards and upon substantial modification. Financial assets at fair value are recognised on the statement of financial position on trade date, with exception of loans, which are recognized on settlement date. Financial assets measured at amortised cost are recognised on settlement date.
The Group classifies and subsequently measures its financial assets in the following categories:
- financial instruments at fair value through profit or loss (FVPL);
- amortised cost (AC).
The classification will depend on if the financial asset is a debt instrument, an equity instrument or a derivative.

1.6.1. Debt instruments (Loans and debt securities)
The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flow characteristics consist of solely payments of principal and interest (SPPI). The business model assessment is performed for homogenous portfolios identified based on how the business is managed in the divisions of the Group. The assessment is based on reasonable scenarios taking into consideration how the portfolio is evaluated and reported to management; the risks affecting the performance of the portfolio and how these risks are managed; how managers are compensated; and the frequency, value and timing of sales including the reasons for the sales. In determining

if the cash flows consist solely of principal and interest, the principal is defined as the fair value of the debt instrument at initial recognition, which can change over the life if there are repayments or capitalisation of interest. Interest cash flows are consistent with components per a basic lending arrangement including consideration for time value of money, credit risk, liquidity risk as well as administrative costs and profit margin. If there are contractual features introducing an exposure to other risks or volatility, it is not considered to consist of solely payments of principal and interest. Debt instruments are presented in the statement of financial position items, "Loans to credit institutions", "Loans to the public" and "Debt securities", and include instruments in the following measurement categories.

Fair value through profit or loss: Debt instruments are classified in this category if not meeting the criteria for amortised cost or fair value through other comprehensive income. This is the case if the business model is held for trading; where financial assets are considered held for trading if they are held with the intention to be sold in the short-term and for the purpose of generating profits. Debt instruments are mandatorily measured at fair value through profit or loss if the assets are managed and evaluated on a fair value basis or the assets are held with an intention to sell alternatively if the cash flows do not consist of solely payments of principal and interest. Debt instruments that would otherwise be classified as fair value through other comprehensive income or amortised cost are also included in this category if, upon initial recognition, designated at fair value through profit or loss (fair value option). The fair value option can be applied only in situations where such designation reduces measurement inconsistencies.

Amortised cost: Debt instruments are classified in this category if both of the following criteria are met:
(a) the business model objective is to hold assets to collect contractual cash flows; and
(b) the contractual cash flow characteristics consist of solely payments of principal and interest. The gross carrying amount of these assets is measured using the effective interest method and adjusted for expected credit losses.

Financial instruments by measurement category are presented on page 52.

1.6.2. Equity instruments
Equity instruments are classified as financial assets at fair value through profit or loss. An irrevocable election can be made on initial recognition to classify equity instruments (not held for trading) at fair value through other comprehensive income.

1.6.3. Derivatives
Derivatives are classified as fair value through profit or loss (held for trading) unless designated as hedging instruments.

1.6.4. Modification
The Group may renegotiate loans and modify contractual terms. If the new terms are substantially different from the original terms, the Group derecognises the original financial asset and recognises a new asset. The Group also assesses whether the new financial asset is credit-impaired at initial recognition. If the terms are not substantially different, the modification does not result in derecognition and the Group recalculates the gross carrying amount based on the new cash flows using the original effective interest rate of the financial asset and recognises a modification gain or loss.

1.6.5. Write-offs
The Group writes off financial assets, in whole or in part, when it is unlikely to collect debt from the borrower and it can not be recovered from a sale of collateral. Write-offs constitute derecognition event and shall include amounts caused both by reductions of the carrying amount of financial assets recognised directly in profit or loss as well as reductions in the amounts of the allowance accounts for credit losses taken against the carrying amount of financial assets.
The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was 1.5 million euros (31 December 2018 - 0. 6 million euros). The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation on full recovery.

1.7. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value (which most often equals the premium received) and subsequently at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9 *Financial Instruments* and the amount initially recognised less, where appropriate, the cumulative amount of income recognised. The contractual amounts according to financial guarantees are not recognised in the statement of financial position but disclosed as obligations.

1.8. Expected credit loss

1.8.1. Measurement

The impairment requirements are based on an expected credit loss (ECL) model. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. All financial assets measured at amortised cost, as well as lease receivables, financial guarantees contracts and certain loan commitments are in scope for expected credit loss.

ECLs on financial assets measured at amortised cost and lease receivables are presented as allowances, i.e., as an integral part of the measurement of those assets in the statement of financial position. The allowance reduces the gross carrying amount. ECLs on loan commitments and financial guarantee contracts are presented as provisions, i.e., as a liability, in the statement of financial position. Adjustment to the loss allowance and provision due to changes in ECLs is recognised in the income statement as Net expected credit losses.

The assessment of credit risk, and the estimation of ECL, shall be unbiased and probability-weighted, and shall incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. SEB Group uses both models and expert credit judgement (ECJ) for calculating ECLs.

The ECL model has a three-stage approach based on changes in the credit risk. A 12-month ECL (Stage 1) applies to all items, unless there is a significant increase in credit risk since initial recognition. For items where there is a significant increase in credit risk (Stage 2) or in default (Stage 3), lifetime ECL applies.

1.8.2. Significant increase in credit risk

At the end of each reporting period the Group performs an assessment of whether credit risk has increased significantly since initial recognition. The assessment of whether there has been a significant change in credit risk is based on quantitative and qualitative indicators. Both historic and forward-looking information is used in the assessment.

For arrangements with an initial origination date as of 1 January 2018 or later, the primary indicator is changes in lifetime probability of default (PD) by comparing the scenario-weighted annualised lifetime PD at the reporting date with the scenario-weighted annualised lifetime PD at initial recognition. For arrangements with an initial origination date prior to 1 January 2018 changes in Group's and Bank's internal risk classifications since initial origination are used as the primary indicator.

Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following back-stop indicators occur:

- payments are past due >30 days but <90 days; or
- financial assets have been classified as watch-listed; or
- financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions given).

Back-stop indicators normally overlap with the quantitative indicator of significant increase in credit risk.

In case there has been a significant increase in credit risk since initial recognition, an allowance for lifetime ECL shall be recognised and the financial instrument is transferred to Stage 2. The approach is symmetrical, meaning that in subsequent reporting periods, if the credit quality of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the financial assets move back to Stage 1.

If credit quality of financial instrument deteriorates further, the financial instrument is transferred to Stage 3. Transfer to Stage 3 is triggered if the following indications occur:

- Payments are past due more than 90 days;
- Financial instrument is in default (PD = 100%).

1.8.3. Definition of default

Financial instruments in default are in Stage 3. The Group applies a definition of default for accounting purposes that is consistent with how it is defined in the capital requirements regulation, which includes financial assets past due more than 90 days. All financial assets in Stage 3 are considered credit-impaired.

1.8.4. Modelling

The ECL is calculated as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD), as well as the timing of the loss. The Group's IFRS 9 methodology for ECL measurement is based on existing internal rating-based risk models (IRB) to the extent allowed under IFRS 9. As the objectives of these frameworks differ, the manner in which the expected credit losses are calculated also differs and appropriate adjustments are made to the IRB parameters to meet IFRS 9 requirements. Adjustments include the conversion of through-the-cycle and downturn parameters used in IRB risk models to point-in-time parameters used under IFRS 9 that considers forward-looking information.

PD represents the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The expected PD for each individual instrument incorporates a consideration of past events, current market conditions and reasonable and supportable information about future economic conditions. The Group uses IFRS 9 specific PD models. The models are calibrated based on a combination of geography, assets class and product type. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. For IFRS 9, EAD models are adjusted for a 12-month or lifetime horizon. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held held as well as the probability of cure, whereby the borrower repays all his past due obligations on the defaulted loan and recommences contractual repayments. The Group uses existing LGD models adjusted to meet IFRS 9 requirements.
When measuring ECL, the Group uses the maximum contractual period during which the Group is exposed to risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For revolving facilities, such as credit cards, and retail mortgage facilities the expected life is modelled based on historical behaviour. The residual behavioural expected life for such facilities is based on historically observed survival curve and it is affected by the time since origination of the arrangement.

1.8.5. Forward-looking information
The SEB Group uses internally developed macroeconomic forecasts as the basis for the forward-looking information incorporated in the ECL measurement. In order to ensure an unbiased estimation of credit losses under IFRS 9, at least three scenarios are used. One of the scenarios is the base case scenario, representing the most likely outcome, which is also applied in the financial planning and budgeting process, while other case scenarios represent more positive or negative outcomes.
The forward-looking scenarios are prepared by SEB Group Economic Research Department. The scenarios are approved by the SEB Group Risk Committee.
A scenario consists of a qualitative description of the macroeconomic development and a quantitative part with forecasts of key macroeconomic variables for three subsequent years, as well as the likelihood of occurrence (scenario- weight). The scenarios are reviewed and updated on a quarterly basis. In case of significant changes in the macroeconomic environment and outlook, the scenarios will be updated more frequently. The base scenario variables are benchmarked to various external sources of similar forward-looking scenarios, e.g. from OECD, IMF, EU and National Statistics Offices.

1.8.6. Expert Credit Judgement
The Group uses both models and expert credit judgement (ECJ) in order to determine ECLs. The degree of judgement that is required to estimate ECL depends on the model outcome, materiality and the availability of detailed information. The model provides guidance and transparency as to how economic events could affect the impairment of financial assets. ECJ may be applied to the modelled outcome to incorporate an estimated impact of factors not captured by the model. Such judgemental adjustment to the model-generated ECLs may be applied to significant exposures at a counterparty level. The adjustments are decided by the relevant credit committee using the model ECLs as guidance. In addition there may be a need for adjustments at a portfolio level, which is decided by the SEB Group Risk Committee and approved by SEB Pank Credit Committee.

1.9. Financial liabilities

Financial liabilities are measured at fair value on initial recognition. In case the financial liabilities are measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or the issuance of the financial liability are recognised in profit or loss. For other financial liabilities direct transaction cost are recognised as a deduction from the fair value.
Financial liabilities are derecognised when extinguished, that is, when the obligation is discharged, cancelled or expired.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are classified as held for trading. Financial liabilities held for trading are derivatives not designated as hedging instruments.

Other financial liabilities
The category other financial liabilities primarily include the Group's short-term and long-term borrowings. After initial recognition other financial liabilities are measured at amortised cost, using the effective interest method. The statement of financial position items "Deposits from central banks and credit institutions", "Deposits and borrowings from the public" and "Other financial liabilities" are included in this category.

1.10. Fair value measurement

The objective of the fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date under current market conditions. The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. Where the market for a financial instrument is not active, fair value is calculated using an established valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. When valuing financial liabilities at fair value own credit standing is reflected. Given the uncertainty and subjective nature of valuing financial instruments at fair value, it is possible that the outcomes in the next financial year could differ from the assumptions used.
For some of the Group's financial assets and liabilities, especially for certain derivatives, quoted prices are not available, and valuation models are used to estimate fair value. 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.

1.11. Offsetting financial transactions

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legal right to offset transactions and an intention to settle net or realise the asset and settle the liability simultaneously.

1.12. Property, plant and equipment

Property, plant and equipment are initially recognized at cost, consisting of the purchase price, non-refundable taxes and other direct costs related to taking the asset in to use. Subsequently property, plant and equipment is measured at cost and depreciated according to plan on a straight line basis over the estimated useful life of the asset. The depreciation period for buildings is up to 50 years, for other property, plant and equipment - between 2 and 10 years. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.
Property, plant and equipment is tested for impairment whenever there is an indication of impairment.

1.13. Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance. For an intangible asset to be recognised an entity must be able to demonstrate control of the intangible asset, which implies that the entity has the ability to ensure that the future economic benefits flowing from the underlying resource will accrue to the Group. Intangible assets, other than goodwill, are only recognised in the statement of financial position if it is probable that the future economic benefits attributable to the asset will accrue to the Group and if the acquisition cost of the asset can be measured reliably.
Intangible assets are measured initially at acquisition cost, and thereafter at cost less any accumulated amortisation and any accumulated impairment losses.
Intangible assets with finite useful lives, i.e. all intangible assets except goodwill, are amortised on a straight line basis over their useful lives (3 years) and tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Internally generated intangible assets, such as software development, are amortised over a period of 8 years.
The recoverable amount of an intangible asset is determined if there is indication of a reduction in the value of the asset. An impairment loss is recognised if the carrying amount exceeds the recoverable amount of the asset.

1.14. Impairment of non-financial assets

Assets that are subject to amortisation 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. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.15. Leasing

The Group has applied IFRS 16 *Leases* using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 Leases and related interpretations. For more information about the changes and the transitional effects from adopting IFRS 16, see note 1.23.1.

1.15.1. The Group as lessor

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 under "Other non-financial liabilities". 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 under "Other non-financial assets".

1.15.2. The Group as lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. 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. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases for low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.15.3. Accounting policies applicable until 31 December 2018 and replaced by IFRS 16

Operating lease payments are recognised in income statement as expense over the rental period on straight line basis. Rental expense is recognised in income statement as "Other expenses".

1.16. Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.
Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn by a debtor in financial difficulties. ECLs on loan commitments and financial guarantee contracts are presented as provisions. Provisions and changes in provisions are recognised in the income statement as „Net expected credit losses".
Provisions are evaluated at each balance sheet date and are adjusted as necessary.

1.17. Operating income

1.17.1. Interest income and interest expenses

The effective interest method is applied to recognise interest income and interest expenses in profit or loss for financial assets and financial liabilities measured at amortised cost.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income and interest expenses. The effective interest rate is the rate that discounts estimated future cash

payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.The calculation of the effective interest rate includes transaction costs, fees to be received and paid that are an integral part of the effective interest rate. However, expected credit losses are not taken into account.

If a financial asset subsequently has become credit impaired the interest income is recognised applying the effective interest rate to the amortised cost, i.e. gross carrying amount adjusted for the loss allowance. In case a financial asset is credit-impaired at initial recognition, the expected credit losses are included in the estimated cash flows to calculate a credit adjusted effective interest rate which then is applied to recognise the interest income.

1.17.2 Fee and commission income

The recognition of revenue from contracts with customers is reported as fee and commission income. The Group recognises revenue when it transfers control over a service to a customer. This does not apply for revenue from leasing contracts or financial instruments and other contractual obligations within the scope of IFRS 9 Financial Instruments.

Fees that are included in the calculation of the effective interest rate of a financial instrument measured at amortised cost, such as loan origination fees, are allocated over the expected tenor of the instrument applying the effective interest method and presented in “Net interest income”.

Fee and commission income is recognised to depict the transfer of promised services to the customers in an amount that reflects the consideration to which SEB expects to be entitled in exchange for the service. The major types of fees are described below.

