

Capital Adequacy and Risk Management information 2014

The Capital Adequacy and Risk Management information refers to the public disclosure in accordance with the Capital Requirements Directive (CRD), which implements the Basel II framework in the European Union; in Estonia the regime is in effect since 2007.

Basel III was implemented in the European Union in revised EU legislation, comprising a Capital Requirement Directive No 2013/36/EU (CRD IV) and the Capital Requirements Regulation No 575/2013 (CRR) adopted in European Parliament in 2013.

CRD IV is effective in Estonia after adoption of necessary changes in local legislation in 2014, the CRR from 1 January 2014 automatically took effect upon EU adoption.

The major changes introduced by the CRR/CRD IV are as follows:

Definition of capital

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

Capital requirements

- Capital buffers (counter-cyclical capital buffer, capital conservation buffer and systemic risk buffer)

Liquidity risk

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

Counterparty credit risk

- Capital charge for credit valuation adjustments
- New collateral management requirements
- Incentives to use central clearing parties and clearing houses

Leverage risk

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

Raising standards of prudential supervision and market discipline.

CRR, Part Eight introduced Disclosure requirements by Institutions

AS SEB Pank belongs to the consolidation group of Skandinaviska Enskilda Banken AB (publ) that is registered in another Member State Sweden. AS SEB Pank uses the same risk management strategy and rules of procedure as the parent company of the consolidation group including the same internal ratings system, internal measurement approaches and the principles of calculating own funds and capital adequacy.

The parent company Skandinaviska Enskilda Banken AB (publ) discloses Pillar 3 information for the whole SEB Group. The SEB Group's Capital Adequacy and Risk Management report (Pillar 3) 2014 is published on SEB webpage www.seb.se.

Retail portfolios

As of year-end 2014, approximately 90 per cent of SEB`s Advanced IRB retail portfolio consisted of mortgage lending.

Non-retail portfolios, IRB approval and implementation plan.

End of 2014, 85 per cent of the non-retail portfolio within the parent company Skandinaviska Enskilda Banken AB (publ) was reported under the Advanced IRB approach. SEB has agreed a roll-out plan with the Swedish FSA and local supervisors for the remaining non-retail and retail portfolios of significant size. For the Baltic subsidiaries an Advanced IRB application was filed during 2014, covering the non-retail portfolios (which currently reported under Foundation IRB).

Standardized approach

The standardized approach is used for exposures to central governments, central banks and local governments and authorities and for a number of minor portfolios.

SEB has been approved by supervisors to report operational risk according to the Advanced Measurement Approach (AMA) since 2008.

AS SEB Pank Annual Report 2014 (published on webpage www.seb.ee) provides information on the AS SEB Pank consolidation group`s risk profile and business volumes by customer categories and risk classes, risk weighted assets, the amount and composition of the capital requirements, the amount and composition of the own funds, which form the basis for the calculation of the capital adequacy ratio (please see on page 48 „Risk policy and management“, on page 15 “Capital management”, on page 18 “Other published information”, on page 10 “Statement of remuneration in SEB Pank Group” as well the other Notes to Consolidated Financial Statements).

Together with SEB Pank Annual Report 2014, information provided in The SEB Group`s Capital Adequacy and Risk Management report (Pillar 3) 2014, provides information on SEB Pank`s material risks as part of the Pillar 3 framework.