

AS SEB Pank

# Annual Report

(translation of the Estonian original)

2016



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## Statement of the Management Board

Annual Report 2016 consists of the following parts and reports:

Introduction – general information (page 3)

Management Report (pages 4-19)

Consolidated Financial Statements (pages 20-96)

Independent Auditor's Report (pages 97-99)

Proposal of the Management Board regarding the profit distribution (page 100).

The financial and other additional information published in the Annual Report 2016 is true and complete. There is no financial or other information, missing from the Annual Report 2016, which could affect the meaning or contents of the report. Consolidated financial statements give a true and fair view of the actual financial position, results of operations and cash flows of the AS SEB Pank Group.

Consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards, as adopted by the European Union and as stipulated in § 17 of the Estonian Accounting Law. The Annual Report 2016 has been compiled in accordance with the requirements of Estonian laws. AS SEB Pank and subsidiaries of the consolidated group are assumed to be going concern.

The audit of consolidated financial statements for the year 2016 was conducted in accordance with International Standards of Auditing. The Annual Report 2016 will be submitted for the approval to the ultimate shareholder Skandinaviska Enskilda Banken AB (publ). Previous Annual Report 2015 was approved on 30.03.2016.

### Members of Management Board:

“ 9 ”	March	2017		Allan Parik
“ 9 ”	March	2017		Kari Petteri Nikkola
“ 9 ”	March	2017		Ainar Leppänen
“ 9 ”	March	2017		Eerika Vaikmäe-Koit

## I. Introduction - general information

### 1. Credit institution

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

### 2. Auditor

Audit company	AS PricewaterhouseCoopers
Registry code	10142876 (Estonian Commercial Register)
Address	Pärnu Str. 15, 10141 Tallinn, Estonia
Reporting date	31.12.2016
Reporting period	01.01.2016 - 31.12.2016
Reporting currency	Euro (EUR), millions

## II. Management Report

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

#### 1.1. Consolidated group

Company name	Registry code	Reg. date	Address	Activity	Holding (%) ***	At an acquisition cost (EUR mio)
AS SEB Liising	10281767	03.10.97	Tallinn, Tomimäe 2	Leasing	100.0%	1.8
AS Rentacar*	10303546	20.10.97	Haapsalu, Karja 27	Leasing	100.0%	0.0
AS SEB Varahaldus	10035169	22.05.96	Tallinn, Tomimäe 2	Asset management	100.0%	2.7
AS Sertifitseerimiskeskus**	10747013	27.03.01	Tallinn, Pämu mnt 141	Data communication services	25.0%	1.0
						<b>5.5</b>

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.

In 31.05.2016 an associate Tieto Estonia Services OÜ was sold (20% ownership held by AS SEB Pank).

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

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

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

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

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

#### Changes in the consolidated group during the accounting period and plans for year 2017

No such events or trends have occurred by the time of publishing the report, which would affect the strategy of the group in 2017.

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

Members of the Management Board at the end of 2016: Allan Parik, Eerika Vaikmäe-Koit, Ainar Leppänen, Paul Niklas Larsson and Kari Petteri Nikkola. Indrek Julge was recalled from the Management Board as of 1 March 2016. Ainar Leppänen was elected as a member of the Management Board as of 1 May 2016. The term of office of Paul Niklas Larsson in the Management Board ended on 28 February 2017.

Members of the Supervisory Board at the end of 2016: Riho Unt, Martin Johansson, Stefan Stignäs, Tony Kylberg, Erkkä Näsäkkälä and Susanne Tamm. Riho Unt was elected to the Supervisory Board on 22 February 2016. David Teare and Mark Payne resigned from the Supervisory Board on 15 March 2016.

Members of AS SEB Pank Management and Supervisory Board and their relatives as well as commercial undertakings controlled jointly or severally by the above mentioned persons did not hold any shares in AS SEB Pank as of 31.12.2016.

### **1.3. Statement of AS SEB Pank management procedure**

#### AS SEB Pank management board members in supervisory boards of SEB Group companies

AS SEB Pank Management Board members belong to the supervisory boards of SEB Group companies. Allan Parik and Ainar Leppänen are the members of the Supervisory Board in AS SEB Liising, AS SEB Varahaldus and AS SEB Elu- ja Pensionikindlustus. Eerika Vaikmäe-Koit 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. In case of equal candidates, the employees of the SEB Pank Group are preferred.

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

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

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

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

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

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

#### Policy on diversity

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

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

#### Risk Committee

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

### **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 significant history. SEB Group is a leading Nordic financial services group. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of financial services. In Denmark, Finland, Norway and Germany the bank's

operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. SEB Group has 15 300 employees.

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

The more than 752 500 customers of SEB Pank Group are served by 1044 employees. The customers are served through many different channels such as 22 branch offices, 234 ATMs, 9507 POS-terminals. There are more than 767 100 debit and credit cards in use. In addition, over 77% of our customers use internet bank services.

## **2. Highlights**

### Corporate clients

The macroeconomic environment remained challenging in 2016 due to the strained labour market. While the sales revenue of nonfinancial enterprises grew by 1.7% during the first three quarters, the average salary surged by 7.6%. Despite the recovery of exports, in core sectors –such as wood processing and the manufacture of metal products – the export growth decelerated.

In 2016, SEB loan portfolio for large corporations increased by 7% and for 2017 we foresee a moderate increase in the loan and leasing portfolio what would correspond to general economic growth. At the same time, large corporations' deposits grew by 29%.

During 2016, SEB has continuously improved its advisory approach and last year we launched the M&A Advisory in order to even more support our clients. We see stable demand and interest in buying and selling businesses and this was the reason for recreating the M&A Advisory function.

SEB continued its tradition, and for the third year in a row we organised the CFO Forum for large corporate's CFOs and for the fourth time conducted a CFO survey among Baltic large corporates to map their next year forecasts and challenges.

During 2016, SEB has continuously supported our clients' investments into expansion and improvement of production facilities and acquisitions.

SEB financing portfolio for small and medium enterprises (SMEs) increased 0.8% in 2016. At the same time, deposits grew by 0.8%.

SEB's activity and focus towards SME clients, especially start-ups and micros, stayed strong. Entrepreneur value offer for small clients was redesigned and introduced to the market. The value offer was generated based on the needs and feedback of both, our clients and partners to the relevant banking offer and business model advisory, thereby supporting small clients who



are either planning to start or have already started their business. From the end of 2016, companies can open a bank account at SEB without visiting a branch, i.e. via a remote channel. Communication with the bank is carried out through a video call. We are initially offering the services to those SEB clients who have previously concluded a private client internet bank contract. In the future, the service will also be made available to new clients.

During October-November 2016, the survey Baltic Business Outlook in the SME field was conducted in three Baltic countries. SEB is going to introduce the results of Estonia, Latvia and Lithuania in Q1 2017.

SEB wants to support companies in being more innovative. For the third year in a row SEB is organising a seminar-workshop InnovationLab for SMEs, who are interested in expanding to new markets and increasing their sales through innovation. One of the core values for entrepreneurs participating in InnovationLab is the possibility to get very practical ideas and advice from world-class experts on where to seek new growth opportunities and how to be successful also in the future.

#### Private customers

Private customers have been benefiting from the strong labour market. In addition to the high wage growth, also employment rate stood at a historically high level, averaging 65.8% during the first three quarters. Household purchasing power was amplified further by close to zero inflation. Domestic consumer price index increased by a marginal 0.1% in 2016.

Loan portfolio for private customers increased by 7.0% in 2016.

The volume of home loan portfolio increased 8% in 2016, compared to 2015. New sales of home loans increased 30% and were granted for 72.9 million euros more than in 2015. The increase in household lending was caused by continuously favourable conditions in the labour market. Employment rate has been historically high and wage growth 7.1% in the first three quarters of 2016. Also increase of many social benefits boosted the real income.

The volume of deposits increased 10% in 2016, which is largely consistent with the overall increase of total household deposits in the economy.

SEB has been the home bank for over 250,000 private persons, with increase in 2016 being 2.1% compared to 2015; the home bank customer base increased in 2016 by more than 5,200 customers.

SEB Pank has paperless service in all branches since January 2015. Increase in the average number of paperless transactions per week in 2016 was 67%, being 1,335 transaction per week. Paperless service makes the classical banking services more comfortable for the clients, as well as more environment-friendly.

#### Organisation

In April, Eerika Vaikmäe-Koit was appointed as the new Head of Corporates and Institutions Area, replacing Indrek Julge. Eerika Vaikmäe-Koit has 20 years of experience in working in SEB. Her previous position was the Head of Retail Banking and Technology Area.

In May, Ainar Leppänen was appointed as the new Head of Retail Banking and Technology Area, replacing the former area manager Eerika Vaikmäe-Koit. Ainar Leppänen was previously the Executive Director of AS SEB Liising.