Fee and commission income for payment cards, current account services, payments is recognised as revenue at a point of time or over the period in which services are provided, depending on the service provided to the client. There is neither significant variable consideration included in the transaction price, which could be subject to reversal in the future, nor separate performance obligations, which should be distinct.

Fee and commission income for asset custody and asset management to customers is recognised as revenue over the period in which the services are provided. Performance based fees are recognised when it is highly probable that a significant reversal of recognised revenue will not occur, which is when the performance criteria are fulfilled.

Fee and commission income from loan syndications in which SEB acts as arranger are recognised as income when the syndication is completed and the Group has retained no part of the loan or retained a part of the loan at the same effective interest rate as other participants. Brokerage fees, commission and fees from negotiating a transaction for a third party, such as arrangement of acquisitions or purchase or sale of a business, are recognised on completion of the transaction.

Expenses that are directly related to the generation of fee and commission income are recognised under “Fee and commission expenses”.

1.17.3. Net financial income

Gains and losses arising from changes in fair value of financial assets and liabilities measured at fair value through profit or loss are reported in the income statement on an ongoing basis under “Net financial income”.

1.17.4. Dividend income

Dividends are recognised when the entity’s right to receive payment is established.

1.18. Employee benefits

1.18.1. Short-term benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as “Other non-financial liabilities” in the statement of financial position.

1.18.2. Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

1.18.3. Defined contribution plans or insurance contracts

The Group is paying into the defined contribution plans, pension funds or life insurance contracts on behalf of its employees. A defined contribution plan is a pension plan where the Group pays a contribution to a current account of AS

Pensionikeskus, if the employee's pension assets are being accumulated by acquisition of units in an AS SEB Varahaldus pension fund, and has no further obligation once the contribution is paid. Pension costs for defined contribution pension plans and life insurance premiums are recognised as an expense during the period the employees carry out the service to which the payment relates.

1.19. Share-based payments

The Group operates few of share-based incentive programmes based on Skandinaviska Enskilda Banken AB (publ) shares, under which it awards SEB equity instruments to its employees. Only key persons can participate in those programmes. The programmes, referred to above, are the Share Deferral Programme (SDP) and Restricted Share Programme (RSP). Equity-settled share-based incentive programmes entitle employees to receive SEB equity instruments. Cash-settled share-based incentive programmes entitle employees to receive cash based on the price or value of equity instruments of SEB. Fair value of these rights is determined by using appropriate valuation models, taking into account the terms and conditions of the award and the Group's estimate of the number of rights that will eventually vest, which is reassessed at each reporting date. Social security costs, if applicable, are accounted for over the vesting period and the provision for social security costs is reassessed on each reporting date to ensure that the provision is based on the rights' fair value at the reporting date. The recording of expenses will last until the end of the qualification period of the respective programs.
The cost of equity-settled share-based incentive programmes is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period with a corresponding increase in equity. The vesting period is the period that the employees have to remain in service in SEB in order for their rights to vest. For cash-settled share-based incentive programmes, the services acquired and liability incurred are measured at the fair value of the liability and recognised as an expense over the vesting period, during which the employees render service. Until settlement, the fair value of the liability is remeasured, with changes in fair value recognised in the income statement.

1.20. Taxes

According to the Income Tax Act, the annual profit earned by enterprises is generally 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 up to 20/80. When calculating the average dividend payment of three preceding years, 2018 was the first year to be taken into account.
Starting from 1 April 2018, the quarterly profits of credit institutions are subject to corporate income tax at the rate of 14%. The tax is payable by the 10th day of the third month of the following quarter. Once the profits are distributed, an additional income tax of up to 6% is further payable, arriving at the total tax rate of up to 20%. The rate of the additional tax depends on the regularity of the dividend payments. If no dividends are paid, the advance tax payments are not refunded. Advance income tax was first time applied to the bank's profit for Q2 2018.

1.21. 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 under "Fee and commission income".

1.22. Share capital and dividends

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note.

1.23. New and amended Standards and Interpretations

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

1.23.1. Adoption of New or Revised Standards and Interpretations
The following new or revised standards and interpretations became effective for the Group from 1 January 2019 that would be expected to have a impact to the Group.

IFRS 16: Leases replaces IAS 17 Leases and related interpretations. The standard is effective as from 1 January 2019 and is endorsed by the EU. The new standard significantly changes how SEB as a lessee accounts for leases by introducing a single, on-balance sheet lease accounting model requiring the recognition of lease assets (right-of-use assets) and corresponding lease liabilities. In the income statement, the straight-line operating lease expense is replaced by depreciation of the lease assets and an interest expense on the lease liability. The accounting requirements for lessors are in practice unchanged.

Upon transition to IFRS 16, the group has decided to apply the modified retrospective approach. For the purpose of applying the modified retrospective approach to the leases, the group has elected, lease-by-lease, to measure the right-of-use assets either, (i) to an amount as if the group had applied IFRS 16 since the commencement date using the incremental borrowing rate at the date of initial application or, (ii) to an amount equal to the lease liability. In addition, the group decided to apply the practical expedients to use hindsight when assessing the lease term, not to recognise a right-of-use asset or lease liability to leases for which the lease term ends within 12 months of the date of initial application, not to reassess whether a contract is, or contains, a lease at the date of initial application and not to include assets of low value.

The main impact on the group's financial statements is from the accounting of property leases. There is no significant impact on the income statement, although the presentation in the income statement changes as other expenses will be replaced by depreciation of the right-of-use asset and interest expenses on the lease liability. There is no significant impact on large exposures and capital adequacy.

The new standard also introduces new estimates and judgements that affect the measurement of lease liabilities. SEB measures the lease liability at the commencement date and may be required to revise it, e.g. the assessment of whether an option is reasonably certain to be exercised. As this will increase financial statement volatility, this is revised and monitored by the group continuously.

The tables show the transition effects of IFRS 16 on SEB Pank Group balance sheet reconciling the closing balances under IAS 17 as of 31 December 2018 with the opening balances under IFRS 16 as of 1 January 2019.

Impact on assets, liabilities and equity

(millions of EUR)	**Closing balance 31 December 2018**	**IFRS 16 transition**	**Opening balance 1 January 2019**
Assets			
Right of use assets	0.0	21.7	21.7
Other non-financial assets [1]	13.0	4.2	17.2
Net impact on total assets		**25.9**	
Liabilities			
Provisions	5.8	-2.4	3.4
Other financial liabilities [2]	66.0	30.3	96.3
Net impact on total liabilities		**27.9**	
Total equity [3]	**1,033.6**	**-2.0**	**1,031.6**
Net impact on total liabilities and equity		**25.9**	

[1] Increase on non-financial assets comes from finance lease receivables
[2] Increase on other financial liabilities comes from lease liabilities
[3] Decrease on toal equity comes from retained earnings
The difference between right-of use assets and lease liabilities is recognised in retained earnings.

Bridge showing the transition from IAS 17 to IFRS 16 accounting for leases

(millions of EUR)

Future minimum payments for operational leases per 31 December 2018	31.5
Discounting	-0.9
Present value for lease liabilities previously classified as operating leases applying IAS 17	**30.6**
Short-term leases expensed on a straight-line basis over the lease term	-0.2
Leases for which the underlying assets is of low-value expensed on a straight-line basis	-0.1
Lease liabilities as of 1 January 2019 applying IFRS16	**30.3**

IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The group has assessed that there is no a material effect on the financial statements of the Group.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)
The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The group has assessed that there is no a material effect on the financial statements of the Group.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The group has assessed that there is no a material effect on the financial statements of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)
The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.The group has assessed that there is no a material effect on the financial statements of the Group.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The group has assessed that there is no a material effect on the financial statements of the Group.

- **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business**.**
- **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2019 that would be expected to have material impact to the Group.

1.23.2. 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 January 2020 and which the Group has not early adopted.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The group is assessing if there will not be a material effect on the financial statements of the Group.

Conceptual Framework in IFRS standards
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The group is assessing if there will not be a material effect on the financial statements of the Group.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The group is assessing if there will not be a material effect on the financial statements of the Group.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The group has assessed that there will not be a material effect on the financial statements of the Group.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial

position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The group is assessing if there will not be 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 material impact on the Group.

1.24 Critical accounting estimates and judgements in applying accounting policies

1.24.1. Expected credit loss model
When calculating expected credit loss (ECL) there are a number of key concepts that require a high level of judgement. Estimating expected credit loss is, by its very nature, uncertain and the accuracy of these estimates depends on many factors, e.g. macroeconomic forecasts and involves complex modelling and judgements. The assessment of significant increase in credit risk is a new concept under IFRS 9 Financial Instruments and will require significant judgement. At the end of each reporting period the Group shall perform an assessment of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the Group's existing risk management processes. Another area requiring significant judgement is the incorporation of forward-looking information and macroeconomic scenarios. IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. SEB Group uses internally developed macroeconomic forecasts as the basis for the forward-looking information in the ECL measurement. SEB Group uses both models and expert credit judgement (ECJ) in order to determine ECLs. The objective of applying ECJ is to incorporate the estimated impact of factors not captured in the modelled ECL. The degree of judgement that is required to estimate expected credit losses depends on the outcome from calculations, materiality and the availability of detailed information. The models, assessment and assumptions are regularly reviewed by the risk organization of the SEB Group and approved by the SEB Group Risk Committee. Further information can be found on page 38 -39.

2. Risk policy and management

2.1. Risk policy and structure

SEB Pank Group defines risk as the possibility of a negative deviation from an expected financial outcome. SEB Pank Group's profitability is directly dependent upon its ability to evaluate, manage and price the risks encountered, while maintaining an adequate capital and liquidity position to meet unforeseen events. The Supervisory Board is responsible for setting the maximum acceptable levels of risks to be taken by the bank. The risk tolerance statements conveys the direction and level of risk, funding structure, and necessary liquidity and capital buffers.

SEB Pank Group's main risk is credit risk. Other risks include market risk, operational risk, business risk, and liquidity risk. In order to cover the risks, SEB Pank Group holds a capital buffer and liquidity reserves in case of unforeseen events. SEB Pank Group strives to continuously identify and manage risks in its operations, both existing and emerging risks, in a designated risk management process. The aggregate risk profile of SEB Pank Group is regularly monitored and reported to the management bodies. In the annual capital adequacy process, the capital needs are evaluated based on the risk profile and future business strategy, taking into consideration the financial stability requirements of the regulators, debt investors, business counterparties and shareholders 'required rate of return.

RISK PROFILE

Risk type	SEB Pank Group shall	2019 development and positions
Credit risk and asset quality	**Have a robust credit culture** based on long term relationships, knowledge about the customers and focus on their repayment ability. This will lead to a high quality credit portfolio.	• SEB Pank Group has a well-balanced credit portfolio with main exposure to corporates and households in Estonia. • Asset quality remains strong with low credit losses.
Market risk	**Achieve low earnings volatility** by generating revenues based on customer-driven business.	• Market risk arises in SEB's customer-driven trading activity and its liquidity portfolio. Generally, SEB Pank Group's market risk is low. • Interest rate risk arises due to mismatches in rates and maturities in the bank's assets and liabilities, and is managed by the Treasury function.
Operational and reputational risk	**Strive to mitigate operational risks** in all business activities and maintain the bank's reputation.	• Continuously working to maintain an effective internal control framework and ensure a structured and consistent usage of risk mitigating tools and processes for all identified operational risks. • Managing and mitigating cyber and information risks are key priorities to ensure secure and available information, services and products for customers
Liquidity and funding risk	**Have a soundly structured liquidity position** and sufficient liquid reserves to meet potential net outflows in a stressed scenario.	• Strong liquidity position, large buffers above regulatory ratios • SEB Pank Group's primary funding sources are customer deposits and wholesale funding.
Aggregated risk and capital adequacy	**Maintain satisfactory capital strength in order to sustain aggregated risks**, and guarantee the bank's long-term survival and its position as a financial counterparty, while operating within regulatory requirements.	• SEB is strongly capitalised in relation to regulatory capital requirements. • The aim is to hold a capital adequacy buffer of around 100 basis points above the regulatory requirement.

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, settlement risk, and credit concentration risk.

Credit risk is the main risk in SEB Pank Group, which arises in the lending and commitments to customers, including corporates, financial institutions, public sector entities and private individuals. This is referred to as the credit portfolio. SEB Pank Group's total credit exposure consists of the credit portfolio as well as debt instruments.

Risk management

Credit policies 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 by the bank and the purpose of the loan shall be fully understood. The business units take full responsibility of the credit risk until repayment.

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 credit decision also includes a risk classification of the customer based on this analysis. The process differs depending on the type of customer (e.g., retail, corporate or institutional), risk level, and size and type of transaction. For larger corporate customers, independent and professional credit analysis is particularly important, and decisions are mostly taken by a credit committee. For households and small businesses, the credit approval is often based on credit scoring models. 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 sustainability as described in the Corporate Sustainability Policy, the Environmental Policy, the Human Rights Policy, and the Credit Policy on Corporate Sustainability. Position statements on climate change, child labour and access to fresh water as well as number of industry sector policies shall be considered in the credit granting process and are also used in customer dialogues. Environmental, social and governance risks shall be considered in the credit analysis.

Risk mitigation

In order to reduce the credit risk, a number of credit risk mitigation techniques are used. The method used depends on its suitability for the product and the customer in question, its legal enforceability, and on SEB's experience and capacity to manage and control the particular technique. The most important credit risk mitigation techniques are collateral pledges and guarantees. The most common types of pledges are real estate, floating charges (commercial pledge – account receivables, inventories, machinery and equipment) 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. For large corporate customers, credit risk is often mitigated by the use of covenants. In the trading operations, daily margin arrangements are frequently used to mitigate net open counterparty exposures at any point in time.

SEB Pank Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by SEB Pank Group since the prior period.

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 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 businesses - 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 businesses at least once a year. Behavioural score is calculated monthly for all private individuals and small businesses 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 subject to more frequent reviews. The objective is to identify credit exposures with an elevated risk of loss at an early stage 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 limit credit losses. 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.

Allowances are made for expected credit losses of financial assets in scope of the accounting standard IFRS 9 Financial Instruments. The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of the assets.

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. A relevant credit approval body shall approve the forbearance measures as well as the classification of the loan as being forborne or not.

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.

<u>Risk measurement</u>

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:

1) non-retail portfolio including loans to legal entities belonging to counterparty group's with credit risk assumed by SEB Pank Group exceeding 500,000 euros (2018: 500,000 euros); and

2) retail portfolio consisting of small businesses' and private individuals' sub-segments.

An internal ratings-based (IRB) risk classification system approved by the regulator is used for the majority of the bank's portfolios and reflects the risk of default on payment obligations. SEB Pank Group received approval for a significant amendment of its risk classification system for the non-retail portfolio in January 2019.

