

Capital Adequacy and Risk Management information 2015

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, Estonian Commercial Registry code 10004252, to which the CRR requirements apply, is the parent company of consolidated group. The Group consolidated situation, which represents the scope of consolidation for prudential purposes according to CRR, is the same as in the Group's consolidated financial statements, set out in the Annual Report as of 31. December 2015. AS SEB Liising (ownership 100%) and AS SEB Varahaldus (ownership 100%) are fully consolidated, AS Sertifitseerimiskeskus (ownership 25%) and Tieto Estonia Services OÜ (ownership 20%) are consolidated using equity method.

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) 2015 is published on SEB webpage www.seb.se.

Credit risk Internal rating based (IRB) approval and implementation plan

Retail portfolios

The IRB Advanced approach is used for retail exposures for calculation of regulatory capital requirements since 2008. As of year-end 2015, majority of SEB Pank Group's retail portfolios are IRB Advanced with internally developed Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF).

Non-retail portfolios

The IRB Foundation approach is used for non-retail portfolios for calculation of regulatory capital requirements, based on approved internally developed Probability of Default (PD) models since 2008.

SEB has agreed on a roll-out plan with the Swedish FSA and local supervisors for the remaining non-retail and retail portfolios of significant size.

Credit risk 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.

Operational risk

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

AS SEB Pank Annual Report 2015 (published on webpage www.seb.se) 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 4 "Consolidated group" on page 10 "Statement of remuneration in SEB Pank Group", on page 14 "Capital management", on page 17 "Other published information", on page 47 "Risk policy and management" as well the other Notes to Consolidated Financial Statements).

Together with AS SEB Pank Annual Report 2015, information provided in The SEB Group's Capital Adequacy and Risk Management report (Pillar 3) 2015, provides information on SEB Pank's material risks as part of the Pillar 3 framework.