**In 2016, AS SEB Pank received several awards and recognitions:**

- The Banker: The Best Bank
- The Banker: The Best Private Bank
- EMEA Finance: The Best Bank in Estonia
- Global Finance: The Best Trade Finance Bank in Estonia
- Estonian National Advertising Festival: Marketing Act silver price for Advisory Project
- Responsible Business Forum in Estonia: Silver level in corporate sustainability
- Global Finance: The Best securities services provider in Estonia
- Global Finance: SEB's digital solutions are the best in Estonia
- Global Finance: SEB's digital solutions are the best in Central and Eastern Europe
- The Institute of the Estonian Language: "Clear message" special prize

Social responsibility and sponsorship

AS SEB Pank has set an objective to become the best advisory bank in the Baltic countries, which for customers means advisory and sharing of financial literacy. In 2016 certain actions took place to achieve this aim:

- Companies can open a bank account at SEB without visiting a branch, i.e. via a remote channel. Communication with the bank is carried out through a video call. We are initially offering the services to those SEB clients who have previously concluded a private client internet bank contract. In the future, the service will also be made available to new clients.
- SEB Pank has 80 voluntary trainers, sharing financial literacy at schools as well as to adults. In the second half of 2016 for example, we conducted nearly 200 financial literacy lessons in more than 100 Estonian and Russian elementary schools and gymnasiums in all Estonian counties. All in all, we shared our knowledge with almost 2,000 students.
- Together with sharing knowledge, SEB is developing also products and services, which help the customers cope with everyday management and save more. As a good example, we can highlight the Digital Coin Jar, which has notably changed the saving habits of customers.
- Corporate sustainability is important for SEB. We organise meetings with corporate customers on sustainability. By advising the 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 homepage [www.sebgroup.com](http://www.sebgroup.com). AS SEB Pank Group give input to that report as member of the SEB Group. AS SEB Pank Group's approach to corporate sustainability is available on homepage [www.seb.ee](http://www.seb.ee).
- For the third year in a run SEB is organising a seminar-workshop InnovationLab for SMEs, who are interested in expanding to new markets and increasing their sales through innovation.
- SEB is participating in the smart device security project "Nutikaitse 2017", advising on how to safely use banking services in smart devices.
- SEB organises seminars for start-ups and social companies.

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

#### **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”;
- CS Forum together with the Ministry of Social Affairs arranged meetings on how to balance the work and family life;
- SEB joined Diversity Charter Estonia;
- SEB is the member of the Estonian Chamber of Commerce and Industry “Promotion of Entrepreneurship”.

#### **AS SEB Pank made a contribution to the society**

- SEB supported recreational sport: almost 14,000 people participated in SEB May Run.
- Almost 20,000 people participated in the largest sports event in the Baltic countries, SEB Tallinn Marathon. SEB Tallinn Marathon is one of the 50 most prestigious marathons in the world.
- AS SEB Pank contributed to the development of young tennis players of Estonia, supporting the Estonian Tennis Association and SEB Tallink Tennis Team.
- As a gold sponsor of the Estonian National Opera, AS SEB Pank contributed to the future of opera tradition in 2016, issuing the fifth public award to a female and a male soloist, who were chosen by the visitors. Around 3,000 people participated in voting.

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

#### **AS SEB Pank promoted business in 2016 – Ajujaht, Junior Achievement**

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 to improve the business skills to improve the business skills of young entrepreneurs.

In cooperation with Junior Achievement Estonia, we have contributed in 2016 to the development of entrepreneurship in Estonia. We support the student enterprise and mini enterprise programmes at basic schools and upper secondary schools of Estonia.

#### **In 2016, AS SEB Pank supported the activity of MTÜ SEB Heategevusfond (Charity Fund), the objective of which is to improve the welfare of children without parental care.**

During 2016 different scholarships were given out, such as study scholarship, scholarship for young mothers and hobbies scholarship. In addition, a Christmas tree project was held for 1000 children in shelters, organising for all of them Christmas presents. During the year, more than 30 special events were organised. The number of children participating in the events reached above thousand.

### **3. Statement of remuneration in SEB Pank Group**

#### Remuneration policy

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

SEB Pank Group remuneration structure is based on base pay (monthly fixed salary). In addition, the remuneration structure may include:

- a) variable pay:
  - SEB All Employee Programme (AEP);
  - short-term cash-based incentive (STI);
  - one-off bonuses;
- b) 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).

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 Remuneration Policy is adopted by the Supervisory Board of AS SEB Pank. The Head of HR and Training Division conducts a yearly review of the Remuneration Policy and after having consulted the heads of the bank's 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 proposal to the Supervisory Board for approval.

#### Performance measurement and risk management

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.

#### Purpose and parameters for variable pay

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, being also an important method for achieving flexible labour costs. At SEB Pank Group, the variable pay-outs are determined by operational performance as well as risks.

AEP is a common 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. 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. Skandinaviska Enskilda Banken AB (publ) establishes the country-based AEP Terms and Conditions each year for the specific financial year.

#### Statement of remuneration of Identified Staff

In 2011, the new regulations on remuneration of employees of financial institutions established with the amendments made to the legislation entered into force. The amendments were aimed to secure that all financial institutions in Estonia have a sound and controlled risk taking and that the remuneration systems supports such sound risk taking.

In accordance with the law, AS SEB Pank has defined the so-called “Identified Staff”:

- A. Senior management (including members of Management Board);
- B. Responsible persons within control functions;
- C. 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;
- D. Employees within the same remuneration bracket as members of the Management Board.

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 shall be made more frequently, when the employees or the organisational structure of the SEB Group company change. The Identified Staff List shall be coordinated with the Risk Control and Compliance department before approval.

#### Maximum variable pay levels

SEB Pank Group shall provide a sound balance between fixed and variable pay and align 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 shall not exceed 100% of annual base salary.

A certain part of variable pay shall be 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.

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.

#### Deferral structure

Based on Credit Institutions Act, Article 57', subsection 2, considering the nature, scope and complexity of the bank's business operations and the fact that for practical reasons it was not considered as 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), will be subject to a deferral of the variable pay, the deferral will be at least 40% of employee's total annual variable pay. AS SEB Pank has defined 70 employees as Identified Staff, including the Management Board members.

The long-term share-based variable pay system, established in the SEB Group, is a programme based on the shares of Skandinaviska Enskilda Banken AB (publ), established throughout the SEB Group and this 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.

**Remuneration**  
(millions of EUR)

2016	Remuneration				Number of employees			
	Board*	Specially regulated	Other	TOTAL	Board*	Specially regulated	Other	TOTAL
		staff	employees			staff	employees	
Fixed remuneration	0.8	2.8	21.4	25.0	10	70	1 081	1 161 **
Variable Pay	0.2	0.4	2.5	3.1	8	90	973	1 071
whereof:								
<i>Short-term cash-based (incl.AEP)****</i>	<i>0.1</i>	<i>0.3</i>	<i>2.0</i>	<i>2.4</i>				
<i>Long-term equity-based</i>	<i>0.1</i>	<i>0.1</i>	<i>0.5</i>	<i>0.7</i>				
Deferred variable pay	0.2	0.2	1.4	1.8				
Accrued and paid remuneration	1.1	3.3	24.7	29.1				
Severance pay ***				0.3				42
Agreed but not yet paid severance pay				-				

\* board members of the bank and subsidiaries

\*\* 117 of them are non-active employees

\*\*\* Highest single amount was 36555 euros.

\*\*\*\* AEP = All Employee Program

2015	Remuneration				Number of employees			
	Board*	Specially regulated	Other	TOTAL	Board*	Specially regulated	Other	TOTAL
		staff	employees			staff	employees	
Fixed remuneration	0.8	3.2	20.2	24.2	8	75	1 108	1 191 **
Variable Pay	0.1	0.4	2.1	2.6	9	94	986	1 089
whereof:								
<i>Short-term cash-based (incl.AEP)****</i>	<i>0.0</i>	<i>0.3</i>	<i>1.9</i>	<i>2.2</i>				
<i>Long-term equity-based</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.4</i>				
Deferred variable pay	0.2	0.3	1.1	1.6				
Accrued and paid remuneration	1.0	3.8	23.3	28.1				
Severance pay ***				0.1				31
Agreed but not yet paid severance pay				-				

\* board members of the bank and subsidiaries

\*\* 122 of them are non-active employees

\*\*\* Highest single amount was 23454 euros.

\*\*\*\* AEP = All Employee Program



**Remuneration by divisions**

2016	Fixed		Variable	
	Remuneration	FTEs*	Remuneration	FTEs
Corporate	2.5	85	0.3	72
Retail	10.5	649	1.1	601
Other	12.0	427	1.4	398
<b>Total</b>	<b>25.0</b>	<b>1 161</b>	<b>2.8</b>	<b>1 071</b>

2015	Fixed		Variable	
	Remuneration	FTEs	Remuneration	FTEs
Corporate	2.5	80	0.3	76
Retail	10.4	678	1.1	607
Other	11.3	433	1.3	406
<b>Total</b>	<b>24.2</b>	<b>1 191</b>	<b>2.7</b>	<b>1 089</b>

\*Full Time Employees

**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 promptly arrange for additional capital if SEB Pank requires capital injections to meet the decided level.



**Capital adequacy**

(millions of EUR)

CAPITAL BASE	31.12.16	31.12.15
<b>OWN FUNDS</b>	<b>945.0</b>	<b>904.5</b>
<b>1. TIER 1 CAPITAL</b>	<b>945.0</b>	<b>904.5</b>
<b>1.1. COMMON EQUITY TIER 1 CAPITAL</b>	<b>945.0</b>	<b>904.5</b>
1.1.1. Capital instruments eligible as CET1 Capital	128.8	128.8
<i>Paid up capital instruments</i>	42.5	42.5
<i>Share premium</i>	86.3	86.3
1.1.2. Retained earnings *	806.8	751.4
1.1.3. Accumulated other comprehensive income	0.9	12.8
1.1.4. Other reserves	19.4	19.4
1.1.5. Adjustments to CET1 due to prudential filters	0.0	-0.1
1.1.6. (-) Intangible assets	-3.0	-1.9
1.1.7. (-) IRB shortfall of credit risk adjustments to expected losses	-7.7	-5.5
1.1.8. Other transitional adjustments to CET1 Capital	-0.2	-0.4
<b>2. TIER 2 CAPITAL</b>	<b>0.0</b>	<b>0.0</b>
IRB Excess of provisions over expected losses eligible	0.0	0.0
RISK WEIGHTED ASSETS (RWA)	31.12.16	31.12.15
<b>TOTAL RISK EXPOSURE AMOUNT</b>	<b>2 426.1</b>	<b>2 175.3</b>
<b>1. RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES</b>	<b>2 285.0</b>	<b>2 021.1</b>
<b>1.1. Standardised approach (SA)</b>	<b>248.8</b>	<b>222.7</b>
Central governments or central banks	20.3	2.9
Public sector entities	0.7	0.6
Retail	176.9	174.0
Exposures in default	1.5	1.6
Collective investments undertakings (CIU)	6.9	6.1
Equity	3.4	13.2
Other items	39.1	24.3
<b>1.2. Internal ratings based Approach (IRB)</b>	<b>2 036.2</b>	<b>1 798.4</b>
1.2.1. IRB approaches when neither own estimates of LGD nor Conversion Factors are used	1 737.3	1 499.7
Institutions	218.2	94.1
Corporates - SME	818.4	695.8
Corporates - Specialised Lending	45.3	79.6
Corporates - Other	655.4	630.2
1.2.2. IRB approaches when own estimates of LGD and/or Conversion Factors are used	298.9	298.7
Retail - Secured by real estate SME	10.4	12.8
Retail - Secured by real estate non-SME	212.4	210.5
Retail - Qualifying revolving	0.0	2.2
Retail - Other SME	16.4	17.6
Retail - Other non-SME	59.7	55.6
<b>2. TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS</b>	<b>17.4</b>	<b>13.2</b>
<b>3. TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (AMA)</b>	<b>123.3</b>	<b>135.3</b>
<b>4. TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT</b>	<b>0.4</b>	<b>5.7</b>