For significant corporate portfolios, the risk classification system contains specific rating tools and PD (probability of default) scales. Larger and mid-sized counterparties are measured on a risk class scale of 1–16, while Small and Medium-sized Enterprises (SMEs) are measured on a scale of 1–12. According to the previously used risk classification system also Small and Medium-sized Enterprises (SMEs) were measured on a scale of 1–16 as described in previous year's annual report. Defaulted counterparties are given the highest risk class, and the three risk classes prior to default are defined as "watch list". For each risk class scale, SEB makes individual one-year, through-the-cycle probability of default estimates, which are based on more than 20 years of internal and external data.

For private individuals and small businesses, SEB Pank Group uses credit scoring systems to estimate PD for the customer. The scoring model for small businesses 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. Customers with insufficient information for score calculation are included to the worst quality class.

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.

Counterparty risk in derivative contracts

SEB Pank Group 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 credit risk in derivative contracts is the risk of a counterparty not living up to its contractual obligations where SEB Pank Group has a claim on the counterparty. The claim on the counterparty corresponds to a net positive exposure in favour of SEB Pank Group. 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 Note 3. Fair value of financial assets and liabilities. So in Credit risk chapter we concentrate on credit risk arising from loans and receivables from customers and credit institutions (other credit institutions).

Counterparty risk in derivative contracts 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.

Key macroeconomic variable assumptions for calculating ECL allowances

SEB Pank Group uses internally developed macroeconomic forecasts as the basis for the forward-looking information incorporated in the ECL measurement. In order to ensure an unbiased estimation of credit losses under IFRS 9, at least three scenarios are used. One of the scenarios is the base case scenario, representing the most likely outcome, which is also applied in the financial planning and budgeting process, while the other case scenarios represent more positive or negative outcomes. The probability weights assigned to each scenario are determined using a combination of statistical analysis and expert judgment. The scenarios are reviewed four times a year, or more frequently when appropriate due to rapid developments. The most significant macroeconomic variable assumptions of the Base scenario used as of 31 December 2019, are set out below. Individual scenarios for SEB's home markets are used.

	2019	**2020**	**2021**	**2022**
Domestic GDP growth	3,2%	2,0%	2,6%	2,5%
Real estate price growth	3,0%	3,0%	2,0%	2,5%
Unemployment rate	5,3%	5,8%	6,4%	6,2%
Household consumption expenditure growth	3,5%	2,8%	4,8%	3,0%
Residential real estate price growth	5,0%	3,0%	2,0%	3,0%
Nominal wage growth	7,6%	6,0%	5,4%	5,0%
Inflation rate	2,3%	2,0%	2,2%	2,0%

The most significant assumptions affecting the ECL allowance of the non-retail, retail corporates and private individuals portfolios, respectively, are as follows:

Non-retail and retail corporates portfolios:	
(i) GDP	impact on companies' performance
(ii) Commercial real estate price development	impact on collateral valuations

Private individuals portfolios:	
(i) Unemployment rate	impact on borrowers' ability to meet their contractual repayments
(ii) Household consumption expenditure growth	impact on borrowers' ability to meet their contractual obligations
(iii) Residential real estate price growth	impact on mortgage collateral valuations

As of 31 December 2019, the probability of the negative scenario was estimated to 20-25 % and the probability of the positive scenario was 17 %. As of 31 December 2018, the probability of the negative scenario was estimated to 20-25 % and the probability of the positive scenario was 15 %.

Sensitivity analysis of macroeconomic assumptions

In general, a worsening of the outlook on forecasted macroeconomic variables for each scenario or an increase in the probability of the negative scenario occurring will both increase the number of loans migrating from Stage 1 to Stage 2 and increase the estimated ECL allowances. On the other hand, an improvement in the outlook on forecasted macroeconomic variables or an increase in the probability of the positive scenario occurring will have the opposite positive impact.

Should the positive and negative scenarios be assigned 100 % probability of occurring, the model calculated ECL allowances would decrease by 4 % and increase by 6 %, respectively compared to the weighted scenario.

(millions of EUR)	**ECL allowances resulting from scenario**	**Difference from the probability weighted ECL allowances, %**
Negative scenario	21.4	6%
Positive scenario	19.4	-4%

Key assumptions for triggering significant increase in credit risk (SICR)

For arrangements with initial origination date as of 1 January 2018 or later, the primary indicator is changes in lifetime probability of default (PD) by comparing the scenario weighted annualised lifetime PD at the reporting date with the scenario weighted annualised lifetime PD at initial recognition. For arrangements with an initial origination date prior to 1 January 2018 changes in SEB internal risk classification since initial origination are used as the primary indicator.

Quantitative measures for triggering significant increase in credit risk (SICR)

	For arrangements originated prior to 1 January 2018	**For arrangements originated on or after 1 January 2018**
Watch list	1)	1)
Investment grade	2 - 7 grades	Annualised lifetime PD increase by 200% and ≥ 50 basis points
Standard monitoring	1 - 2 grades	

1) Placement of a financial asset on watch list automatically classifies it as a significant increase in credit risk and places it in Stage 2.

Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following back-stop indicators occur:

- payments are past due >30 days but < 90 days, or
- financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions given).

Back stop indicators normally overlap with the quantitative indicator of significant increase in credit risk.

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Concentration of financial assets and liabilities by economic sector
(millions of EUR)

Balance at 31 December 2019	In the statement of financial position: Cash and balances with central bank, loans to credit institutions, loans to the public	In the statement of financial position: Securities	Contingent liabilities
Finance	938.2	13.7	43.4
Real estate	846.4	-	54.8
Trading	446.6	0.0	181.8
Industry	408.7	0.0	159.1
Energy, gas and steam plants	309.2	-	126.7
Agriculture, fishing, forestry	216.4	-	10.2
Transport	199.5	0.0	62.3
Government and state defence	172.8	159.2	51.3
Professional, science and technical work	57.9	-	17.3
Administration and assistance	56.1	-	7.2
Mining	50.9	-	1.6
Construction	50.8	-	107.6
Hotels, restaurants	49.3	-	0.8
Water supply, canalisation, waste management	34.1	0.0	24.9
Health services, social work	33.1	-	10.9
Information and telecommunication	14.9	1.1	4.8
Art, show business, leisure	13.0	-	5.6
Other government and social services	6.4	0.0	0.5
Education	5.3	-	5.8
Private individuals	2,727.3	-	123.8
Derivatives	0.0	6.1	-
Allowances	-19.9	-	-
Total	**6,617.0**	**180.1**	**1,000.4**

Concentration of financial assets and liabilities by economic sector

Balance at 31 December 2018	In the statement of financial position: Cash and balances with central bank, loans to credit institutions, loans to the public	In the statement of financial position: Securities	Contingent liabilities
Finance	1,291.7	10.2	64.8
Real estate	807.2	-	115.3
Trading	413.9	0.1	182.9
Industry	412.5	-	127.1
Energy, gas and steam plants	122.1	-	337.3
Agriculture, fishing, forestry	191.8	0.0	9.5
Transport	173.0	0.0	75.2
Government and state defence	136.0	109.7	32.7
Professional, science and technical work	51.2	-	14.5
Administration and assistance	55.2	-	7.4
Mining	52.5	-	7.5
Construction	43.6	-	96.0
Hotels, restaurants	49.0	-	0.7
Water supply, canalisation, waste management	12.5	-	7.6
Health services, social work	36.9	-	7.2
Information and telecommunication	22.2	1.0	4.4
Art, show business, leisure	10.3	-	1.8
Other government and social services	6.1	-	0.5
Education	5.5	-	7.3
Private individuals	2,521.4	-	113.5
Derivatives	-	6.6	-
Allowances	-24.0	-	-
Total	**6,390.6**	**127.6**	**1,213.2**

Large exposures	31/12/2019		31/12/2018	
(millions of EUR)	Number/ Amount	% from net own funds	Number/ Amount	% from net own funds
Number of customers with large exposures	5.0	-	5.0	-
Due from customers with large exposures (EUR mio)	456.2	47.69	497.1	51.96
	457.2	**47.79**	**497.7**	**52.02**
Own funds included in calculation of capital adequacy	956.6		956.7	

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 Regulation No 575/2013 of the European Parliament and of the Council and is the total exposure of one party or related parties to the group which exceeds 10% of the group's net own funds, 95.7 million euros as at 31 December 2019 (95.7 million euros as at 31 December 2018), see Net own funds on page 14. 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%. Total exposure of any group of related parties did not exceed the regulatory limit of 25% in SEB Pank Group.

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

	31/12/2019	**31/12/2018**
Subject to ECL allowances:		
Balances with central bank	806.3	1,121.0
Loans to credit institutions	66.0	80.4
Loans to the public	5,706.9	5,153.3
Corporates	*2,782.6*	*2,470.8*
Public sector	*206.4*	*172.7*
Mortgage	*2,367.8*	*2,181.4*
Other loans to Private individuals	*350.1*	*328.4*
Other financial assets	11.1	12.3
Not subject to ECL allowances:		
Debt securities	159.2	109.7
Derivatives	6.2	6.7
Equity instruments	13.3	9.8
Exposures related to off-balance sheet items and guarantees	1,000.4	1,213.2
Maximum exposure	7,769.4	7,706.4

2.3. 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

The Supervisory Board has established a comprehensive framework for managing SEB Pank Group's liquidity requirements and risks in the short- and long-term. 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 Management Board. The treasury function has the overall responsibility for liquidity management and funding. Risk department measures limit utilisation based on different market conditions and liquidity stress tests on a daily basis. The liquidity risk position is reported at least monthly to ALCO and quarterly to the Risk Committee of the Supervisory Board.

Liquidity management and the structuring of the balance sheet from a liquidity point of view are built on three basic perspectives:

(i) the structural liquidity perspective, in which stable funding is put in relation to illiquid assets;
(ii) SEB Pank Group's tolerance for short-term stress in the form of a shutdown of the wholesale and interbank funding markets (wholesale funding dependence); and,
(iii) SEB Pank Group's tolerance to a severe stress scenario (survival horizon) where, in addition to a shutdown of the funding market, the bank experiences a severe outflow of deposits.

Structural liquidity risk

In order to maintain a sound structural liquidity position, the structure of the liabilitiy 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 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 on a more detailed level based on internal statistics, which results in different weightings of available and required stable funding.

Wholesale funding dependence

SEB Pank Group wholesale funding dependence monitoring is primarily performed through the core loan to deposit ratio, which expresses to what extent loans are funded with customer deposits and thereby the Bank's dependence on wholesale funding. Loan to deposit ratio is calculated by dividing the bank's total loans to the public by its total deposits from the public. A ratio above 100% means that lending to the public is not being fully financed by deposits from the public and the bank needs other types of funding (typically wholesale funding).

Stressed survival horizon

Severe stress can be modelled by combining assumptions of a wholesale funding market shutdown with assumptions of deposit outflows, 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 Internal Capital Adequacy Assessment Process (ICAAP). The ILAAP is designed to identify potential gaps against SEB Pank Group's long-term desired level of liquidity adequacy, taking into account that effective liquidity management is a continuous process.

Liquidity risk management measures

	31/12/2019	**31/12/2018**
Core Gap ratio	105%	107%
Loan to deposit ratio	129%	118%
Liquidity Coverage ratio	148%	172%

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 SEB Pank Group additional assurance to manage long-term liquidity. Liquidity is managed in co-operation with SEB Group Treasury. Through the parent company SEB Pank Group has better access to the international money markets than on individual basis.

Next table presents the cash flows payable by SEB Pank Group under non-derivative financial liabilities by remaining contractual maturity as of 31 December 2019. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity risk (by remaining maturity)
(millions of EUR)

Balance at 31 December 2019	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying value in statement of financial position**
Cash and balances with central bank	844.1	-	-	-	-	**844.1**	844.1
Debt securities	0.0	108.1	0.4	64.6	-	**173.1**	159.2
Total assets used for liquidity management	**844.1**	**108.1**	**0.4**	**64.6**	**-**	**1,017.2**	**1,003.3**
Deposits from central banks and credit institutions	41.7	0.6	251.1	924.0	-	**1,217.4**	1,212.3
Deposits and borrowings from the public	4,258.8	23.2	84.0	74.6	8.4	**4,449.0**	4,446.1
Other financial liabilities	75.2	4.5	11.5	10.7	2.2	**104.1**	104.1
of which lease liabilities	-	*4.5*	*11.5*	*10.7*	*2.2*	***28.9***	*28.9*
Total undiscounted non-derivative financial liabilities	**4,375.7**	**28.3**	**346.6**	**1,009.3**	**10.6**	**5,770.5**	**5,762.5**
Irrevocable off-balance sheet commitments	1,000.4	-	-	-	-	**1,000.4**	-

Balance at 31 December 2018	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying value in statement of financial position**
Cash and balances with central bank	1,156.9	-	-	-	-	**1,156.9**	1,156.9
Debt securities	0.0	3.3	3.3	118.9	-	**125.5**	109.7
Total assets used for liquidity management	**1,156.9**	**3.3**	**3.3**	**118.9**	**-**	**1,282.4**	**1,266.6**
Deposits from central banks and credit institutions	56.9	0.6	195.5	756.9	15.1	**1,025.0**	1,022.0
Deposits and borrowings from the public	4,194.7	26.4	111.0	59.6	11.6	**4,403.3**	4,399.9
Other financial liabilities	66.0	-	-	-	-	**66.0**	66.0
of which lease liabilities	-	-	-	-	-	-	-
Total undiscounted non-derivative financial liabilities	**4,317.6**	**27.0**	**306.5**	**816.5**	**26.7**	**5,494.3**	**5,487.9**
Irrevocable off-balance sheet commitments	1,213.2	-	-	-	-	**1,213.2**	-

Next table presents undiscounted derivative instruments analysis for the SEB Pank Group as of 31 December 2019. Gross-settled derivatives are included in the analysis whether their fair value is negative or positive at balance sheet date. Pay leg of such derivatives is presented as outflow and receive leg as inflow.

Gross settled derivatives

Balance at 31 December 2019	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying value in statement of financial position**
Derivatives inflows	-183.4	-51.8	-4.8	-2.4	-0.3	**-242.7**	-6.1
Derivatives outflows	183.7	52.5	5.0	3.0	0.3	**244.5**	7.8

Balance at 31 December 2018	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**	**Carrying value in statement of financial position**
Derivatives inflows	-182.4	-17.9	-4.8	-3.1	-0.5	**-208.7**	-6.6
Derivatives outflows	182.3	18.1	5.8	4.2	0.5	**210.9**	6.2

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. SEB Pank 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.

2.4. Market risk

Definition

Market risk is the risk of losses in balance sheet positions and obligations, 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 positions in the trading book are held with a trading intent and under a daily mark-to-market regime, positions in the banking book do not have a trading intent and are typically held at amortised cost.