\* Prognosis of dividends have been deducted from retained earnings.

**CAPITAL RATIOS**

	<u>31.12.16</u>	<u>31.12.15</u>
OWN FUNDS	945.0	904.5
TOTAL RISK EXPOSURE AMOUNT Basel III (without additional risk exposure amount due to application of Basel I floor)	2 426.1	2 175.3
Own fund requirement (8%)	194.1	174.0
Total capital ratio	38.95%	41.58%
Tier 1 Capital ratio	38.95%	41.58%
CET1 Capital ratio	38.95%	41.58%
Tier 2 Capital ratio	0.00%	0.00%
TOTAL RISK EXPOSURE AMOUNT Basel III (with additional risk exposure amount due to application of Basel I floor)	3 189.8	2 966.7
Own fund requirement (8%)	255.2	237.3
Total capital ratio	29.63%	30.49%
Tier 1 Capital ratio	29.63%	30.49%
CET1 Capital ratio	29.63%	30.49%
Tier 2 Capital ratio	0.00%	0.00%

**MEMBERS OF CONSOLIDATION GROUP, INCLUDED TO CAPITAL ADEQUACY CALCULATION**

AS SEB Pank  
AS SEB Liising Group  
AS SEB Varahaldus

**CAPITAL REQUIREMENTS AND BUFFERS**

	<u>31.12.16</u>			<u>31.12.15</u>		
	Total capital	Tier 1 capital	CET1 capital	Total capital	Tier 1 capital	CET1 capital
OWN FUNDS						
Capital amount	945.0	945.0	945.0	904.5	904.5	904.5
Total risk exposure amount *	2 426.1	2 426.1	2 426.1	2 175.3	2 175.3	2 175.3
Capital adequacy ratio	38.95%	38.95%	38.95%	41.58%	41.58%	41.58%
<b>Total capital requirements, incl. buffers</b>	<b>400.3</b>	<b>351.8</b>	<b>315.4</b>	<b>302.4</b>	<b>258.9</b>	<b>226.2</b>
	16.5%	14.5%	13.0%	13.9%	11.9%	10.4%
including:						
Base capital requirement	194.1	145.6	109.2	174.0	130.5	97.9
	8%	6%	4.5%	8%	6%	4.5%
Capital conservation buffer	60.7	60.7	60.7	54.4	54.4	54.4
	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer	72.8	72.8	72.8	43.5	43.5	43.5
	3%	3%	3%	2%	2%	2%
<b>Own funds Surplus(+) of total capital requirements, incl. buffers</b>	<b>544.7</b>	<b>593.2</b>	<b>629.6</b>	<b>602.1</b>	<b>645.6</b>	<b>678.3</b>

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

**LEVERAGE RATIO**

	<u>31.12.16</u>	<u>31.12.15</u>
Exposure measure for leverage ratio calculation	6 236.4	5 708.3
of which on balance sheet items	5 764.1	5 225.9
of which off balance sheet items	472.3	482.4
Leverage ratio	15.2%	15.9%

**5. Key figures**

(millions of EUR)

	31.12.16	31.12.15
Net profit	84.7	75.0
Average equity	959.2	893.6
Return on equity (ROE), %	8.83	8.39
Average assets	5 504.7	5 208.4
Return on assets (ROA), %	1.54	1.44
Net interest income	82.9	78.7
Average interest earning assets	5 376.6	5 076.9
Net interest margin (NIM), %	1.54	1.55
Credit losses adjusted net interest income	84.3	82.6
Average interest earning assets	5 376.6	5 076.9
Credit losses adjusted net interest margin, %	1.57	1.63
Interest income	91.9	91.5
Average interest earning assets	5 376.6	5 076.9
Yield on interest earning assets, %	1.71	1.80
Interest expense	9.0	12.8
Interest bearing liabilities, average	4 441.5	4 212.3
Cost of interest bearing liabilities, %	0.20	0.30
Spread, %	1.51	1.50
Cost / Income ratio, %	40.8	43.8
Ratio of individually impaired loans, %	0.33	0.50

**Explanations**

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

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

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

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

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

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

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

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

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

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

Assets exposed to interest rate risk:

Balances with central bank  
 Loans and advances to credit institutions  
 Loans and advances to customers  
 Debt securities and other fixed income securities  
 (all without accrued interests)

Liabilities exposed to interest rate risk:

Due to credit institutions  
 Due to customers  
 (all without accrued interests)

Total Operating Expenses:

Personnel expenses  
 Other expenses  
 Depreciation, amortisation and impairment of tangible and intangible assets

Total Income:

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

**Assets quality**

(millions of EUR)

	<b>31.12.16</b>	<b>31.12.15</b>
Total assets	5 775.4	5 233.9
Overdue loans and receivables	30.8	48.5
Overdue loans and receivables / Total assets, %	0.53	0.93
Allowances for losses on amounts due from customers and credit institutions	24.6	29.0

### III. Consolidated Financial Statements

#### 1. Consolidated income statement

(millions of EUR)	Note	2016	2015
<i>Interest and similar income</i>	3	91.9	91.5
<i>Interest expenses and similar charges</i>	4	-9.0	-12.8
Net Interest Income		82.9	78.7
<i>Fee and commission income</i>	5	60.0	62.5
<i>Fee and commission expense</i>	6	-15.6	-17.3
Net fee and commission income		44.4	45.2
Net income from foreign exchange	7	4.7	5.0
Gains less losses from financial assets at fair value through profit or loss	8	0.8	1.0
Gains less losses from investment securities		16.1	-0.6
Other income	9	1.2	1.5
Personnel expenses	10	-38.4	-36.6
Other expenses	11	-19.5	-17.1
Depreciation, amortisation and impairment of tangible and intangible assets	20, 21	-3.9	-3.8
<b>Profit before impairment losses on loans and advances</b>		<b>88.3</b>	<b>73.3</b>
Impairment losses on loans and advances	12	1.4	3.9
<b>Profit before income tax</b>		<b>89.7</b>	<b>77.2</b>
Income tax		-5.0	-2.2
<b>Net profit</b>		<b>84.7</b>	<b>75.0</b>
Profit attributable to the sole equity holder		84.7	75.0

#### 2. Consolidated statement of comprehensive income

(millions of EUR)	Note	2016	2015
<b>Net profit</b>		<b>84.7</b>	<b>75.0</b>
<b>Other comprehensive income/expense</b>			
Items that may subsequently be reclassified to the income statement:			
Revaluation of available-for-sale financial assets	16	-11.9	12.1
<b>Total other comprehensive income/expense</b>		<b>-11.9</b>	<b>12.1</b>
<b>Total comprehensive income</b>		<b>72.8</b>	<b>87.1</b>
Sole equity holder of the parent entity (total)		72.8	87.1
Total comprehensive income from continued operations		72.8	87.1

The notes on pages 24 - 96 are integral part of these consolidated financial statements.

**3. Consolidated statement of financial position**

(millions of EUR)

	Note	<b>31.12.16</b>	<b>31.12.15</b>
<b>ASSETS</b>			
Cash		41.7	42.5
Balances with central bank	13	250.9	615.0
Loans and advances to credit institutions	14	983.3	392.5
Loans and advances to customers	15	4 337.5	4 096.3
Financial assets held for trading	16	23.4	28.3
Financial assets designated at fair value through profit or loss at inception	16	86.7	0.0
Available-for-sale financial assets	16	9.3	18.3
Other financial assets	17	18.3	24.3
Prepaid expenses and accrued income	18	11.8	4.7
Investments in associates	19	0.8	0.8
Intangible assets	20	2.9	1.9
Property, plant and equipment	21	8.8	9.3
<b>TOTAL ASSETS</b>		<b>5 775.4</b>	<b>5 233.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to credit institutions	22	992.4	888.6
Due to customers	23	3 687.0	3 316.1
Other financial liabilities	24	68.6	58.7
Accrued expenses and prepaid income	25	17.9	9.0
Financial liabilities at fair value through profit or loss	26	23.5	28.7
Provisions	27	0.1	0.4
<b>Total Liabilities</b>		<b>4 789.5</b>	<b>4 301.5</b>
Share capital	28	42.5	42.5
Share premium		86.3	86.3
Other reserves	30	20.3	32.2
Retained earnings		836.8	771.4
<b>Total shareholders' equity</b>		<b>985.9</b>	<b>932.4</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5 775.4</b>	<b>5 233.9</b>

The notes on pages 24 - 96 are integral part of these consolidated financial statements.

#### 4. Consolidated statement of cash flows

(millions of EUR)

	Note	2016	2015
<b>I. Cash flows from operating activities</b>			
Interest received		91.2	91.9
Interest paid		-8.9	-14.0
Fee and commission received	5	60.0	62.5
Fee and commission paid	6	-15.6	-17.3
Net trading income and other operating income		7.2	7.4
Personnel expenses and other operating expenses		-56.7	-53.0
Income tax paid		-5.0	-2.2
<b>Cash flows from operating activities before changes in the operating assets and liabilities</b>		<b>72.2</b>	<b>75.3</b>
<b>Changes in operating assets:</b>			
Loans and advances to credit institutions and mandatory reserve in central bank		-49.4	-1.5
Loans and advances to customers		-240.4	-130.0
Other assets		-0.7	3.7
<b>Changes of operating liabilities:</b>			
Due to credit institutions		116.3	-156.9
Due to customers		370.6	127.9
Other liabilities		1.0	3.7
<b>Cash flow from (used in) operating activities</b>		<b>269.6</b>	<b>-77.8</b>
<b>II. Cash flows from investing activities</b>			
Net increase-/decrease+ of investment portfolio securities		13.2	-0.9
Purchase of tangible and intangible assets	20, 21	-4.4	-5.0
Proceeds from sale of tangible and intangible assets	20, 21	0.0	1.2
<b>Cash flow from (used in) investing activities</b>		<b>8.8</b>	<b>-4.7</b>
<b>III. Cash flows from financing activities</b>			
Dividends paid		-20.0	-10.0
<b>Cash used in financing activities</b>		<b>-20.0</b>	<b>-10.0</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>258.4</b>	<b>-92.5</b>
<b>Cash and cash equivalents at the beginning of period</b>		<b>1 012.5</b>	<b>1 105.0</b>
Effect of exchange rate changes on cash and cash equivalents		0.0	0.0
<b>Cash and cash equivalents at the end of period</b>		<b>1 270.9</b>	<b>1 012.5</b>
<b>Cash and cash equivalents includes:</b>			
Cash on hand		41.7	42.5
Balances with the central bank without mandatory reserve		210.0	578.0
Liquid deposits in other credit institutions		932.5	391.9
Liquidity securities		86.7	0.1
		<b>1 270.9</b>	<b>1 012.5</b>

All cash equivalents are short-dated.

The notes on pages 24 - 96 are integral part of these consolidated financial statements.

**5. Consolidated statement of changes in shareholders' equity**

(millions of EUR)

	Share capital (Note 28)	Share premium	Other reserves (Note 30)	Retained earnings	Total shareholders' equity
<b>Year beginning 01.01.2015</b>	<b>42.5</b>	<b>86.3</b>	<b>20.1</b>	<b>705.9</b>	<b>854.8</b>
Dividend paid	0.0	0.0	0.0	-10.0	-10.0
Other	0.0	0.0	0.0	0.5	0.5
Net profit	0.0	0.0	0.0	75.0	75.0
Other comprehensive income:					
Net change in available-for-sale financial assets	0.0	0.0	12.1	0.0	12.1
Total other comprehensive income	0.0	0.0	12.1	0.0	12.1
Total comprehensive income	<b>0.0</b>	<b>0.0</b>	<b>12.1</b>	<b>75.0</b>	<b>87.1</b>
<b>Final balance 31.12.2015</b>	<b>42.5</b>	<b>86.3</b>	<b>32.2</b>	<b>771.4</b>	<b>932.4</b>
<b>Year beginning 01.01.2016</b>	<b>42.5</b>	<b>86.3</b>	<b>32.2</b>	<b>771.4</b>	<b>932.4</b>
Dividend paid	0.0	0.0	0.0	-20.0	-20.0
Other	0.0	0.0	0.0	0.7	0.7
Net profit	0.0	0.0	0.0	84.7	84.7
Other comprehensive income/expense:					
Net change in available-for-sale financial assets	0	0	-11.9	0	-11.9
Total other comprehensive expense	0	0	-11.9	0	-11.9
Total comprehensive income/expense	<b>0.0</b>	<b>0.0</b>	<b>-11.9</b>	<b>84.7</b>	<b>72.8</b>
<b>Final balance 31.12.2016</b>	<b>42.5</b>	<b>86.3</b>	<b>20.3</b>	<b>836.8</b>	<b>985.9</b>

The notes on pages 24 - 96 are integral part of these consolidated financial statements.



## Notes to Consolidated Financial Statements

### 1. Introduction and accounting principles

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

As at the end of year 2016 SEB Pank Group employed 1044 people (2015: 1069). These consolidated financial statements for the year ended 31 December 2016 have been approved for issue by the Management Board and are subject to approval by the ultimate shareholder.

Company name	Registry code	Reg. date	Address	Activity	Holding (%)	At an acquisition cost (EUR mio)
AS SEB Liising	10281767	03.10.97	Tallinn, Tomimäe 2	Leasing	100.0%	1.8
AS Rentacar	10303546	20.10.97	Haapsalu, Karja 27	Leasing	100.0%	0.0
AS SEB Varahaldus	10035169	22.05.96	Tallinn, Tomimäe 2	Asset management	100.0%	2.7
AS Sertifitseerimiskeskus	10747013	27.03.01	Tallinn, Pärnu mnt 141	Data communication services	25.0%	1.0
						<b>5.5</b>

#### Functional and presentation currency

The functional currency of the parent company AS SEB Pank and the subsidiaries is euro. 2016 consolidated financial statements have been presented in euros.

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

#### 1.1. Basis of preparation

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

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

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

Certain new standards, amendments and interpretations to existing standards have been published by the time of compiling these financial statements that are mandatory for the company's accounting periods beginning after 1 January 2016 or later periods. The overview

of these standards and the Group management estimate of the potential impact of applying the new standards and interpretations is given at the end of this section (Note 1.21). Note 1.21 gives also overview of the new IFRS standards, amendments and interpretations that became effective for the Group's annual periods beginning on or after 1.01.2017 and which the Group has not early adopted.

## 1.2. Critical accounting estimates and judgements

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

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

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

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

### Developments in global financial markets

In 2016, the investment environment had to be redefined. The era of falling interest rates and non-existent inflation came to an end. Somewhat unexpectedly, both the Brits' decision to leave the European Union and the new president of the United States of America proved to have limited market impact, given the – albeit moderate - improvement in macro news. Macro news is what mattered to markets.

At the same time, 2016 was not an easy year for those who made investments in markets. First, the beginning of the year brought about a sharp correction in risky assets. Although the ensuing recovery was strong, the year as a whole was not a good one in terms of yield for those who had to overcome the correction. Second, postures were, seemingly justifiably, somewhat more conservative due to the mounting risks (Brexit, the US presidential election). Unfortunately, such attitudes did not pay off in 2016.

In the future, we will have to continue to operate in a so-called redefined environment. It is possible that fiscal conservatism and orientation to globalisation will be down-prioritized, and several processes point towards pressure to grow wages at the expense of profit margins, a direction with which Estonian entrepreneurs are well familiar with. Furthermore, the most serious consumers of the world will no longer want to increase their debt burden — it is likely

to be the other way around. The combined effect of all these projected changes cast a shadow over the financial markets for the forthcoming years.

#### Impact on customers /borrowers

Economic growth has remained moderate and therefore investment activity of corporates is still low. However, in general companies have maintained decent financial standing and their buffers are sufficient to cope with potential setbacks. Constant fast growth of payroll has negative impact on efficiency and profitability. Therefore in longer run it is crucial that salary growth should stay on par with productivity growth.

Slow inflation, low unemployment rate and constant fast growth of income has boosted consumers deposit and mortgage growth. Nevertheless private customers overall debt burden is moderate and payment capacity buffers solid.

Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets confirm general stable outlook. Management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

#### Impact on collateral (especially real estate)

The amount of provision for impaired loans is based on management's appraisals of these assets at the reporting date taking into account potential cash flows from sale deducted by costs for obtaining and selling the collateral. The market in Estonia for many types of collateral, especially real estate, has stabilized with moderate growth potential. Assets under realization have been evaluated case by case in accordance to the cash flow model approved by Group.

### **1.3. Consolidation**

These consolidated financial statements of the SEB Pank Group comprise of the financial statements of the parent company AS SEB Pank and its subsidiaries as of 31 December 2016. The subsidiaries being consolidated are listed on page 4 (see Table 1.1).

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

#### Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority

of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

#### Associates

Associate is an entity over which the Group has significant influence, but which it does not control. Generally, significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights.

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

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

#### Parent company separate financial statements – primary statements

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

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

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

foreign currency exchange rates of the European Central Bank prevailing on the balance sheet date.

### 1.5. Cash and cash equivalents

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

### 1.6. Financial assets

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

Category (as defined by IAS 39)		Class (as determined by the Group)			
Financial assets	Loans and receivables	Loans and advances to credit institutions			
		Loans and advances to customers	Loans to individuals	Housing loans	
				Other loans to Private individuals	
			Loans to corporate entities	Loans to Corporates	
				Loans to Public sector	
	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities		
			Equity securities		
			Derivatives – non-hedging		
		Financial assets designated at fair value through profit or loss at inception	Debt securities		
			Equity securities		
Available-for-sale financial assets	Investment securities – debt securities	Listed			
		Unlisted			
	Investment securities – equity securities	Listed			
		Unlisted			

Financial assets are any assets that are cash, a contractual right to receive cash or another financial asset from another party, a contractual right to exchange financial instruments with another party under conditions that are potentially favourable or an equity instrument of another party.

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

#### 1.6.1. Loans and receivables

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the SEB Pank Group provides



money, goods or services directly to a debtor with no intention of trading the resulting receivable.