Risk management

Market risks in the trading book arises from bank's customer-driven trading activities. Market risk also arises in the form of interest rate risk in the banking book as a result of balance sheet mismatches in currencies, interest terms and interest rate periods. The treasury function has overall responsibility for managing these risks. The risk is managed by setting the proper risk management framework, daily monitoring and follow up on utilization levels and actions taken if the utilization is too high. The treasury function also manages a liquidity portfolio, which is part of bank's liquidity reserve. The market risk from the liquidity portfolio comes from credit spread risk and interest rate risk in pledgeable and highly liquid bonds.

Bank's risk appetite is defined in the Tolerance statement. Management defines how much market risk is acceptable by setting the overall market risk limits and general instructions as part of bank's risk appetite. Risk Committee of the Supervisory Board sets tolerance levels within given market risk limits.

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.

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 quarterly basis to the ALCO and to the Risk Committee of the Supervisory Board.

Risk measurement

When assessing the market risk exposure, SEB Pank Group uses measures that capture losses under normal and stressed market conditions. Market risks under normal market circumstances are measured using Value at Risk (VaR) as well as specific measures that are relevant for the various risk types. These measures are complemented by stress tests and scenario analyses, in which potential losses under extreme market conditions are estimated. Since no 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 subject to validation 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 assessment results on total portfolios positions
(millions of EUR)

	31/12/2019	31/12/2018
Interest rate risk (stand-alone)	0.5	0.3
Credit spread risk (stand alone)	0.0	0.0
Foreign excchange risk (stand alone)	0.0	0.0
Equity price risk (stand alone)	0.8	0.7
Diversification effect	-0.3	-0.3
Total	**1.0**	**0.7**

Scenario analysis and Stress tests

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% and Net Interest Income (NII) sensitivity for interest risk, and single and aggregated FX for currency risk.

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

2.4.1. Foreign exchange risk

Foreign exchange risk arises both through the SEB Pank Group'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)

		31/12/2019			31/12/2018	
	Rates	**Position**	**Percentage of capital**	**Rates**	**Position**	**Percentage of capital**
Swedish krona (SEK)	10.4468	-1.5	-0.2	10.2548	1.0	0.1
The remaining long positions	N/A	5.9	0.6	N/A	5.0	0.5
The remaining short positions	N/A	-2.7	-0.3	N/A	-0.4	0.0
Open position	**N/A**	**1.7**	**0.2**	**N/A**	**5.6**	**0.6**

Net currency position was under 2% level of net own funds, 19.3 million euros as at 31.12.2019 (19.1 million euros as at 31.12.2018).

2.4.2. 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.

SEB Pank Group uses Delta 1% methodology for measuring the 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) to reflect change in economic value due to change in interest rates. 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.

SEB Pank Group also uses NII sensitivity metrics to reflect change in the net interest rate due to the change of interest rates. For 2019 NII sensitivity was defined as change in value of annual Net Interest Income per 200 bps parallel shift of interest rates. NII sensitivity metrics methodology remains under development by SEB Pank Group. SEB Pank Group does not have a limit on NII sensitivity, but instead a risk tolerance measure relative to REA is established by the Risk Committee of the Supervisory Board.

Daily management of interest rate risk is the responsibility of the Treasury department, and measuring and analysing that of the Risk department.

Interest rate sensitivity (millions of EUR)	**31/12/2019**	**31/12/2018**
Net effect on the economic value of equity (delta 1%)	-12.1	-10.4

SEB Pank Group NetDelta 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". 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)

The table does not include the liabilities from factoring, commissions for loans and accrued interests.

Balance at 31 December 2019	**< 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets							
Balances with central bank	806.4	-	-	-	-	-	**806.4**
Loans to credit institutions	65.9	-	-	-	-	-	**65.9**
Loans to the public	1,392.2	1,708.9	2,228.0	62.0	235.5	85.4	**5,712.0**
Total financial assets	**2,264.5**	**1,708.9**	**2,228.0**	**62.0**	**235.5**	**85.4**	**6,584.3**
Deposits from central banks and credit institutions	291.9	525.5	217.8	131.5	45.3	-	**1,212.0**
Deposits and borrowings from the public	4,266.9	23.1	40.5	42.9	71.6	0.1	**4,445.1**
Total financial liabilities	**4,558.8**	**548.6**	**258.3**	**174.4**	**116.9**	**0**	**5,657.1**
Total interest repricing gap of on-balance sheet position	**-2,294.3**	**1,160.3**	**1,969.7**	**-112.4**	**118.6**	**85.3**	**927.2**
Derivative assets	171.6	19.0	4.8	1.1	2.3	0.3	**199.1**
Derivative liabilities	172.1	19.7	4.8	1.2	2.8	0.3	**200.9**
Total interest repricing gap	**-2,294.8**	**1,159.6**	**1,969.7**	**-112.5**	**118.1**	**85.3**	**925.4**

Balance at 31 December 2018	**< 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial assets							
Balances with central bank	1,121.1	-	-	-	-	-	**1,121.1**
Loans to credit institutions	47.7	3.8	0.2	28.5	-	-	**80.2**
Loans to the public	1,309.1	1,621.7	1,818.0	49.1	257.4	102.1	**5,157.4**
Total financial assets	**2,477.9**	**1,625.5**	**1,818.2**	**77.6**	**257.4**	**102.1**	**6,358.7**
Deposits from central banks and credit institutions	506.9	200.5	15.8	178.2	105.3	15.0	**1,021.7**
Deposits and borrowings from the public	4,203.0	26.2	35.2	74.8	57.6	2.3	**4,399.1**
Total financial liabilities	**4,709.9**	**226.7**	**51.0**	**253.0**	**162.9**	**17.3**	**5,420.8**
Total interest repricing gap of on-balance sheet position	**-2,232.0**	**1,398.8**	**1,767.2**	**-175.4**	**94.5**	**84.8**	**937.9**
Derivative assets	163.3	12.5	2.3	0.9	2.9	0.5	**182.4**
Derivative liabilities	163.2	12.8	2.3	1.9	4.0	0.5	**184.7**
Total interest repricing gap	**-2,231.9**	**1,398.5**	**1,767.2**	**-176.4**	**93.4**	**84.8**	**935.6**

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

Market risk is measured using VaR model. Most of the reported VaR exposure in equities arises from banking book position in strategic investments. Average 10-day VaR in trading book equity portfolio was 0.002 million euros during 2019 (0.004 million euros during 2018). Trading portfolio size is internally limited by nominal limits and market risk (VaR) limit.

2.5. 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-, cyber- and physical 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. The process is also used for yearly reviews of significant outsourcing arrangements in SEB Pank Group.

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 mandatory training for all staff in general operational risk, information security, fraud prevention, anti-money laundering, know-your-customer procedures, GDPR and 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.

SEB Pank Group's approach to meet cyber and other security threats is to prioritise technical protection, raise awareness and continuously enhance the cyber risk culture among both employees and customers. Necessary security updates, system upgrades, and implementation of new features and secure measurements are performed on a regular basis. SEB Pank Group continuously works to enhance and improve its already well established processes for mitigating, evaluating and following up on existing and future cyber risks.

The risk department is responsible for measuring and reporting SEB Pank Group's operational risks. Significant incidents and the risk level are analysed and reported monthly to the ALCO and on a quarterly basis to the Management Board and the Risk Committee of the Supervisory Board. In 2019, the total operational losses from operational incidents amounted to 112 thousand euros (2018: 109 thousand euros).

Risk measurement

SEB Pank Group uses the Advanced Measurement Approach (AMA) to calculate the regulatory capital requirement for operational risk.

2.6. Capital requirements

The SEB Pank Group's own funds in amount of 956.6 million euros (2018: 956.7 million euros) consists:

1. Tier 1 Capital 956.6 million euros (2018: 956.7 million euros);
2. Tier 2 Capital 0.0 million euros (2018: 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 1%, Other Systemically Important Institution buffer 2%, 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.

Internal Capital Adequacy Assessment Process

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 Estonian 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.

3. Fair value measurement of assets and liabilities

The objective of the fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date under current market conditions.

The group has an established control environment for the determination of fair values of financial instruments that includes a review, independent from the business, of valuation models and prices. If the validation principles are not adhered to, exceptions of material and principal importance require approval from respective decision-making bodies.

In order to arrive at the fair value of a financial instrument SEB Pank Group uses different methods; quoted prices in active markets, valuation techniques incorporating observable data and valuation techniques based on internal models. For disclosure purposes, financial instruments carried at fair value are classified in a fair value hierarchy according to the level of market observability of the inputs. Risk control function classifies and continuously reviews the classification of financial instruments in the fair value hierarchy.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. The objective is to arrive at a price at which a transaction without modification or repackaging would occur in the principal market for the instrument to which SEB Pank Group has immediate access.

Fair value is generally measured for individual financial instruments, in addition portfolio adjustments are made to cover the credit risk. To reflect counterparty risk and own credit risk in OTC derivatives, adjustments are made based on the net exposure towards each counterpart. These adjustments are calculated on a counterparty level based on estimates of exposure at default, probability of default and recovery rates. Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken where the probability of default is based on generic credit indices for specific industry and/or rating.

When valuing financial liabilities at fair value own credit standing is reflected. Fair values of financial assets and liabilities by class can be found on page 52.

Level 1: Quoted market prices

Valuations in Level 1 are determined by reference to unadjusted quoted market prices for identical instruments in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Examples of Level 1 financial instruments are listed equity securities, debt securities, and exchange-traded derivatives. Instruments traded in an active market for which one or more market participants provide a binding price quotation on the balance sheet date are also examples of Level 1 financial instruments.

Level 2: Valuation techniques with observable inputs

In Level 2 valuation techniques, all significant inputs to the valuation models are observable either directly or indirectly. Level 2 valuation techniques include using discounted cash flows, option pricing models, recent transactions and the price of another instrument that is substantially the same.

Examples of observable inputs are foreign currency exchange rates, binding securities price quotations, market interest rates (Libor, etc.), volatilities implied from observable option prices for the same term and actual transactions with one or more external counterparts executed by SEB Pank Group. An input can transfer from being observable to being unobservable during the holding period due to e.g. illiquidity of the instrument. Examples of Level 2 financial instruments are most OTC derivatives such as options and interest rate swaps based on the Libor swap rate or a foreign-denominated yield curve.

Level 3: Valuation techniques with significant unobservable inputs

Level 3 valuation techniques incorporate significant inputs that are unobservable. These techniques are generally based on extrapolating from observable inputs for similar instruments, analysing historical data or other analytical techniques. Examples of Level 3 financial instruments are more complex OTC derivatives, long dated options for which the volatility is extrapolated or derivatives that depend on an unobservable correlation. Other examples are instruments for which there is currently no active market or binding quotes, such as unlisted equity instruments and private equity holdings.

If the fair value of financial instruments includes more than one unobservable input, the unobservable inputs are aggregated in order to determine the classification of the entire instrument. The level in the fair value hierarchy within which a financial instrument is classified is determined on the basis of the lowest level of input that is significant to the fair value in its entirety.

The table below summarises the hierarchy of fair value measurement of asset and liabilities presented on the SEB Pank Group's statement of financial position at fair value:

Financial instruments measured at fair value
(millions of EUR)

Balance at 31 December 2019	Fair value measurement at the end of reporting period based on: Quoted price in active markets (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using non-observable inputs (Level 3)	Total
Debt securities	159.2	-	-	**159.2**
Derivatives	-	6.1	-	**6.1**
Equity instruments	5.7	-	7.7	**13.4**
Total assets	**164.9**	**6.1**	**7.7**	**178.7**
Liabilities				
Derivatives	-	7.8	-	**7.8**
Total liabilities	**-**	**7.8**	**-**	**7.8**

Balance at 31 December 2018	Fair value measurement at the end of reporting period based on: Quoted price in active markets (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using non-observable inputs (Level 3)	Total
Debt securities	109.7	-	-	**109.7**
Derivatives	0.0	6.6	-	**6.6**
Equity instruments	4.5	-	5.4	**9.9**
Total assets	**114.2**	**6.6**	**5.4**	**126.2**
Liabilities				
Derivatives	-	6.2	-	**6.2**
Total liabilities	**-**	**6.2**	**-**	**6.2**

Transfers between levels may occur when there are indications that market conditions have changed, e.g. a change in liquidity. There have been no transfers between levels during the years 2019 and 2018.

Fair value of investments

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

If the net present value of estimated cash flows differs by +/-5% while other factors are unchanged the change in fair value of the material level 3 instruments for the SEB Pank Group would be estimated higher or lower by EUR 385 thousand (2018: EUR 265 thousand).

The table below represents the changes of the SEB Pank Group's Level 3 instruments for the year ended 31 December 2018 and 2019:

Reconciliation of Level 3 Items
(millions of EUR)

	Equity instruments
Balance at 1 January 2018	**3.2**
Gains (losses) in income statement -unrealised	2.2
Balance at 31 December 2018	**5.4**
Balance at 1 January 2019	**5.4**
Gains (losses) in income statement -unrealised	2.3
Balance at 31 December 2019	**7.7**

Unrealised gain on equity instruments recognized in the income statement is presented within 'Net financial income' line.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities presented on the SEB Pank Group's statement of financial position at amortized cost:

Financial instruments not measured at fair value
(millions of EUR)

	31/12/2019		31/12/2018	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Balances with central bank	806.3	806.3	1,121.0	1,121.0
Loans to credit institutions	66.0	65.8	80.4	80.4
Loans to the public	5,706.9	5,570.8	5,153.3	5,021.7
Corporates	*2,782.6*	2,789.0	*2,470.8*	*2,493.5*
Public sector	*206.4*	203.0	*172.7*	*172.1*
Mortgage	*2,367.8*	2,230.5	*2,181.4*	*2,029.0*
Other loans to Private individuals	*350.1*	348.4	*328.4*	*327.1*
Total financial assets valued at amortised cost	**6,579.2**	**6,442.9**	**6,354.7**	**6,223.1**
Liabilities				
Deposits from central banks and credit institutions	1,212.3	1,205.7	1,022.0	1,020.7
Deposits and borrowings from the public	4,446.1	4,448.0	4,399.9	4,392.0
Demand deposits	*4,014.8*	*4,014.8*	*3,971.7*	*3,971.7*
Term deposits	*420.1*	*420.9*	*414.5*	*405.4*
Loan funds	*11.2*	*12.2*	*13.7*	*14.9*
Total financial liabilities valued at amortised cost	**5,658.4**	**5,653.7**	**5,421.9**	**5,412.8**

SEB Pank Group 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.