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

#### Repurchase agreements

Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to other credit institutions or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

#### Leasing receivables

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

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

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

the assets under lease agreements not yet delivered are recognised in the statement of financial position as prepayments to suppliers on line “Accrued income and prepaid expenses”.

#### Factoring and warehouse receipt financing receivables

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

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

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

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

#### Valuation of loans and receivables

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

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

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

For valuation of loans and receivables several risks are prudently considered. AS SEB Pank introduced a customer rating system for evaluating corporate loans, corresponding to the

principles used in Skandinaviska Enskilda Banken AB (publ), the parent bank of AS SEB Pank. Valuation of the customer receivables is based on the legal entities financial position, situation of the industry, trustworthiness of the borrower, competence of the management of the client, timely fulfilment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans. Valuation of loans to private individuals is based on timely fulfilment of contractual obligations, solvency and collateral, age, educational status, length of employment, saving practices and other factors, affecting the credit risk.

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

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

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

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



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

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

#### Impaired loans

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

### **1.6.2. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include:

- financial assets held for trading
- financial assets designated at fair value through profit or loss at inception

#### Financial assets held for trading

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

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

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

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

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

The shares and debt securities not actively traded on an active market are valued in fair value according to the last quotation from an acknowledged provider with a presumption that there have been regular quotations available for the shares / debt securities and the price volatility has been in normal range for similar instruments. If the price is not available from quotations or there is no sufficient regularity of the quotations or the volatility of the instrument price

quotations is outside the normal range, the shares / debt securities are revaluated into fair value based on all available information regarding the issuer to benchmark the financial instrument price against similar instruments available on active market to determine the fair value. For held for trading debt securities, for which the quoted prices from an active market are not available, cash flows are discounted at market interest rates, issuer's risk added. For fund participations (units) NAV bid quotation is used for fair value assessment.

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

The unrealised and realised result of the trading securities is recorded in income statement under "Gains less losses from financial assets at fair value through profit or loss".

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

#### Derivatives

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

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

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

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

#### Financial assets designated at fair value through profit or loss at inception

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

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

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

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

### 1.6.3. Available-for-sale financial assets

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

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

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

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

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

## 1.7. Offsetting financial instruments

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

## 1.8. Tangible and intangible assets other than goodwill

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

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

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

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

Depreciation / amortisation calculation is based on useful life of the asset, which serves as basis for forming the depreciation / amortisation rates. Buildings are depreciated over 20-50 years (capitalized rebuildings are depreciated according to agreement), intangible assets with limited lifetime are amortised over 3-10 years, and other non-current tangible assets are depreciated over 3-7 years, land and art is not depreciated. The appropriateness of depreciation / amortisation rates, methods and residual values are each reporting date assessed.

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

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

### Capitalisation of expenses

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

Development costs

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- there is an ability to use the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and external consultancy costs. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. IT development project is continuing and its costs in 2016 are being capitalized.

**1.9. Impairment of non-financial assets**

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

**1.10. Leases – the group is the lessee**

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

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

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



## 1.11. Financial liabilities

The classification made can be seen in the table below:

Category (as defined by IAS 39)		Class (as determined by the Group)	
Financial liabilities	Financial liabilities at amortised cost	Deposits from credit institutions	
		Deposits from customers	Corporate customers
			Public sector
			Households
		Debt securities in issue	
	Subordinated debt		
	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (Derivatives – Non Hedging only)	
Designated at fair value through profit and loss – Debt securities in issue			
Contingent liabilities	Loan commitments		
	Guarantees and other financial facilities		

### Deposits from credit institutions and customers

Deposits are recognised in the statement of financial position on their settlement date at fair value net of transaction costs and subsequently measured at amortised cost using effective interest rate method and recorded on lines “Due to credit institutions” and “Due to customers”, accrued interests is presented on a respective lines in liabilities. Interest expenses are recorded in the income statement on line “Interest expenses and similar charges”.

### Borrowings and issued securities

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

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

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

### Short-term and termination benefits to employees

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

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange

for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of another offer made to encourage voluntary redundancy. Benefits due more than 12 months after the reporting date are discounted to present value.

### 1.12. Embedded derivatives

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

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

### 1.13. Financial guarantee contracts

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

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

### 1.14. Provisions for liabilities and charges

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

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

## 1.15. Revenue recognition

### Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### Fee and commission income

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

Other transaction fee income and other income are recognised on accrual basis at the moment of executing the respective transactions.

## 1.16. Dividend income

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

## 1.17. Recognition of day one profit and loss

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



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

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

### 1.18. Share-based payments

Group employees receive compensation through share-based incentive programmes, based on Skandinaviska Enskilda Banken AB (publ) shares. The programmes, referred to above, are the Performance Share Programme, Employee Stock Option and the Share Savings Programmes. Only key persons can participate in the Performance Share Program, Share Matching Program and Share Deferral Program. Share Saving Program was meant for all employees who had expressed a wish for that. The Share Saving Program was closed in 2013 and also there were no participants in the Performance Share Program and Share Matching Program in 2014. The recording of expenses will last until the end of the qualification period of the respective programs. The expenses related to these programs and the accrued social charges, if applicable, are recorded according to the rules established by the Group. The allocation of this amount implies that profit and loss are impacted at the same time as the corresponding increase in equity is recognised.

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

### 1.19. Taxation

#### Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the taxation from 1. January 2015 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.

In Estonia income tax (that is accounted for as income tax cost in Consolidated Income Statement) is accounted for only in cases when the taxable event occurs (like payment of dividends and payments decreasing the equity).

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## 1.20. Fiduciary activities

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

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

### Adoption of New or Revised Standards and Interpretations.

There are certain new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1.01.2016 that would be expected to have a impact to the Group.

**Disclosure Initiative – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2016). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The application of the standard do not have significant impact to the Group's financial statements.

### New Accounting Pronouncements.

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1.01.2017, and which the Group has not early adopted.

**IFRS 9, Financial Instruments: Classification and Measurement** (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

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Following an initial assessment of contractual cash flows and business model, SEB expects that the measurement basis of the majority of the Group's financial assets will be unchanged on application of IFRS 9.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

SEB's IFRS 9 methodology for ECL measurement will leverage off existing internal rating-based Basel models. The design of the IFRS 9 models entails adjusting from the regulatory one-year-loss horizon and through-the-cycle modelling to lifetime loss horizon and point-in-time modelling. SEB plans to use internally developed macro-economic forecasts as the basis for the forward-looking information incorporated in the ECL measurement.

SEB's assessment is that the expected credit loss model is likely to increase loan loss allowances at transition, compared to the current incurred loss model. To date it is unclear how regulators will treat the interaction of the accounting loan loss allowance and the regulatory capital concept of expected loss. Under current regulation, any deficit between regulatory expected loss and IAS 39 loan loss allowance is deducted from CET1 capital, while any surplus is added back to Tier 2 capital. The European Commission has proposed that incremental provisions under IFRS 9 should be phased in over a five year period.

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

**IFRS 15, Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently evaluating the nature and impact of the change to the financial statements of the Group. No major impact is expected.

**Revenue from Contracts with Customers - Amendments to IFRS 15** (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The amendments do not change the underlying principles of the standard but clarify how those principles

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should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group is currently assessing the impact of the Amendments to the standard on its financial statements. No major impact is expected.

**IFRS 16, Leases** (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

**Disclosure Initiative - Amendments to IAS 7** (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the new standard on its financial statements.

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.

## 2. Risk policy and management

### 2.1. Risk policy and structure

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

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



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

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

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

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

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

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

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

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

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

## Risk profile

	The risk is identified, measured and managed	The risk is controlled with internal limits	The risk is subject to regulatory capital requirements	Risk profile evaluation
<b>CREDIT RISK</b>				
Credit risk is the risk of loss due to the failure of an obligor to fulfil its obligations towards SEB Pank Group. The definition also comprises counterparty risk derived from the trading operations, country risk and settlement risk.				The risk in the corporate credit portfolio is moderate given that it consists mostly of stronger counterparties in a wide range of industries. Concentration risk and large exposures are closely monitored. The household portfolio consists primarily of Estonian household mortgages which are considered to be low risk. The property management portfolio consists mostly of commercial real estate. While commercial real estate is generally of higher risk, SEB Pank Group's portfolio consists of strong counterparties with sound financing structures. The total credit risk has decreased significantly during recent years.
Credit	✓	✓	✓	
Counterparty	✓	✓	✓	
Concentration	✓	✓	✓	
<b>MARKET RISK</b>				
Market risk is the risk of loss or reduction of future net income following changes in interest rates, foreign exchange rates, credit spreads, commodity and equity prices, including price risk in connection with the sale of assets or closing of positions.				In general, market risk appetite in SEB Pank Group is low. Structural market risk and net interest income risk arise naturally in the banking book since customers demand various maturity dates and currencies. Trading book market risk is also customer driven.
Trading book	✓	✓	✓	
Banking book	✓	✓	✓	
<b>OPERATIONAL RISK</b>				
Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems (e.g. breakdown of IT systems, fraud, other deficiencies in internal control), human error or from external events (natural disasters, external crime, etc.). Operational risk also includes legal and compliance risks.				Operational risks are an inherent part of all business. It is neither possible nor cost-efficient to eliminate all operational risks and therefore smaller losses are a normal part of SEB Pank Group's operations. The bank continuously works to minimise operational losses and in particular to avoid larger loss incidents.
Processes, etc.	✓	✓	✓	
<b>LIQUIDITY RISK</b>				
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.				The primary source of funding is customer deposits which are stable to a large extent, limiting the dependence on wholesale funding. SEB Pank Group has a diversified funding base to ensure that payment obligations are met as they fall due. Various risk management tools, including stress tests, ensure that liquid assets are sufficient.
Liquidity risk	✓	✓		
<b>BUSINESS RISK</b>				
Business risk is the risk of lower revenues due to reduced volumes, price pressure or competition. The definition includes venture decision risk, i.e. risks related to large undertakings such as acquisitions, large IT projects, transformations, outsourcing etc.				Business risk is a fundamental part of doing business and SEB Pank Group continuously works to mitigate business, strategic and reputational risks in many ways, for example, with proactive cost management. Strategic reviews are performed regularly of all business areas, which may result in investments or divestments. The bank's IT development methodology is an agile, step-by-step, process in order to maintain flexibility.
Activities	✓			

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## 2.2. Credit risk

### Definition

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

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

### Risk management

#### *Credit policy and approval process*

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

A credit approval is based on an evaluation of the customer's creditworthiness and type of credit. Relevant factors include the customer's current and anticipated financial position and protection provided by covenants and collateral. A credit approval takes the proposed transaction into account as well as the customer's total business with the bank. The process differs depending on the type of customer (e.g., retail, corporate or institutional), risk level, and size and type of transaction. Independent and professional credit analysis is particularly important for large corporate customers. For households and small businesses, the credit approval is often based on credit scoring systems. Deciding on the risk taking is performed collegially by credit committees or by the authorised persons in accordance with the decision-making limits established by the bank's management.

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

#### *Risk mitigation*

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

#### *Limits and monitoring*

To manage the credit risk for individual customers or customer groups, a limit is established



that reflects the maximum exposure that SEB Pank Group is willing to accept.

SEB Pank Group continuously reviews the quality of its credit exposures. All total limits and risk classes are reviewed at least annually by a credit approval body (a credit committee consisting of at least two bank officers as authorised by the Credit Instruction, adopted by the Management Board).

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

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

Weak or impaired exposures are monitored more closely and reviewed at least quarterly in terms of performance, outlook, debt service capacity and possible need for provisions. The objective is to identify at an early stage credit exposures with an elevated risk of loss and to work together with the customer towards a solution that enables the customer to meet its financial obligations and SEB Pank Group to avoid or reduce credit losses.

Loans where the contractual terms have been amended in favour of the customer due to financial difficulties are referred to as forbore loans. Forbearance measures range from amortisation holidays (the most common measure) to refinancing with new terms and debt forgiveness. Changes in contractual terms may be so significant that the loan can also be considered impaired. A relevant credit approval body shall approve the forbearance measures as well as the classification of the loan as being forbore or not.

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

#### *Impairment provisioning process*

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

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

#### *Credit portfolio analysis and stress tests*

The risk organisation regularly reviews and assesses the aggregate credit portfolio based on industry, geography, risk class, product type, size and other parameters. Risk concentrations

in geographic and industry sectors as well as in large single names are thoroughly analysed, both in respect of direct and indirect exposures and in the form of collateral, guarantees and credit derivatives.

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

### Risk measurement

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

SEB Pank Group divides loan portfolio into two broad segments:

A) corporate portfolio including loans to legal entities belonging to counterparty group's with credit risk assumed by SEB Pank Group exceeding 500 000 euros (2015: 500 000 euros) or and

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

SEB Pank Group uses internal rating system for corporate customer risk assessment and also since the beginning of July 1<sup>st</sup> 2008 for calculation of capital amount needed to cover credit risk. The risk classification scale for corporate clients with credit limits 500 000 euros and more has 16 classes with 1 being the best possible risk and 16 being the default class. Sixteen risk classes belong to 5 quality classes of businesses. At the end of 2016 the corporate portfolio amounted to 56% of total loan portfolio (2015: 51%), incl. advances to credit institutions 18% (2015: 9%).

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

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

The scoring model for small corporates considers financial condition based on last two annual reports, credit history with the bank and based on external credit history register, experience of the customer. The outcome of the scoring model is credit score, expressing risk level and determining decision-making level. Depending on the score clients are divided into quality classes A, B, C and D, where A is the best and D is the worst quality class. Small corporates amounted to 4% of the total portfolio as of end of 2016 (2015: 5%).

In analysing loans to private individuals the credit scoring and left-to-live model (this measures the customer's ability to service the loan taking into account net income and cost of living) is used. The output of the model is credit score. Based on the score the clients are divided into quality classes A, B, C, and D, where A is the best and D is the worst quality class. Private individuals amounted to 40% of the total portfolio as of end of 2016 (2015: 44%).

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

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

Corporate Portfolio by risk classes	% of rated portfolio	
	31.12.16	31.12.15
Ordinary Business	89.6%	89.1%
Restricted Business	4.3%	5.2%
Special Observation	3.5%	1.3%
Watch-list	1.8%	2.0%
Default	0.8%	1.2%
Insufficient information	0.0%	1.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

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

Retail portfolio by behavioural scores	% of scored portfolio	
	31.12.16	31.12.15
Ordinary Business	89.1%	86.7%
Special Observation	8.6%	10.4%
Default	1.7%	2.1%
Insufficient information	0.6%	0.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

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

31.12.15	Credit	Public	Housing loans	Other loans		TOTAL
	insti- tutions			Corporates	sector	
Ordinary Business	391.3	1 680.6	134.1	1 532.7	235.4	3 974.1
Restricted Business	0.0	120.5	0.0	0.0	0.0	120.5
Special Observation	1.2	102.5	0.0	132.3	24.4	260.4
Watch-list	0.0	45.2	0.0	0.0	0.0	45.2
Default	0.0	31.6	0.0	41.2	1.8	74.6
Not Classified	0.0	46.5	0.0	0.0	0.0	46.5
Accrued Interests	0.0	1.4	0.1	1.5	1.1	4.1
Deferred Origination Fees	0.0	-4.0	-0.1	-2.0	-1.5	-7.6
	<b>392.5</b>	<b>2 024.3</b>	<b>134.1</b>	<b>1 705.7</b>	<b>261.2</b>	<b>4 517.8</b>

Counterparty risk in derivative contracts

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

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

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

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

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## Loans against collateral (millions of EUR)

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

31.12.15	Credit insti- tutions	Corporates	Public sector	Housing loans	Other	TOTAL
					loans to Private individuals	
Mortgage, real estate	0.0	1 294.9	0.0	1 703.8	11.2	3 009.9
Securities and deposits	0.0	1.5	0.0	0.0	0.3	1.8
Guarantee by state, central bank or municipality	0.0	0.0	97.9	0.0	43.7	141.6
Guarantee by credit institutions	392.5	0.0	0.0	0.0	0.0	392.5
Unsecured loans*	0.0	62.5	0.0	0.0	66.2	128.7
Repos with customers (securities as collateral)	0.0	0.0	0.0	0.0	0.0	0.0
Factoring (receivables as collateral)	0.0	121.3	0.0	0.0	0.6	121.9
Leasing (leased assets as collateral)	0.0	296.3	36.2	1.9	137.9	472.3
Other (floating charges, vehicles, warranties, other)	0.0	247.8	0.0	0.0	1.3	249.1
Allowances	0	-16.3	0	-10.5	-2.2	-29.0
<b>TOTAL**</b>	<b>392.5</b>	<b>2 008.0</b>	<b>134.1</b>	<b>1 695.2</b>	<b>259.0</b>	<b>4 488.8</b>

\* Includes credit cards and other unsecured loans.

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

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

	Credit- institutions	Loans to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
<b>2016</b>						
Over-collateralised assets	0	23.5	0	0	0	23.5
Under-collateralised assets	0	58.1	0	0	0	58.1
<i>Fair value of collateral</i>	0	47.8	0	0	0	47.8
<b>2015</b>						
Over-collateralised assets	0	30.8	0	0	0	30.8
Under-collateralised assets	0	44.3	0	0	0	44.3
<i>Fair value of collateral</i>	0	32.5	0	0	0	32.5

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

### Individually impaired loans and allowances

(millions of EUR)

	31.12.16	31.12.15
<b>Total individually impaired loans</b>	<b>17.8</b>	<b>22.6</b>
Specific allowances	-7.2	-9.8
Collective allowances on individually assessed loans	-0.2	-0.4
Collective allowances for homogeneous groups	-11.1	-14.9
Other collective allowances for incurred but not identified losses	-6.1	-3.9
<b>Total allowances</b>	<b>-24.6</b>	<b>-29.0</b>
Specific allowance ratio (Specific allowances / Individually impaired loans)	41%	43%
Ratio of impaired loans (Individually impaired loans / Loans to customers and credit institutions)	0.33%	0.50%

All individually impaired loan counterparties are Estonian residents.