Financial assets and liabilities by measurement categories

(millions of EUR)

Balance at 31 December 2019	Fair Value Through Profit or Loss Held for Trading	Fair Value through Profit or Loss Mandatorily	Amortised cost	Total
Assets				
Cash and balances with central bank	-	-	844.1	**844.1**
Loans to credit institutions	-	-	66.0	**66**
Loans to the public	-	-	5,706.9	**5706.9**
Debt securities	-	159.2	-	**159.2**
Derivatives	6.1	-	-	**6.1**
Equity instruments	-	13.4	-	**13.4**
Other financial assets	-	-	12.5	**12.5**
Total financial assets	**6.1**	**172.6**	**6,629.5**	**6,808.2**
Other non-financial assets				**55.5**
Total assets	**6.1**	**172.6**	**6,629.5**	**6,863.7**
Liabilities				
Due to credit institutions	-	-	1,212.3	**1,212.3**
Due to customers	-	-	4,446.1	**4,446.1**
Derivatives	7.8	-	-	**7.8**
Other financial liabilities	-	-	104.1	**104.1**
Total financial liabilities	**7.8**	**0.0**	**5,762.5**	**5,770.3**
Other non-financial liabilities	-	-	-	**23.8**
Total equity	-	-	-	**1069.6**
Total liabilities	**7.8**	**0.0**	**5,762.5**	**6,863.7**

Balance at 31 December 2018	Fair Value Through Profit or Loss Held for Trading	Fair Value through Profit or Loss Mandatorily	Amortised cost	Total
Assets				
Cash and balances with central bank	-	-	1156.9	**1156.9**
Loans to credit institutions	-	-	80.4	**80.4**
Loans to the public	-	-	5153.3	**5153.3**
Debt securities	-	109.7	-	**109.7**
Derivatives	6.6	-	-	**6.6**
Equity instruments	-	9.9	-	**9.9**
Other financial assets	-	-	13.7	**13.7**
Total financial assets	**6.6**	**119.6**	**6,404.3**	**6,530.5**
Other non-financial assets				**27.7**
Total assets	**6.6**	**119.6**	**6,404.3**	**6,558.2**
Liabilities				
Due to credit institutions	-	-	1,022.0	**1,022.0**
Due to customers	-	-	4,399.9	**4,399.9**
Derivatives	6.2	-	-	**6.2**
Other financial liabilities	-	-	66.0	**66.0**
Total financial liabilities	**6.2**	**0.0**	**5,487.9**	**5,494.1**
Other non-financial liabilities	-	-	-	**30.5**
Total equity	-	-	-	**1033.6**
Total liabilities	**6.2**	**0.0**	**5,487.9**	**6,558.2**

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(millions of EUR)

4. Interest income

	2019	2018
Loans and deposits	99.2	88.6
Leasing	17.3	15.7
Deposits with other banks	2.3	2.0
Debt securities	2.4	1.7
Other	0.6	0.8
Total	**121.8**	**108.8**

5. Interest expenses

	2019	2018
Regulatory fees	-3.4	-3.9
Interest expenses on financial assets	-2.8	-2.9
Credit institutions	-1.0	-1.1
Time and other saving deposits	-1.7	-0.9
Demand deposits	-0.3	-0.3
Other	-0.2	0.0
Total	**-9.4**	**-9.1**

6. Fee and commission income

	2019	2018
Payment cards related commissions	28.8	28.2
Securities market services *	11.5	11.2
Transaction fees	5.5	5.0
Credit contracts	4.0	4.3
Insurance brokerage fees	5.6	5.0
Other settlement fees	2.4	2.1
Income from lending agreements	3.1	2.9
Income from electronic channels	3.3	2.9
Cash handling fees	0.4	0.5
Other	5.3	5.5
Total	**69.9**	**67.6**

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

7. Fee and commission expenses

	2019	2018
Credit and payment cards	-10.4	-11.5
Securities market	-3.0	-3.0
Cash collecting fees	-1.6	-1.2
Transaction fees	-1.4	-1.1
Expenses to leasing agreements (full service)	-0.7	-0.7
Expenses of electronic channels	-0.5	-0.4
Other	-1.6	-1.2
Total	**-19.2**	**-19.1**

8. Net financial income

	2019	2018
Gain (loss) from trading securities	0.2	0.1
Derivatives	-0.6	0.5
Net income from foreign exchange	5.8	5.2
Total	**5.4**	**5.8**

9. Other operating income

	2019	2018
Rental income	0.1	0.3
Penalties	0.0	0.1
Other income	0.3	0.3
Total	**0.4**	**0.7**

10. Personnel expenses

	2019	2018
Personnel expenses*	-30.6	-28.9
Social security expenses**	-9.7	-9.2
Other personnel expenses (hiring, training)	-1.7	-1.6
Total	**-42.0**	**-39.7**

* Costs related to the Long Term Incentive programmes are booked under personnel expenses in total amount 0.6 million euros in 2019 (0.7 million euros in 2018). These programmes are the Share Deferral Programme (SDP) and the Restricted Share Programme (RSP) (Note 1.19).

** 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.

Related parties personnel expenses are presented in Note 35.

11. Other expenses

	2019	2018
Rooms rent*	-0.4	-4.7
Other administrative cost	-3.3	-3.2
Premises cost (utilities)	-2.2	-2.1
Advertising and marketing	-1.7	-1.7
IT related expenses	-1.1	-1.5
Information services	-0.7	-0.6
Other operating expenses	-1.1	-0.5
Total	**-10.5**	**-14.3**

*Due to implementation of IFRS 16 the amounts are decreased and shown under right-of-use assets

12. Net expected credit losses

	2019	2018
Impairment gains or losses - Stage 1	0.2	-0.4
Impairment gains or losses - Stage 2	2.6	-1.1
Impairment gains or losses - Stage 3	0.7	-0.4
Impairment gains or losses (IFRS9)	**3.5**	**-1.9**
Write-offs and recoveries		
Total write-offs	-1.4	-0.6
Reversals of allowances for write-offs	0.7	0.4
Write-offs not previously provided for	-0.7	-0.2
Recovered from previous write-offs	1.0	1.2
Net write-offs	**0.3**	**1.0**
Net expected credit losses	**3.8**	**-0.9**
Net ECL level	0.06%	-0.02%

13. Income tax expense

	2019	2018
Income tax on dividend distribution AS SEB Pank	6.2	17.5
Netting with previous years advanced tax payments AS SEB Pank	-6.2	-
Advanced tax payments cost AS SEB Pank	13.5	9.1
Income tax on dividend distribution AS SEB Liising	1.6	7.5
Income tax on dividend distribution AS SEB Varahaldus	2.0	-
Total	**17.1**	**34.1**

Current income tax liabilities as of 31December 2019 is in amount of 6.9 million euros (as of 31 December 2018 10.5 million euros).

14. Cash and balances with central bank

	31/12/2019	31/12/2018
Cash	37.8	35.9
Demand deposits	806.3	1,121.0
incl. -mandatory reserve requirement	53.2	44.3
-demand deposits, cash equivalents	753.1	1,076.7
Total	**844.1**	**1,156.9**

Mandatory reserve deposits are available for use by the Group's day-to-day business. Mandatory reserve bears interest at 0 % and the non-mandatory part of reserve (demand deposits) -0.5%. In 2019 the Group interest expenses were in amount of -2,097.4 thousand euros (In 2018 expenses were in amount of -0.9 thousand euros).

15. Loans to credit institutions

	31/12/2019	31/12/2018
Demand deposits	58.9	38.2
Time deposits	0.0	37.2
Other	7.1	5.0
Total	**66.0**	**80.4**

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

16. Loans to the public and credit institutions

	31/12/2019	31/12/2018
Credit institutions (Note 15)	66.0	80.4
Corporates	2,782.6	2,470.8
Public sector	206.4	172.7
Mortgage loans	2,367.8	2,181.4
Other loans to Private individuals	350.1	328.4
Total	**5,772.9**	**5,233.7**

Loans by remaining maturity

	31/12/2019	31/12/2018
more than 12 months	4,599.1	4,093.2
less than 12 months	1,173.8	1,140.5
Total	**5,772.9**	**5,233.7**

Loan portfolio by economic sector presented in Note 2 "Risk policy and management", on page 40
Due from customers by maturity is presented by interest fixation period in Note 2 on page 46.

Finance lease receivables

	31/12/2019	31/12/2018
Undiscounted lease payments		
up to 1 year	224.5	203.7
1 - 5 years	531.5	476.7
over 5 years	13.6	14.2
	769.6	**694.6**
Less: unearned finance income	**-33.6**	**-25.5**
Present value of lease payments receivable		
up to 1 year	211.8	193.7
1 - 5 years	510.9	461.3
over 5 years	13.2	14.1
	735.9	**669.1**
Less: impairment loss allowance	**-1.5**	**-1.2**
Net investment in the lease	**734.4**	**667.9**

Exposure and expected credit loss (ECL) allowances by stage and loan category

The table shows gross carrying amounts for exposures on balance measured at amortised cost and nominal amounts for exposures off-balance divided by stage as a mean to put ECL allowances in context to total exposure. For trade receivables a simplified approach based on past-due information is used to calculate loss allowances.

	Gross carrying amounts/ Nominal amounts				ECL allowances				Carrying amounts/ Net amounts			
Balance at 31 December 2019	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**
Loans												
Credit institutions	65.9	0.1	-	**66.0**	0.0	0.0	-	**0.0**	65.9	0.1	-	**66.0**
Corporates	2,625.9	144.0	23.2	**2,793.1**	-0.9	-0.8	-8.8	**-10.5**	2,625.0	143.1	14.5	**2,782.6**
Public sector	206.3	0.1	0.0	**206.4**	0.0	0.0	0.0	**0.0**	206.3	0.1	0.0	**206.4**
Mortgage loans	2,221.8	130.8	23.4	**2,376.0**	-0.2	-0.4	-7.6	**-8.2**	2,221.7	130.4	15.7	**2,367.8**
Other loans to Private individuals	304.9	45.3	1.1	**351.3**	-0.5	-0.3	-0.4	**-1.2**	304.4	45.0	0.7	**350.1**
Total	**5,424.8**	**320.3**	**47.7**	**5,792.8**	**-1.6**	**-1.5**	**-16.8**	**-19.9**	**5,423.2**	**318.8**	**30.9**	**5,772.9**
Financial guarantees and Loan commitments												
Credit institutions	41.4	0.0	-	**41.4**	0.0	0.0	-	**0.0**	41.4	0.0	-	**41.4**
Corporates	741.9	26.7	0.2	**768.8**	-0.2	-0.1	0.0	**-0.3**	741.7	26.7	0.2	**768.5**
Public sector	66.3	-	0.0	**66.3**	0.0	-	0.0	**0.0**	66.3	-	0.0	**66.3**
Mortgage loans	66.3	0.0	0.0	**66.3**	0.0	0.0	0.0	**0.0**	66.3	0.0	0.0	**66.3**
Other loans to Private individuals	21.0	36.5	0.0	**57.5**	0.0	0.0	0.0	**0.0**	21.0	36.5	0.0	**57.5**
Total	**936.9**	**63.2**	**0.2**	**1,000.3**	**-0.2**	**-0.1**	**0.0**	**-0.3**	**936.7**	**63.1**	**0.2**	**1,000.0**
Total Loans and Financial guarantees and Loan commitments												
Credit institutions	107.3	0.1	-	**107.4**	0.0	0.0	-	**0.0**	107.3	0.1	-	**107.4**
Corporates	3,367.8	170.7	23.4	**3,561.9**	-1.1	-0.9	-8.8	**-10.8**	3,366.7	169.8	14.7	**3,551.1**
Public sector	272.6	0.1	0.0	**272.7**	0.0	0.0	0.0	**0.0**	272.6	0.1	0.0	**272.7**
Mortgage loans	2,288.1	130.8	23.4	**2,442.3**	-0.2	-0.4	-7.6	**-8.2**	2,288.0	130.4	15.7	**2,434.1**
Other loans to Private individuals	325.9	81.8	1.1	**408.8**	-0.5	-0.3	-0.4	**-1.2**	325.4	81.5	0.7	**407.6**
Total	**6,361.7**	**383.5**	**47.9**	**6,793.1**	**-1.8**	**-1.6**	**-16.8**	**-20.2**	**6,359.9**	**381.9**	**31.1**	**6,772.9**
ECL coverage ratio					0.03%	0.42%	35.07%	0.30%				
Share of total ECL allowances					7.38%	6.56%	68.85%					

Stage 3 loans / Total loans - gross	0.82%
Stage 3 loans / Total loans - net	0.54%

Balance at 31 December 2018	**Gross carrying amounts/ Nominal amounts**				**ECL allowances**				**Carrying amounts/ Net amounts**			
	Stage 1 (12-month ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired / lifetime ECL)**	**Total**
Loans												
Credit institutions	80.4	0.0	-	**80.4**	0.0	0.0	-	**0.0**	80.4	0.0	-	**80.4**
Corporates	2,261.0	198.7	23.5	**2,483.2**	-1.2	-3.3	-7.9	**-12.4**	2,259.8	195.4	15.6	**2,470.8**
Public sector	172.6	0.1	0.0	**172.7**	0.0	0.0	0.0	**0.0**	172.6	0.1	0.0	**172.7**
Mortgage loans	2,018.3	143.9	29.3	**2,191.5**	-0.2	-0.4	-9.5	**-10.1**	2,018.1	143.5	19.8	**2,181.4**
Other loans to Private individuals	271.4	56.6	1.9	**329.9**	-0.4	-0.4	-0.7	**-1.5**	271.0	56.2	1.2	**328.4**
Total	**4,803.7**	**399.3**	**54.7**	**5,257.7**	**-1.8**	**-4.1**	**-18.1**	**-24.0**	**4,801.9**	**395.2**	**36.6**	**5,233.7**
Financial guarantees and Loan commitments												
Credit institutions	60.9	0.0	-	**60.9**	0.0	0.0	-	**0.0**	60.9	0.0	-	**60.9**
Corporates	943.0	48.4	0.6	**992.0**	-0.1	-0.1	-0.1	**-0.3**	942.9	48.3	0.5	**991.7**
Public sector	46.8	-	0.0	**46.8**	0.0	-	0.0	**0.0**	46.8	-	0.0	**46.8**
Mortgage loans	54.8	0.1	0.1	**55.0**	-0.1	0.0	0.0	**-0.1**	54.7	0.1	0.1	**54.9**
Other loans to Private individuals	20.6	37.9	0.0	**58.5**	0.0	0.0	0.0	**0.0**	20.6	37.9	0.0	**58.5**
Total	**1,126.1**	**86.4**	**0.7**	**1,213.2**	**-0.2**	**-0.1**	**-0.1**	**-0.4**	**1,125.9**	**86.3**	**0.6**	**1,212.8**
Total Loans and Financial guarantees and Loan commitments												
Credit institutions	141.3	0.0	-	**141.3**	0.0	0.0	-	**0.0**	141.3	0.0	-	**141.3**
Corporates	3,204.0	247.1	24.1	**3,475.2**	-1.3	-3.4	-8.0	**-12.7**	3,202.7	243.7	16.1	**3,462.5**
Public sector	219.4	0.1	0.0	**219.5**	0.0	0.0	0.0	**0.0**	219.4	0.1	0.0	**219.5**
Mortgage loans	2,073.1	144.0	29.4	**2,246.5**	-0.3	-0.4	-9.5	**-10.2**	2,072.8	143.6	19.9	**2,236.3**
Other loans to Private individuals	292.0	94.5	1.9	**388.4**	-0.4	-0.4	-0.7	**-1.5**	291.6	94.1	1.2	**386.9**
Total	**5,929.8**	**485.7**	**55.4**	**6,470.9**	**-2.0**	**-4.2**	**-18.2**	**-24.4**	**5,927.8**	**481.5**	**37.2**	**6,446.5**
ECL coverage ratio					0.03%	0.86%	32.85%	0.38%				
Share of total ECL allowances					8.20%	17.21%	74.59%					

Stage 3 loans / Total loans - gross	1.04%
Stage 3 loans / Total loans - net	0.70%

Reconciliation of expected credit loss (ECL) allowances

Reconciliation of movements of allowance accounts for on balance exposures (Loans and Debt securities measured at amortised cost) and off balance exposures (Financial guarantees and Loan commitments).

Balance at 31 December 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/lifetime ECL)	Total
Credit institutions				
ECL allowance as of 1 January 2019	0.0	0.0	-	**0.0**
New and derecognised financial assets, net	0.0	0.0	-	**0.0**
Changes due to change in credit risk	0.0	0.0	-	**0.0**
Changes due to modifications	-	-	-	-
Changes due to methodology change	-	-	-	-
Exchange rate differences	-	-	-	-
Total	**0.0**	**0.0**	-	**0.0**
Corporates				
ECL allowance as of 1 January 2019	1.2	3.3	7.9	**12.4**
New and derecognised financial assets, net	0.1	-0.6	-1.5	**-2.0**
Changes due to change in credit risk	-0.2	-1.2	2.5	**1.1**
Changes due to modifications	-	0.0	0.0	-
Changes due to methodology change	-0.2	-0.7	-0.1	**-1.0**
Total	**0.9**	**0.8**	**8.8**	**10.5**
Public sector				
ECL allowance as of 1 January 2019	0.0	0.0	0.0	**0.0**
New and derecognised financial assets, net	0.0	0.0	0.0	**0.0**
Changes due to change in credit risk	0.0	0.0	-	**0.0**
Changes due to modifications	-	-	-	-
Changes due to methodology change	-	-	-	-
Total	**0.0**	**0.0**	**0.0**	**0.0**
Mortgage loans				
ECL allowance as of 1 January 2019	0.2	0.4	9.5	**10.1**
New and derecognised financial assets, net	0.1	0.0	-1.3	**-1.2**
Changes due to change in credit risk	-0.1	0.0	-0.6	**-0.7**
Changes due to modifications	-	0.0	0.0	-
Changes due to methodology change	-	-	-	-
Total	**0.2**	**0.4**	**7.6**	**8.2**
Other loans to Private individuals				
ECL allowance as of 1 January 2019	0.4	0.4	0.7	**1.5**
New and derecognised financial assets, net	0.3	0.0	-0.4	**-0.1**
Changes due to change in credit risk	-0.2	-0.1	0.1	**-0.2**
Changes due to modifications	-	0.0	-	**0.0**
Changes due to methodology change	-	0.0	-	**0.0**
Total	**0.5**	**0.3**	**0.4**	**1.2**
Total loans				
ECL allowance as of 1 January 2019	1.8	4.1	18.1	**24.0**
New and derecognised financial assets, net	0.5	-0.6	-3.2	**-3.3**
Changes due to change in credit risk	-0.5	-1.3	2.0	**0.2**
Changes due to modifications	-	0.0	0.0	**0.0**
Changes due to methodology change	-0.2	-0.7	-0.1	**-1.0**
Total	**1.6**	**1.5**	**16.8**	**19.9**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/lifetime ECL)	Total
Financial guarantees and loan commitments				
ECL allowance as of 1 January 2019	0.2	0.1	0.1	**0.4**
New and derecognised financial assets, net	0.0	0.0	-0.1	**-0.1**
Changes due to change in credit risk	0.0	0.0	0.0	**0.0**
Changes due to modifications	-	-	-	-
Changes due to methodology change	0.0	0.0	-	**0.0**
Total	**0.2**	**0.1**	**0.0**	**0.3**
Total loans and financial guarantees and loan commitments				
ECL allowance as of 1 January 2019	2.0	4.2	18.2	**24.4**
New and derecognised financial assets, net	0.5	-0.6	-3.3	**-3.4**
Changes due to change in credit risk	-0.5	-1.3	2.0	**0.2**
Changes due to modifications	-	0.0	0.0	**0.0**
Changes due to methodology change	-0.2	-0.7	-0.1	**-1.0**
Total	**1.8**	**1.6**	**16.8**	**20.2**

Balance at 31 December 2018	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired/lifetime ECL)**	**Total**
Credit institutions				
ECL allowance as of 1 January 2018	0.0	0.0	-	**0.0**
New and derecognised financial assets, net	0.0	0.0	-	**0.0**
Changes due to change in credit risk	0.0	0.0	-	**0.0**
Total	**0.0**	**0.0**	**-**	**0.0**
Corporates				
ECL allowance as of 1 January 2018	0.8	1.6	7.8	**10.2**
New and derecognised financial assets, net	0.1	-0.1	-0.9	**-0.9**
Changes due to change in credit risk	0.3	1.8	1.0	**3.1**
Total	**1.2**	**3.3**	**7.9**	**12.4**
Public sector				
ECL allowance as of 1 January 2018	0.0	0.0	0.0	**0.0**
New and derecognised financial assets, net	0.0	0.0	-	**0.0**
Changes due to change in credit risk	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Mortgage loans				
ECL allowance as of 1 January 2018	0.2	0.8	9.9	**10.9**
New and derecognised financial assets, net	0.1	0.0	-0.7	**-0.6**
Changes due to change in credit risk	-0.1	-0.4	0.3	**-0.2**
Total	**0.2**	**0.4**	**9.5**	**10.1**
Other loans to Private individuals				
ECL allowance as of 1 January 2018	0.4	0.6	0.5	**1.5**
New and derecognised financial assets, net	0.3	-0.1	-0.2	**0.0**
Changes due to change in credit risk	-0.3	-0.1	0.4	**0.0**
Total	**0.4**	**0.4**	**0.7**	**1.5**
Total loans				
ECL allowance as of 1 January 2018	1.4	3.0	18.2	**22.6**
New and derecognised financial assets, net	0.5	-0.2	-1.8	**-1.5**
Changes due to change in credit risk	-0.1	1.3	1.7	**2.9**
Total	**1.8**	**4.1**	**18.1**	**24.0**
Financial guarantees and loan commitments				
ECL allowance as of 1 January 2018	0.2	0.1	0.0	**0.3**
New and derecognised financial assets, net	0.1	0.0	0.1	**0.2**
Changes due to change in credit risk	-0.1	0.0	0.0	**-0.1**
Total	**0.2**	**0.1**	**0.1**	**0.4**
Total loans and financial guarantees and loan commitments				
ECL allowance as of 1 January 2018	1.6	3.1	18.2	**22.9**
New and derecognised financial assets, net	0.6	-0.2	-1.7	**-1.3**
Changes due to change in credit risk	-0.2	1.3	1.7	**2.8**
Total	**2.0**	**4.2**	**18.2**	**24.4**

Stage 3 loans (credit-impaired) and collaterals by loan category

The table shows gross carrying amounts, ECL allowances for credit-impaired loans and the fair value of collaterals for these assets divided by loan category.

Balance at 31 December 2019

Stage 3 (credit impaired/ lifetime ECL)	Gross carrying amounts	ECL allowances	Carrying amounts	Fair value of collateral
Credit institutions	-	-	-	-
Corporates	23.2	-8.8	14.5	4.1
Public sector	0.0	0.0	0.0	0.0
Mortgage loans	23.4	-7.6	15.7	21.5
Other loans to Private individuals	1.1	-0.4	0.7	0.2
Total	**47.7**	**-16.8**	**30.9**	**25.8**

Balance at 31 December 2018

Stage 3 (credit impaired/ lifetime ECL)	Gross carrying amounts	ECL allowances	Carrying amounts	Fair value of collateral
Credit institutions	-	-	-	-
Corporates	23.5	-7.9	15.6	10.2
Public sector	0.0	0.0	0.0	0.0
Mortgage loans	29.3	-9.5	19.8	26.9
Other loans to Private individuals	1.9	-0.7	1.2	0.5
Total	**54.7**	**-18.1**	**36.6**	**37.6**

Credit risk exposure by risk classification category

The table shows gross carrying amounts for exposures on balance and nominal amounts for exposures off-balance divided by stage and risk classification category.

Balance at 31 December 2019	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (credit impaired/lifetime ECL)	Total
Risk classification category				
Credit institutions				
Investment grade	63.2	0.1	-	**63.3**
Standard monitoring	2.7	-	-	**2.7**
Watch list	-	-	-	**-**
Default	-	-	-	**-**
Total	**65.9**	**0.1**	**0.0**	**66.0**
Corporates				
Investment grade	706.6	2.7	-	**709.3**
Standard monitoring	1,917.0	132.3	0.3	**2,049.6**
Watch list	2.3	9.0	-	**11.3**
Default	-	0.0	22.9	**22.9**
Total	**2,625.9**	**144.0**	**23.2**	**2,793.1**
Public sector				
Investment grade	-	-	-	**-**
Standard monitoring	206.3	0.1	0.0	**206.4**
Watch list	-	-	-	**-**
Default	-	-	-	**-**
Total	**206.3**	**0.1**	**0.0**	**206.4**
Mortgage loans				
Investment grade	-	-	-	**-**
Standard monitoring	2,221.8	130.0	0.4	**2,352.2**
Watch list	-	-	-	**-**
Default	-	0.8	23.0	**23.8**
Total	**2,221.8**	**130.8**	**23.4**	**2,376.0**
Other loans to Private individuals				
Investment grade	-	-	-	**-**
Standard monitoring	304.9	45.1	0.0	**350.0**
Watch list	-	-	-	**-**
Default	0.0	0.2	1.1	**1.3**
Total	**304.9**	**45.3**	**1.1**	**351.3**
Total Loans to public and credit institutions by risk classification category				
Investment grade	769.8	2.8	0.0	**772.6**
Standard monitoring	4,652.7	307.5	0.7	**4,960.9**
Watch list	2.3	9.0	0.0	**11.3**
Default	0.0	1.0	47.0	**48.0**
Total	**5,424.8**	**320.3**	**47.7**	**5,792.8**
Financial guarantees and Loan commitments				
Investment grade	442.3	0.9	-	**443.2**
Standard monitoring	492.8	61.8	0.0	**554.6**
Watch list	1.8	0.5	-	**2.3**
Default	-	-	0.2	**0.2**
Total	**936.9**	**63.2**	**0.2**	**1,000.3**
Total by risk classification category				
Total investment grade	1,212.1	3.7	-	**1,215.8**
Total standard monitoring	5,145.5	369.3	0.7	**5,515.5**
Total watch list	4.1	9.5	-	**13.6**
Total default	0.0	1.0	47.2	**48.2**
Total	**6,361.7**	**383.5**	**47.9**	**6,793.1**

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Balance at 31 December 2018	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (credit impaired/lifetime ECL)**	**Total**
Risk classification category				
Credit institutions				
Investment grade	80.4	0.0	-	**80.4**
Standard monitoring	0.0	0.0	0.0	**0.0**
Watch list	-	-	-	**-**
Default	-	-	-	**-**
Total	**80.4**	**0.0**	**0.0**	**80.4**
Corporates				
Investment grade	1,310.9	7.9	-	**1,318.8**
Standard monitoring	948.7	171.6	0.1	**1,120.4**
Watch list	1.4	19.1	-	**20.5**
Default	0.0	0.1	23.4	**23.5**
Total	**2,261.0**	**198.7**	**23.5**	**2,483.2**
Public sector				
Investment grade	-	-	-	**-**
Standard monitoring	172.6	0.1	-	**172.7**
Watch list	-	-	-	**-**
Default	-	-	0.0	**0.0**
Total	**172.6**	**0.1**	**0.0**	**172.7**
Mortgage loans				
Investment grade	-	-	-	**-**
Standard monitoring	2,018.2	143.6	0.5	**2,162.3**
Watch list	-	-	-	**-**
Default	0.1	0.3	28.8	**29.2**
Total	**2,018.3**	**143.9**	**29.3**	**2,191.5**
Other loans to Private individuals				
Investment grade	-	-	-	**-**
Standard monitoring	271.4	56.5	0.1	**328.0**
Watch list	-	-	-	**-**
Default	0.0	0.1	1.8	**1.9**
Total	**271.4**	**56.6**	**1.9**	**329.9**
Total Loans to public and credit institutions by risk classification category				
Investment grade	1,391.3	7.9	-	**1,399.2**
Standard monitoring	3,410.9	371.8	0.7	**3,783.4**
Watch list	1.4	19.1	-	**20.5**
Default	0.1	0.5	54.0	**54.6**
Total	**4,803.7**	**399.3**	**54.7**	**5,257.7**
Financial guarantees and Loan commitments				
Investment grade	789.2	0.6	-	**789.8**
Standard monitoring	336.9	78.5	0.1	**415.5**
Watch list	0.0	7.3	-	**7.3**
Default	0.0	0.0	0.6	**0.6**
Total	**1,126.1**	**86.4**	**0.7**	**1,213.2**
Total by risk classification category				
Total investment grade	2,180.5	8.5	-	**2,189.0**
Total standard monitoring	3,747.8	450.3	0.8	**4,198.9**
Total watch list	1.4	26.4	-	**27.8**
Total default	0.1	0.5	54.6	**55.2**
Total	**5,929.8**	**485.7**	**55.4**	**6,470.9**

Non-defaulted retail exposures and exposures under standardised method are classified as standard monitoring.