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

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

31.12.15	Credit insti- tutions	Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
<b>1) Neither past due nor impaired</b>	<b>392.5</b>	<b>1 982.0</b>	<b>133.9</b>	<b>1 649.0</b>	<b>255.2</b>	<b>4 412.6</b>
Ordinary Business	391.3	1 675.5	133.9	1 530.5	234.1	3 965.3
Restricted Business	0.0	118.3	0.0	0.0	0.0	118.3
Special Observation	1.2	95.2	0.0	107.7	21.1	225.2
Watch-list	0.0	42.9	0.0	0.0	0.0	42.9
Default	0.0	3.6	0.0	10.8	0.0	14.4
Not classified	0.0	46.5	0.0	0.0	0.0	46.5
<b>2) Past due, but not impaired</b>	<b>0.0</b>	<b>22.3</b>	<b>0.2</b>	<b>57.2</b>	<b>6.4</b>	<b>86.1</b>
<b>3) Individually impaired</b>	<b>0.0</b>	<b>22.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>22.6</b>
<b>4) Accrued interests</b>	<b>0.0</b>	<b>1.4</b>	<b>0.1</b>	<b>1.5</b>	<b>1.1</b>	<b>4.1</b>
<b>5) Deferred origination fees</b>	<b>0.0</b>	<b>-4.0</b>	<b>-0.1</b>	<b>-2.0</b>	<b>-1.5</b>	<b>-7.6</b>
<b>Total gross</b>	<b>392.5</b>	<b>2 024.3</b>	<b>134.1</b>	<b>1 705.7</b>	<b>261.2</b>	<b>4 517.8</b>
Specific allowances	0.0	-9.8	0.0	0.0	0.0	-9.8
Collective allowances	0.0	-4.3	0.0	0.0	0.0	-4.3
Group allowances (homogeneous)	0.0	-2.2	0.0	-10.5	-2.2	-14.9
<b>Total net of allowances</b>	<b>392.5</b>	<b>2 008.0</b>	<b>134.1</b>	<b>1 695.2</b>	<b>259.0</b>	<b>4 488.8</b>

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### Quality of loans by classes (millions of EUR)

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

31.12.15	Credit	Public			Other loans	TOTAL
	insti- tutions	Corporates	sector	Housing loans	to Private individuals	
Normal loans	392.5	2 004.3	134.1	1 706.2	261.6	4 498.7
Impaired loans	0.0	22.6	0.0	0.0	0.0	22.6
Accrued interest receivable	0.0	1.4	0.1	1.5	1.1	4.1
Deferred origination fees	0.0	-4.0	-0.1	-2.0	-1.5	-7.6
	<b>392.5</b>	<b>2 024.3</b>	<b>134.1</b>	<b>1 705.7</b>	<b>261.2</b>	<b>4 517.8</b>
Specific allowances	0.0	-9.8	0.0	0.0	0.0	-9.8
Collective and group allowances	0.0	-6.5	0.0	-10.5	-2.2	-19.2
	<b>392.5</b>	<b>2 008.0</b>	<b>134.1</b>	<b>1 695.2</b>	<b>259.0</b>	<b>4 488.8</b>

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

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

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

31.12.15	Credit	Public	Other loans	Accrued	TOTAL		
	insti- tutions					Corporates	to Private individuals
< 30 days	0.0	13.9	0.2	35.6	4.2	0.1	54.0
incl. impaired	0.0	0.1	0.0	0.0	0.0		0.1
30 < 60 days	0.0	2.5	0.0	4.2	0.8	0.0	7.5
incl. impaired	0.0	1.0	0.0	0.0	0.0		1.0
over 60 days	0.0	28.1	0.0	17.5	1.4	1.5	48.5
incl. impaired	0.0	21.2	0.0	0.0	0.0		21.2
	<b>0.0</b>	<b>44.5</b>	<b>0.2</b>	<b>57.3</b>	<b>6.4</b>	<b>1.6</b>	<b>110.0</b>

The table indicates the total exposure of the credit where part is overdue as of 31.12.16. and 31.12.15.

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

	31.12.16	31.12.15
Loans and advances to credit institutions and central bank	1 234.2	1 007.5
Loans and advances to customers	4 337.5	4 096.3
Financial assets held for trading		
Derivative financial instruments	23.3	28.3
Financial assets designated at fair value through profit or loss at inception		
Debt securities	0.0	0.0
Available for sale financial assets		
Equity securities	9.3	18.3
Other assets	30.2	29.0
	<b>5 634.5</b>	<b>5 179.4</b>
Exposures related to off-balance sheet items and guarantees	1 096.3	1 074.1
Maximum exposure	6 730.8	6 253.5

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**Large exposures**

	31.12.16		31.12.15	
	Number/ Amount	% from net own funds	Number/ Amount	% from net own funds
Number of customers with large exposures	4	-	4	-
Due from customers with large exposures (EUR mio)	294.4	31.15	358.1	39.60
Due from management board members and related persons (EUR mio)	2.2	0.23	2.0	0.22
	<b>296.6</b>	<b>31.39</b>	<b>360.1</b>	<b>39.82</b>
Own funds included in calculation of capital adequacy (see Note 2.8)	945.0		904.5	

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

The following is deducted from large exposures:

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

Large credit risk exposure is defined by the Credit Institutions Law and is the total exposure of one party or related parties to the group which exceeds 10% of the group's net own funds, 94.5 million euros as at 31.12.2016 (90.5 million euros as at 31.12.2015), see Note 2.8. All instruments where credit risk may arise to the group are taken into consideration. The limit of the total exposure of one party or related parties is 25%. As of 31.12.2016 the SEB Pank Group had 4 large risk exposures (4 large risk exposures in 31.12.2015). Total exposure of any group of related parties in did not exceed the limit of 25% in SEB Pank Group.

**2.3. Market risk**Definition

Market risk is the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. Market risk can arise from changes in interest rates, foreign exchange rates, credit spreads, commodity and equity prices, implied volatilities, inflation and market liquidity. A clear distinction is made between market risks related to trading activity, i.e., trading book risks, and structural market and net interest income risks, i.e., banking book risks. Whereas the trading book is under a daily mark-to-market regime, positions in the banking book are typically held at amortised cost.

Risk management

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

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

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

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

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

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

#### Risk measurement

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

#### *Value at Risk and Stressed Value at Risk*

VaR expresses the maximum potential loss that could arise during a certain time period with a given degree of probability. SEB Pank Group uses a historical simulation VaR model with a ten-day time horizon and 99 per cent confidence interval to measure, limit and report VaR. The model aggregates market risk exposure for all risk types and covers a wide range of risk factors in all asset classes. SEB Pank Group also uses a stressed VaR measure, where VaR is calculated for the current portfolio using market data from a historic, turbulent time period covering the Lehman Brothers' default. The VaR model is validated using back-testing analysis.

A limitation of SEB Pank Group's VaR model is that it uses historical data to estimate potential market changes. As such it may not predict all outcomes, especially in a rapidly changing market. Also, VaR does not take into account any actions to reduce risk as the model assumes that the portfolio is unchanged.

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

	Min	Max	31.12.16	Average 2016	Average 2015
Trading book	0,00	0,12	0,04	0,03	0,04
Banking book	0,29	2,08	0,29	0,88	0,32

*Stress tests and scenario analysis*

Scenario analysis and stress tests are a key part of the risk management framework, complementing the VaR measure. In particular, they test the portfolios using scenarios other than those available in the VaR simulation window, and cover longer time horizons. SEB Pank Group stresses its portfolios by applying extreme movements in market factors which have been observed in the past (historical scenarios) as well as extreme movements that could potentially happen in the future (hypothetical or forward-looking scenarios).

This type of analysis provides management with a view on the potential impact that large market moves in individual risk factors, as well as broader market scenarios, could have on a portfolio.

*Specific risk measures*

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

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

**2.3.1. Foreign exchange risk**

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

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

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



**Currency position**

(millions of EUR)

	Other				
	EUR	USD	SEK	currencies	
<b>31.12.16</b>					
<b>ASSETS</b>					
Cash and balances with central bank	288.2	1.8	0.9	1.7	292.6
Loans and advances to credit institutions	688.2	231.8	21.1	42.2	983.3
Loans and advances to customers	4 322.2	13.5	0.7	1.1	4 337.5
Securities	23.4	89.3	0.0	7.5	120.2
Other assets, intangible assets, property, plant and equipment	36.4	3.2	1.1	1.1	41.8
<b>TOTAL ASSETS</b>	<b>5 358.4</b>	<b>339.6</b>	<b>23.8</b>	<b>53.6</b>	<b>5 775.4</b>
<b>LIABILITIES</b>					
Due to credit institutions	951.3	35.1	4.8	1.2	992.4
Deposits	3 335.1	301.6	11.9	38.4	3 687.0
Other liabilities, financial liabilities at fair value through profit or loss, provisions	90.7	14.0	3.5	1.9	110.1
<b>TOTAL LIABILITIES</b>	<b>4 377.1</b>	<b>350.7</b>	<b>20.2</b>	<b>41.5</b>	<b>4 789.5</b>
<b>Net on-balance sheet position</b>	<b>981.3</b>	<b>-11.1</b>	<b>3.6</b>	<b>12.1</b>	<b>985.9</b>
FX derivatives (notionals, due from)	105.5	36.0	2.2	62.0	205.7
FX derivatives (notionals, due to)	109.0	24.7	4.8	67.2	205.7
Total position	977.8	0.2	1.0	6.9	985.9
<b>31.12.15</b>					
<b>ASSETS</b>					
Cash and balances with central bank	652.6	1.5	2.6	0.8	657.5
Loans and advances to credit institutions	18.6	354.6	0.0	19.3	392.5
Loans and advances to customers	4 078.4	16.7	0.5	0.7	4 096.3
Securities	40.6	0.1	0.1	6.6	47.4
Other assets, intangible assets, property, plant and equipment	33.7	2.7	2.9	0.9	40.2
<b>TOTAL ASSETS</b>	<b>4 823.9</b>	<b>375.6</b>	<b>6.1</b>	<b>28.3</b>	<b>5 233.9</b>
<b>LIABILITIES</b>					
Due to credit institutions	858.6	23.5	0.2	6.3	888.6
Deposits	2 919.9	343.5	13.8	38.9	3 316.1
Other liabilities, financial liabilities at fair value through profit or loss, provisions	74.8	14.6	5.1	2.3	96.8
<b>TOTAL LIABILITIES</b>	<b>3 853.3</b>	<b>381.6</b>	<b>19.1</b>	<b>47.5</b>	<b>4 301.5</b>
<b>Net on-balance sheet position</b>	<b>970.6</b>	<b>-6.0</b>	<b>-13.0</b>	<b>-19.2</b>	<b>932.4</b>
FX derivatives (notionals, due from)	105.1	30.4	20.9	110.4	266.8
FX derivatives (notionals, due to)	150.6	24.3	6.8	84.8	266.5
Total position	925.1	0.1	1.1	6.4	932.7

Other FX derivative assets and liabilities include currency-related derivatives and are shown here in their contractual nominal value. Net currency position was under 2% level of net own funds, 18.9 million euros as at 31.12.2016 (18.1 million euros as at 31.12.2015).