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17. Financial investments

	31/12/2019	31/12/2018
Debt securities	**159.2**	**109.7**
Financial assets mandatorily at fair value through profit or loss	159.2	109.7
Derivatives	**6.1**	**6.6**
Derivatives (Note 33)	6.1	6.6
Equity instruments	**13.4**	**9.9**
Financial assets held for trading	0.1	0.1
Financial assets mandatorily at fair value through profit or loss	13.4	9.8

	Financial assets held for trading		Derivatives	Financial assets mandatorily at fair value through profit or loss	
	Equity	Bonds		Equity	Bonds
Balance at 1 January 2018	**0.1**	**0.0**	**23.5**	**7.3**	**89.2**
Acquisitions	264.7	350.8	-	0.4	46.5
Disposals and redemptions	-264.7	-350.8	-	-	-28.8
Change of value	-	-	-0.1	1.9	-0.5
Changes of currency rate	-	-	-16.8	0.2	3.3
Balance at 31 December 2018	**0.1**	**0.0**	**6.6**	**9.8**	**109.7**
Balance at 1 January 2019	**0.1**	**0.0**	**6.6**	**9.8**	**109.7**
Acquisitions	186.3	463.3	-	0.9	57.0
Disposals and redemptions	-186.3	-463.3	-	-0.2	-11.5
Change of value	0.0	-	-0.6	2.8	2.3
Changes of currency rate	-	-	0.1	0.1	1.7
Balance at 31 December 2019	**0.1**	**0.0**	**6.1**	**13.4**	**159.2**

18. 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
2019	**1.4**	-	0.0	-	**1.4**
2018	**1.0**	-	0.4	-	**1.4**

Associated companies

	Nominal value	Assets	Liabili-ties	Total revenues	AS SEB Pank in calculated profit/-loss	Balance value	Owner-ship
SK ID Solutions AS							
2019	without nominal value	8.9	3.5	7.9	0.0	1.4	25.0%
2018	without nominal value	7.7	2.3	7.4	0.4	1.4	25.0%

Acquisitions, disposals and merging of associated companies and subsidiaries

Acquisitions

No acquisitions occurred in 2019 and 2018.

Disposals

No disposals occurred in 2019 and 2018.

19. Intangible assets

Balance at 1 January 2018	
Cost	9.7
Accumulated amortisation	-5.8
Carrying value	**3.9**
Opening carrying value	**3.9**
Additions	1.9
Amortisation charge	-0.7
Reclassification	-0.2
Closing carrying value	**4.9**
Balance at 31 December 2018	
Cost	11.4
Accumulated amortisation	-6.5
Carrying value	**4.9**
Balance at 1 January 2019	
Cost	11.4
Accumulated amortisation	-6.5
Carrying value	**4.9**
Opening carrying value	4.9
Additions	0.9
Amortisation charge	-0.7
Reclassification	-
Closing carrying value	**5.1**
Balance at 31 December 2019	
Cost	12.2
Accumulated amortisation	-7.1
Carrying value	**5.1**

20. Property, plant and equipment

	Other tangible assets
Balance at 1 January 2018	
Cost	30.5
Accumulated depreciation	-20.8
Carrying value	**9.7**
Opening carrying value	**9.7**
Additions	2.9
Impairment charge (carrying value)	-0.3
Depreciation charge	-2.5
Closing carrying value	**9.8**
Balance at 31 December 2018	
Cost	30.2
Accumulated depreciation	-20.4
Carrying value	**9.8**
Balance at 1 January 2019	**9.8**
Additions	3.9
Impairment charge (carrying value)	0.0
Depreciation charge	-3.1
Closing carrying value	**10.6**
Balance at 31 December 2019	
Cost	29.9
Accumulated depreciation	-19.3
Carrying value	**10.6**

21. Leases

Lessee

		2019
	Income statement	
Interest expense on lease liabilities	Net interest income	0.2
Expenses relating to short-term leases	Other expenses	-0.2
Expenses relating to leases of low-value leases	Other expenses	-0.1
Depreciation expense of right-of-use assets	Depreciation, amortisation and impairment of tangible and intangible and right-of -use assets	-3.6

	Statement of financial position	**31/12/2019**
Additions	Right-of-use assets	0.4
Closing balance	Right-of-use assets	20.4
Lease liabilities	Other financial liabilities	28.9

Lessor

Finance lease

Undiscounted lease payments expected after reporting date and within	**2019**	**2018**
year 1	224.5	206.2
year 2	188.0	168.6
year 3	156.8	137.5
year 4	113.0	103.8
year 5	73.7	64.6
year >5	13.6	13.9
Total undiscounted lease payments receivable	**769.6**	**694.6**
Unearned finance income	-33.6	-25.5
Discounted unguaranteed residual value	0.0	0.0
Net investment leasing	**736.0**	**669.1**
Finance income (interest income) on the net investment	-15.3	-13.8

Lessor portfolio mainly includes transport vehicles, machinery and facilities. Residual value risk is not significant, because of the existence of a secondary market.

22. Other financial assets

	31/12/2019	**31/12/2018**
Client receivables	9.8	11.9
Trade receivables	1.2	0.4
Cash in transit	0.1	-
Total	**11.1**	**12.3**

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

23. Other non-financial assets

	31/12/2019	**31/12/2018**
Prepaid expenses	13.2	12.2
Sub-lease receivables	4.7	-
Prepaid taxes	1.5	0.8
Total	**19.4**	**13.0**

24. Deposits from central banks and credit institutions

	31/12/2019	31/12/2018
Time deposits and loans (remaining maturity more than 1 year)	920.6	783.6
Time deposits and loans (remaining maturity up to 1 year)	250.0	194.8
Demand deposits	41.7	43.6
Total	**1,212.3**	**1,022.0**

1,170.6 million euros as of 31 December 2019 and 965.4 million euros as of 31 December 2018 were due from group to parent bank Skandinaviska Enskilda Banken AB (publ) (Note 35).

25. Deposits and borrowings from the public

	31/12/2019	31/12/2018
Current and demand deposits	4,014.8	3,971.7
Term deposits	420.1	414.5
Loan funds	11.2	13.7
Total	**4,446.1**	**4,399.9**
Due to customers by type of customer		
Corporates	2,014.6	2,028.7
Public sector	353.5	467.2
Households	2,078.0	1,904.0
Total	**4,446.1**	**4,399.9**

Customer assets under management of the group

As of 31 December 2019 the customer securities portfolios under management of the group amounted to 51.6 million euros. The total volume of aforementioned portfolios as of 31 December 2018 53.9 million euros. Commission fee is received from management of these portfolios and no credit or market risk is born by the group.

As of 31 December 2019 the group's asset management company belonging to the Group (AS SEB Varahaldus) managed 8 pension funds (i.e. 6 mandatory pension funds and 2 voluntary pension fund) with total volume of 954.5 million euros. As of 31 December 2018 AS SEB Varahaldus managed 7 pension funds (i.e. 5 mandatory pension funds and 2 voluntary pension fund) with total volume of 776.7 million euros.
Investment management service was also performed to the SEB (parent Group) Eastern-European funds (4 funds): total volume 569.5 million euros as of 31 December 2019, 523.7 million euros as of 31 December 2018.

26. Derivatives

	31/12/2019	31/12/2018
Derivatives (Note 33)	7.8	6.2
Total	**7.8**	**6.2**

AS SEB Pank has not had any security instruments in public market since 16 June 2009.

27. Provisions

	31/12/2019	31/12/2018
Provisions for long term employee benefits	3.0	3.1
Provisions for off-balance sheet liabilities	0.3	0.3
Other	-	2.4
Total	**3.3**	**5.8**

28. Other financial liabilities

	31/12/2019	31/12/2018
Client payables	73.9	64.9
Lease liabilities (Note 21)	28.9	-
Trade payables	1.3	1.1
Total	**104.1**	**66.0**

29. Other non-financial liabilities

	31/12/2019	31/12/2018
Prepayments	6.1	6.6
Accrued expences	5.1	5.2
Tax debts	2.4	2.4
Total	**13.6**	**14.2**

30. Shareholders

	Country	Number of shares	% from total number
Shareholders of AS SEB Pank at 31 December 2019:			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66,562,381	100.0%
Shareholders of AS SEB Pank at 31 December 2018:			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66,562,381	100.0%

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	31/12/2019	31/12/2018
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	100.4	63.7

31. 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 28 March 2019 the AS SEB Pank has paid dividend 63 million euros for year 2018.

32. Other reserves

	General banking reserve	Revaluation reserve of Available-for-sale financial assets	Statutory reserve	Total other reserves
Balance at 31 December 2017	**19.1**	**1.6**	**0.3**	**21.0**
Effect of applying IFRS9	-	-1.6	-	-1.6
Balance at 1 January 2018	**19.1**	**0.0**	**0.3**	**19.4**
Balance at 31 December 2018	**19.1**	**0.0**	**0.3**	**19.4**
Balance at 1 January 2019	**19.1**	-	**0.3**	**19.4**
Balance at 31 December 2019	**19.1**	**-**	**0.3**	**19.4**

According to the Income Tax Act valid until year 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.

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 - 2018 the bank made no allocations to the reserves. In 2001 - 2018 the subsidiaries of AS SEB Pank made allocations to the statutory reserves from their undistributed profits in the amount of 0.3 million euros.

33. Contingent assets and liabilities and commitments

Balance at 31 December 2019	**Contract amount**		**Balance value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
1. Irrevocable and revocable transactions	**307.1**	**1,000.4**	**-**	**-**
1.1. Guarantees and other similar off-balance sheet irrovocable liabilitieas and claims	307.1	318.7	-	-
incl. financial guarantees	*307.1*	*99.4*	-	-
1.2. Loan commitments	0.0	681.7	-	-
2. Derivatives (Notes 17, 26)	**631.8**	**480.3**	**6.1**	**7.9**
2.1. Currency related derivatives	238.1	238.4	0.6	0.9
2.2. Interest related derivatives	393.7	241.9	5.5	7.0
2.3. Equity related derivatives	-	-	-	-
	938.9	**1,480.7**	**6.1**	**7.9**

Balance at 31 December 2018	Contract amount		Balance value	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable and revocable transactions	**328.6**	1213.2	**-**	**-**
1.1. Guarantees and other similar off-balance sheet irrovocable liabilitieas and claims	328.6	335.0	-	-
incl. financial guarantees	*328.6*	*103.1*	-	-
1.2. Loan commitments	0.0	878.2	-	-
2. Derivatives (Notes 17, 26)	**547.7**	**447.0**	**6.6**	**6.2**
2.1. Currency related derivatives	202.7	202.6	0.6	0.4
2.2. Interest related derivatives	345.0	244.4	6.0	5.8
2.3. Equity related derivatives	-	-	-	-
	876.3	**1,660.2**	**6.6**	**6.2**

Derivative transactions are mainly executed to cover the client's position. The Bank uses interest related derivatives to hedge the interest rate risk in the bank's liquidity portfolio.All risks arising from the client's transactions are fully mitigated by back-to-back transactions with the parent company, see Note 17.

Regulatory supervision
Currently supervisory reviews are ongoing in AS SEB Pank relating to i.a. anti-money laundering and international sanctions. The results of the ongoing investigations are not yet finalized and thus, the management has not recognized any provisions in this respect.

Potential income tax on distribution of dividends
The retained earnings of the AS SEB Pank Group as at 31 December 2019 were 921.4 (31 December 2018: 885.4) 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. Reduced income tax rate 14/86 will be applied to profit distribution in amount of up to 34.3 million euros net dividend payment. Due to obligation to pay income tax advanced payments to Tax Authority starting from year 2019, the income tax has been accrued in amount of 16.3 million euros in 2019. 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 451.7 million euros and the corresponding income tax would amount to 89.1 million euros. As of 31 December 2018, taking into account regulatory requirements for Net Own funds and capital, it would have been possible to pay out dividends the amount of 492.1 million euros, and the corresponding income tax would have amounted to 103.6 million euros.

As at 31 December 2019 (and 31 December 2019) 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 2019 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.

34. 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 December 2019.

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35. Related parties

	31/12/2019	31/12/2018
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	0.9	0.6
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	0.6	0.8
Loans and advances to parent company	52.9	73.6
In 2019, the loans and advances to parent company includes demand deposits 44.8 million euros and term deposits with a term up to 1 month 6.9 million euros with interest rate 0%.		
In 2018, the loans and advances to parent company includes demand deposits 29.8 illion euros and term deposits with a term up to 7 months 33.0 USD mio with interest rate 2.71%, up to 3 month 292.0 RUB mio with interest rate 6.95% and up to 1month 402.1 RUB mio with interest rate 6.25%.		
Due to parent company	1,179.8	985.8
In 2019, due to parent company includes credit lines in EUR with contractual tenor up to 7 years, interest rate -0.212% – 0.9%, in amount of 1,170.4 million euros (in Note 24 together with interests 1,170.6 million euros).		
In 2018, due to parent company includes credit lines in EUR with contractual tenor up to 7 years, interest rate -0.147% – 0.9%, in amount of 965.1 million euros (in Note 24 together with interests 965.4 million euros).		
Contingent assets and commitments to parent company (received guarantees)	188.0	225.6
Contingent liabilities and commitments to parent company	2.8	3.6
Loans and advances to enterprises of parent company's consolidation group	6.9	2.5
Due to enterprises of parent company's consolidation group	38.0	27.4
In 2019, the due to enterprises of parent company's consolidation group includes demand deposits 37.5 million euros.		
In 2018, the due to enterprises of parent company's consolidation group includes demand deposits 27.0 million euros.		
Contingent assets and commitments to enterprises of parent company's consolidation group	1.0	1.1
Contingent liabilities and commitments to enterprises of parent company's consolidation group	2.0	0.1
Interest and similar income from parent company	2.4	2.0
Interest expenses and similar charges to parent company	-1.5	-2.8
Fee and commission income from parent company	0.7	0.7
Fee and commission expense to parent company	-0.2	-0.1
Interest and similar income from enterprises of parent company's consolidation group	0.1	0.1
Fee and commission income from enterprises of parent company's consolidation group	4.8	3.7
Fee and commission expense to enterprises of parent company's consolidation group	-0.2	-0.2

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 and Supervisory 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.

	2019	2018
Salaries and other benefits to the management in AS SEB Pank		
Members of Management Board	0.7	0.7
- salaries and bonuses	0.7	0.6
- 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	0.3	0.3
- other benefits to the key management	0.0	0.0

No salary or benefits were paid in 2019 to the members of the Supervisory Board of AS SEB Pank subsidiaries. Salary paid to the member of the Supervisory Board was 13,055 euros in 2019 (6,944 euros in 2018).
Personnel expenses are presented in Note 10.

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.
2018 an initial allotment of 15,234 saving shares, with a 3-year qualification period at least.
2019 an initial allotment of 23 114 saving shares, with a 3-year qualification period at least.
The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 30.12.2019 was 88.08 SEK (8.43 EUR).
The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 28.12.2018 was 86.10 SEK (8.75 EUR).

36. Adjustment for presentation purposes of cash flow statements

(millions of EUR)	Group 2018	Group Adjustment	Group Adjusted 2018	Bank 2018	Bank Adjustment	Bank Adjusted 2018
Operating activities						
Interest received	108.1	-	108.1	92.2	-	92.2
Interest paid	-7.8	-	-7.8	-7.8	-	-7.8
Fee and commission received	67.6	-	67.6	57.9	-	57.9
Fee and commission paid	-19.1	-	-19.1	-16.2	-	-16.2
Net trading income and other operating income	6.2	-	6.2	6.3	-	6.3
Personnel expenses	-53.2	-	-53.2	-47.9	-	-47.9
Income tax paid	-34.1	-	-34.1	-26.6	-	-26.6
Net cash from (+) / used in (-) operating activities before change in operating assets and liabilities	**67.7**	**-**	**67.7**	**57.9**	**-**	**57.9**
Changes in operating assets:						
Increase (-) /decrease (+) in mandatory reserve in central bank and loans to credit institutions	-13.7	-	-13.7	-13.2	-	-13.2
Increase(-) / decrease (+) in loans to public	-423.0	-	-423.0	-446.6	-	-446.6
Increase(-) / decrease (+) in other financial and non-financial assets	18.7	-	18.7	17.2	-	17.2
Changes of operating liabilities:						
Increase (+) / decrease (-) in deposits from central bank and credit institutions	-205.1	-	-205.1	-204.8	-	-204.8
Increase (+) / decrease (-) in deposits and borrowings from the public	652.1	-	652.1	663.8	-	663.8
Increase (+) / decrease (-) in other liabilities	-5.4	-	-5.4	-13.4	-	-13.4
Net cash flows from (+) / used in (-) operating activities	**91.3**	**-**	**91.3**	**60.9**	**-**	**60.9**
Investing activities						
Net proceeds from debt securities	-	-20.5	-20.5	-	-20.5	-20.5
Net proceeds from investment portfolio securities	-1.2	-	-1.2	-0.8	-	-0.8
Purchase of property, plant and equipment and intangible assets	-4.6	-	-4.6	-4.6	-	-4.6
Dividends received	0.0	-	0.0	30.0	-	30.0
Net cash flows from (+) / used in (-) investing activities	**-5.8**	**-20.5**	**-26.3**	**24.6**	**-20.5**	**4.1**
Financing activities						
Dividends paid	-70.0	-	-70.0	-70.0	-	-70.0
Net cash flows from (+) / used in (-) financing activities	**-70.0**	**-**	**-70.0**	**-70.0**	**-**	**-70.0**
Net increase (+) / decrease (-) in cash and cash equivalents	**15.5**	**-20.5**	**-5.0**	**15.5**	**-20.5**	**-5.0**
Cash and cash equivalents at 1 January	**1,155.6**	**-89.3**	**1,155.6**	**1,244.9**	**-89.3**	**1,155.6**
Changes on cash and cash equivalents	104.8	-20.5	-5.0	15.5	-20.5	-5.0
Cash and cash equivalents at 31 December	**1,260.4**	**-109.8**	**1,150.6**	**1,260.4**	**-109.8**	**1,150.6**

Cash and cash equivalents includes:	2018	Adjustment	Adjusted 2018	2018	Adjustment	Adjusted 2018
Cash on hand	35.9	-	35.9	35.9	-	35.9
Balances with the central bank without mandatory reserve	1,076.8	-	1,076.8	1,076.8	-	1,076.8
Demand deposits with credit institutions	37.9	-	37.9	37.9	-	37.9
Liquidity securities	109.8	-109.8	-	109.8	-109.8	-
	1,260.4	**-109.8**	**1,150.6**	**1,260.4**	**-109.8**	**1,150.6**

37. 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.

Income statement, Bank
(millions of EUR)

	2019	2018
Interest income	*104.1*	*92.9*
of which interest income at effective interest rate	*101.5*	*90.6*
Interest expenses	*-9.4*	*-9.1*
Net interest income	**94.7**	**83.8**
Fee and commission income	60.2	57.9
Fee and commission expenses	-16.2	*-16.2*
Net fee and commission income	**44.0**	**41.7**
Net financial income	**5.4**	**5.8**
Gains less losses from investment securities	4.1	1.4
Dividends	18.1	30.0
Other operating income	0.4	0.7
Net other income	**22.6**	**32.1**
Total operating income	**166.7**	**163.4**
Personnel expenses	-39.8	-37.6
Depreciation, amortization and impairment of tangible and intangible and right-of-use assets	-7.3	-3.5
Other expenses	-7.2	-11.1
Total operating expenses	**-54.3**	**-52.2**
Profit before credit losses	**112.4**	**111.2**
Net expected credit losses	2.1	1.2
Profit before income tax	**114.5**	**112.4**
Income tax expense	-13.5	-26.6
Net profit for the year	**101.0**	**85.8**

Statement of comprehensive income

(millions of EUR)	2019	2018
Net profit for the year	**101.0**	**85.8**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**101.0**	**85.8**

Statement of financial position, Bank

(millions of EUR)

Assets	**31/12/2019**	**31/12/2018**
Cash and balances with central bank	844.1	1,156.9
Loans to credit institutions	65.8	80.4
Loans to the public	5,545.1	4,982.2
Debt securities	159.2	109.7
Derivatives	6.1	6.6
Equity instruments	7.7	5.4
Investments in subsidiaries and associates	5.5	5.5
Intangible assets	5.1	4.9
Property, plant and equipment	10.6	9.8
Right of use assets	19.9	-
Other financial assets	13.8	10.4
Other non-financial assets	13.2	7.0
Total assets	**6,696.1**	**6,378.8**
Liabilities and equity		
Liabilities		
Deposits from central banks and credit institutions	1,212.3	1,022.0
Deposits and borrowings from the public	4,504.5	4,459.5
Derivatives	7.8	6.2
Current income tax liabilities	3.3	2.9
Provisions	3.0	5.5
Other financial liabilities	86.5	40.8
Other non-financial liabilities	8.7	8.4
Total liabilities	**5,826.1**	**5,545.3**
Equity		
Share capital	42.5	42.5
Share premium	86.1	86.1
Other reserves	19.1	19.1
Retained earnings	722.3	685.8
Total equity	**870.0**	**833.5**
Total liabilities and equity	**6,696.1**	**6,378.8**

Statement of changes in equity, Bank
(millions of EUR)

	Share capital (Note 30)	Share premium	Other reserves (Note 32)	Retained earnings	Total share-holders' equity
Balance at 31 December 2017	**42.5**	**86.1**	**20.1**	**672.1**	**820.8**
Effect of applying IFRS9 *	-	-	-1.0	-2.7	-3.7
Balance at 01 January 2018	**42.5**	**86.1**	**19.1**	**669.4**	**817.1**
Net profit for the year	-	-	-	85.8	85.8
Total comprehensive income for the period	**-**	**-**	**-**	**85.8**	**85.8**
Dividends	-	-	-	-70.0	-70.0
Other	-	-	-	0.6	0.6
Balance at 31 December 2018	**42.5**	**86.1**	**19.1**	**685.8**	**833.5**
Book value of holdings under control or significant influence	-	-	-	-	5.5
Value of holdings under control or significant influence, calculated by equity method	-	-	-	-	205.6
Adjusted unconsolidated equity as at 31 December 2018	**42.5**	**86.1**	**19.1**	**685.8**	**1,033.6**
Balance at 31 December 2018	**42.5**	**86.1**	**19.1**	**685.8**	**833.5**
Effect of applying IFRS16 **	-	-	-	-2.0	-2.0
Balance at 01 January 2019	**42.5**	**86.1**	**19.1**	**683.8**	**831.5**
Net profit for the year	-	-	-	101.0	101.0
Total comprehensive income for the period	**-**	**-**	**-**	**101.0**	**101.0**
Dividends	-	-	-	-63.0	-63.0
Other	-	-	-	0.5	0.5
Balance at 31 December 2019	**42.5**	**86.1**	**19.1**	**722.3**	**870.0**
Book value of holdings under control or significant influence	-	-	-	-	5.5
Value of holdings under control or significant influence, calculated by equity method	-	-	-	-	205.1
Adjusted unconsolidated equity as at 31 December 2019	**42.5**	**86.1**	**19.1**	**722.3**	**1,069.6**

*IFRS 9 Financial instruments is applied from 1 January 2018
**IFRS 16 Lease agreements is applied from 1 January 2019

Statement of cash flows, Bank
(millions of EUR)

Operating activities	**2019**	**2018***
Interest received	104.3	92.2
Interest paid	-9.0	-7.8
Dividends received	0.0	0.0
Fee and commission received	60.2	57.9
Fee and commission paid	-16.2	-16.2
Net trading income and other operating income	5.7	6.3
Personnel expenses	-46.5	-47.9
Income tax paid	-13.5	-26.6
Net cash from (+) / used in (-) operating activities before change in operating assets and liabilities	**85.0**	**57.9**
Changes in operating assets:		
Increase (-) /decrease (+) in mandatory reserve in central bank and loans to credit institutions	36.9	-13.2
Increase(-) / decrease (+) in loans to public	-574.5	-446.6
Increase(-) / decrease (+) in other financial and non-financial assets	-25.6	17.2
Changes of operating liabilities:		
Increase (+) / decrease (-) in deposits from central bank and credit institutions	235.9	-204.8
Increase (+) / decrease (-) in deposits and borrowings from the public	44.8	663.8
Increase (+) / decrease (-) in other liabilities	4.6	-13.4
Net cash flows from (+) / used in (-) operating activities	**-192.9**	**60.9**
Investing activities		
Net proceeds from debt securities	-49.4	-20.5
Net proceeds from investment portfolio securities	1.8	-0.8
Purchase of property, plant and equipment and intangible assets	-10.3	-4.6
Dividends received	18.1	30.0
Net cash flows from (+) / used in (-) investing activities	**-39.8**	**4.1**
Financing activities		
Dividends paid	-63.0	-70.0
Lease payments	-4.9	-
Net cash flows from (+) / used in (-) financing activities	**-67.9**	**-70.0**
Net increase (+) / decrease (-) in cash and cash equivalents	**-300.6**	**-5.0**
Cash and cash equivalents at 1 January	**1,150.6**	**1,155.6**
Changes on cash and cash equivalents	-300.6	-5.0
Cash and cash equivalents at 31 December	**850.0**	**1,150.6**

Cash and cash equivalents includes:	**31/12/2019**	**31/12/2018**
Cash on hand	37.8	35.9
Balances with the central bank without mandatory reserve	753.2	1,076.8
Demand deposits with credit institutions	59.0	37.9
	850.0	**1,150.6**

* 2018 information is updated due to adjustment for presentation purposes (Note 36)

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Statement of the Management Board

The Management Board has prepared the management report and the consolidated financial statements of AS SEB Pank for the financial year ended 31 December 2019.

The consolidated financial statements have been prepared according to the International Financial Reporting Standards as they are adopted by the European Union and present a true and fair view of SEB Pank AS's financial position, the results of operations and its cash flows.

The information provided in the management report and the consolidated financial statements is correct and complete.

Members of Management Board:

„13" March 2020 Allan Parik

„13" March 2020 Artjom Sokolov

„13" March 2020 Ainar Leppänen

„13." March 2020 Marko Rintala

„13" March 2020 Eve Kümnik

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of AS SEB Pank

Opinion

We have audited the consolidated financial statements of AS SEB Pank and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (including International Independence Standards) (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the code of ethics.

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

Other Matter

The financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on 12 March 2019.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How we addressed the key audit matter
Loan loss impairment	
The carrying amount of loans to the public and credit institutions as at 31 December 2019 amounted to EUR 5 772.9 million, the impairment reversal recognized amounted to EUR 3.8 million and the expected credit loss as at 31 December 2019 amounted to EUR -19.9 million in the Group`s financial statements. Since 1 January 2018, the Group has introduced the expected credit loss (ECL) model under IFRS 9. The basis of the Group's impairment provision policy is presented in the accounting policies section in Note 1.8 to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Note 1.24 to the financial statements. Loan receivables are significant to the total assets of the Consolidated financial statements. We identified this area to be significant for the audit because measurement and recognition of allowances for loan loss impairment reflected in the Group's expected credit loss model is associated with significant estimation as it requires the management to exercise judgement and apply complex and subjective assumptions both about the timing and amounts of such impairment. Key areas of judgement include the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors. Due to the above circumstances, we considered loan impairment assessment to be the key audit matter.	Our audit procedures included, among others, the following: We gained understanding and tested the key controls over the loan issuance, booking and monitoring and loan impairment provisioning processes. We obtained and read the Group's Impairment provisioning policy that is based on IFRS 9. With the support of IFRS 9 specialists, we assessed the compliance of the policy with the requirements of IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios. In addition to testing key controls, for a sample of loans we performed testing of loan portfolio by comparing inputs to internal and external data, including contract dates, risk classes for non-retail exposures and risk pool rates for retail exposures, collateral values and types, performing/ non-performing status and other inputs used in ECL calculator as at 31 December 2019. For a sample of loans and model outputs with the support of valuation specialists, we performed recalculations of ECL. ECL adjustments related to expert credit judgement were analysed. Our analysis considered management's assumption of ECL adjustments. We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to industry levels, comparison to prior year, movements between stages etc. We also assessed the adequacy of the financial statement disclosures in Notes 15 and 16.

Other information

Management is responsible for the other information. Other information consists of AS SEB Pank Management Report, but does not consist of the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 management and those charged with governance for the financial statements

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

In preparing the financial statements, management 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 management 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 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 International Standards on Auditing (Estonia) 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 financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 management.
- Conclude on the appropriateness of management'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 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 financial statements, including the disclosures, and whether the 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 are also required to 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 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

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Group's consolidated financial statements the first time in 2019.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Group, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In addition to statutory audit services and services disclosed in the financial statements, no other services were provided by us to AS SEB Pank and its controlled undertakings.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 13 March 2020

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

Proposal of the Management Board regarding the profit distribution

AS SEB PANK

Located at Tornimäe 2, Tallinn

MANAGEMENT BOARD RESOLUTION

In Tallinn March 23th, 2020

Distribution of the profit of the financial year 2019

1. To make a proposal to the sole shareholder not to distribute the profit of the financial year 2019 in amount of EUR 100,957,958 (one hundred million, nine hundred and fifty-seven thousand, nine hundred and fifty-eight euros).

	In Euros
Net profit of AS SEB Pank for the reporting period, ended on 31 December 2019	100,957,958
Retained earnings, not distributed	621,296,932
Retained earnings total, not distributed	722,254,890

The Management Board's dividend proposal for 2019 is motivated by the bank's strong capital position as well as a solid financial result, but given the exceptional global developments, the Management Board proposes to the sole Shareholder not to distribute year 2019 net profit and retained earnings. Decision has positive impact to own funds and is increasing total capital ratio from 32,1 % to 35,4%.

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

Allan Parik

Chairman of the Management Board

Supervisory Board approval of Annual Report 2019

The Management Board has prepared the management report and the annual accounts of AS SEB Pank for the financial year ended 31 December 2019.

The Supervisory Board of AS SEB Pank has reviewed the Annual Report 2019, 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 27th, 2020 the annual report for presentation to the sole shareholder.