### 2.3.2. Interest rate risk

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

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

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

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

As per year end, Delta 1% was -7.44 million euros (2015: -7.54 million euros). 2016 average Delta 1% was -8.5 million euros (2015: -6.6 million euros). SEB Pank Group Delta 1% has been negative which means that the average duration of Assets exposed to interest rate risk is higher than average duration of Liabilities exposed to interest rate risk and SEB Pank Group is more exposed to interest rate increase. The biggest contributors to the Delta 1% figure are loans from the asset side and deposits and funding from the parent company from the liabilities side which balance the mismatch from loans. Further information on interest rate sensitivity can be found through table below "Exposure to interest rate risk by interest fixation period".

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

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

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

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

31.12.15							Statement of	
	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total	financial position
<b>FINANCIAL ASSETS</b>								
Due from central bank	615.0	0.0	0.0	0.0	0.0	0.0	615.0	615.0
Due from credit institutions	390.5	1.6	0.4	0.0	0.0	0.0	392.5	392.5
Due from customers	1 445.9	1 428.2	1 017.4	34.3	81.3	92.7	4 099.8	4 096.3
<b>TOTAL FINANCIAL ASSETS</b>	<b>2 451.4</b>	<b>1 429.8</b>	<b>1 017.8</b>	<b>34.3</b>	<b>81.3</b>	<b>92.7</b>	<b>5 107.3</b>	<b>5 103.8</b>
<b>FINANCIAL LIABILITIES</b>								
Due to credit institutions	204.6	252.4	400.3	3.5	18.1	9.7	888.6	888.6
Due to customers	3 127.5	35.6	116.4	20.8	3.3	12.5	3 316.1	3 316.1
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>3 332.1</b>	<b>288.0</b>	<b>516.7</b>	<b>24.3</b>	<b>21.4</b>	<b>22.2</b>	<b>4 204.7</b>	<b>4 204.7</b>
<b>Total interest repricing gap of on-balance sheet position</b>	<b>-880.7</b>	<b>1 141.8</b>	<b>501.1</b>	<b>10.0</b>	<b>59.9</b>	<b>70.5</b>	<b>902.6</b>	<b>899.1</b>
Derivative assets	0.2	0.5	3.0	2.9	4.2	1.1	11.9	28.3
Derivative liabilities	0.2	0.5	3.0	2.9	4.2	1.1	11.9	28.7
<b>Total interest repricing gap</b>	<b>-880.7</b>	<b>1 141.8</b>	<b>501.1</b>	<b>10.0</b>	<b>59.9</b>	<b>70.5</b>	<b>902.6</b>	<b>898.7</b>

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

### 2.3.3. Equity price risk

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

Market risk is measured using VaR model. Average 10-day VaR in equity portfolio was 0.01 million euros during 2016 (0.03 million euros during 2015). Trading portfolio size is internally limited by nominal limits and market risk (VaR) limit.

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## 2.4. Concentration of risks

(millions of EUR)

### Geographic concentration of assets and liabilities

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

31.12.15	Cash, balances with central bank, loans and advances to credit institutions				Loans and advances to custo- mers	Securi- ties	Other assets	Total assets	Due to credit institu- tions	Due to custo- mers	Other liabili- ties	Total liabili- ties	Contin- gent liabilities
Sweden	13.5	0.5	1.7	0.5		16.2	791.1	17.2	27.8	836.1	1.5		
Estonia	658.3	4 074.3	33.6	37.0		4 803.2	7.7	2 975.4	68.4	3 051.5	1 055.8		
United Kingdom	0.7	1.3	12.1	0.1		14.2	3.2	28.2	0.1	31.5	0.0		
Russia	0.2	0.0	0.0	0.0		0.2	0.0	0.1	0.0	0.1	0.0		
Germany	348.2	3.4	0.0	0.0		351.6	7.3	1.4	0.0	8.7	1.8		
United States	1.4	0.2	0.0	0.0		1.6	0.0	17.0	0.0	17.0	0.0		
Canada	0.0	0.0	0.0	0.0		0.0	0.1	0.6	0.0	0.7	0.0		
Japan	0.0	0.0	0.0	0.0		0.0	0.0	0.5	0.0	0.5	0.0		
Finland	4.4	0.9	0.0	0.0		5.3	0.0	9.3	0.0	9.3	3.4		
Latvia	0.0	0.0	0.0	0.6		0.6	0.0	0.0	0.0	0.0	0.0		
Lithuania	4.8	8.4	0.0	0.2		13.4	67.9	4.1	0.1	72.1	0.4		
Luxembourg	1.9	0.0	0.0	0.2		2.1	0.6	0.1	0.2	0.9	0.0		
Netherlands	0.0	0.0	0.0	0.0		0.0	0.0	2.0	0.0	2.0	0.0		
Other Western Europe	7.9	6.0	0.0	0.3		14.2	1.5	26.5	0.1	28.1	7.0		
Other Eastern Europe	6.1	0.9	0.0	0.1		7.1	9.2	45.9	0.1	55.2	0.0		
Other countries	2.6	0.4	0.0	1.2		4.2	0.0	187.8	0.0	187.8	4.2		
	<b>1 050.0</b>	<b>4 096.3</b>	<b>47.4</b>	<b>40.2</b>		<b>5 233.9</b>	<b>888.6</b>	<b>3 316.1</b>	<b>96.8</b>	<b>4 301.5</b>	<b>1 074.1</b>		

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

**Concentration of assets and liabilities by economic sector**

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

31.12.15	In the statement of financial position		
	Cash and loans to central bank, credit institutions and customers	Securities	Contingent liabilities
Finance	1 066.3	18.3	16.8
Real estate	692.3	0.1	27.6
Trading	292.4	0.0	215.6
Industry	275.2	0.0	144.9
Agriculture, fishing, forestry	172.4	0.0	8.9
Energy, gas and steam plants	149.2	0.0	107.9
Transport	124.5	0.0	33.3
Mining	74.6	0.0	65.0
Government and state defence	70.4	0.0	262.5
Construction	49.4	0.0	68.7
Information and telecommunication	48.9	1.0	10.6
Hotels, restaurants	43.9	0.0	0.6
Professional, science and technical work	43.8	0.0	6.2
Health services, social work	43.3	0.0	6.5
Administration and assistance	27.3	0.0	6.5
Education	13.5	0.0	5.8
Art, show business, leisure	8.7	0.0	1.7
Water supply, canalisation, waste management	5.8	0.0	1.4
Other government and social services	6.6	-0.3	0.7
Private individuals	1 966.8	0.0	82.9
Derivatives	0.0	28.3	0.0
Allowances	-29.0	-	-
	<b>5 146.3</b>	<b>47.4</b>	<b>1 074.1</b>

## 2.5. Liquidity risk

### Definition

Liquidity risk is the risk that SEB Pank Group is unable to refinance its existing assets or is unable to meet the demand for additional liquidity. Liquidity risk also entails the risk that SEB Pank Group is forced to borrow at unfavourable rates or is forced to sell assets at a loss in order to meet its payment commitments.

### Liquidity management and risk measurement

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

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

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

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

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

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

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

#### *Structural liquidity risk*

In order to maintain a sound structural liquidity position, the structure of the liabilities side should be based on the composition of assets. The more long-term lending and other illiquid assets, the more stable funding is required. In SEB Pank Group, this is measured as the Core Gap ratio, which is conceptually equivalent to the Basel Committee's Net Stable Funding Ratio (NSFR), i.e., a ratio between stable funding (over 1 year maturity) and illiquid assets (over 1 year maturity). The difference between the internal Core Gap ratio and the external NSFR is that the Core Gap ratio is calculated and parameterised on a more detailed level, based on internal statistics resulting in different weightings of available stable funding and required stable funding.

#### *Stressed survival horizon*

Severe stress can be modelled by combining assumptions of a wholesale funding market shutdown with assumptions of deposit outflows and drawdowns on commitments, etc. The outcome is captured by the regulatory defined Liquidity Coverage Ratio (LCR) where, in a stressed scenario, modelled net outflows during a 30-day period are related to the amount of total liquid assets. SEB Pank Group also measures the time it would take for the liquid assets to be depleted in a severely stressed scenario, expressed as the stressed survival horizon.

#### *Internal liquidity adequacy assessment process*

Liquidity risk is not primarily mitigated by capital. However, there are strong links between a bank's capital and liquidity position. Hence, an internal liquidity adequacy assessment process (ILAAP) complements the ICAAP. The ILAAP is designed to identify potential gaps against SEB's long-term desired level of liquidity adequacy, taking into account that effective liquidity management is an ongoing improvement process.

**Liquidity risk management measures**

	2016	2015
Core Gap ratio	111%	107%
Loan to deposit ratio	118%	123%
Liquidity Coverage ratio	187%	495%

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

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

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

	On demand and less						Total	Carrying value in statement of financial position
	than 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years		
<b>31.12.15</b>								
Due to credit institutions	74.7	52.1	549.8	4.5	305.9	8.2	995.2	992.4
Due to customers	3 492.5	67.0	101.7	3.1	5.3	20.7	3 690.3	3 687.0
Other liabilities	83.1	1.4	1.1	0.5	0.4	0.0	86.5	86.5
Irrevocable off-balance sheet commitments	1 096.3	0.0	0.0	0.0	0.0	0.0	1 096.3	0.0
<b>Gross settled</b>								
Derivatives inflow	-88.5	-36.0	-19.0	-111.6	-3.0	-0.6	-258.7	-23.2
Derivatives outflow	88.5	36.0	19.2	112.1	3.7	0.6	260.1	23.4
	<b>4 746.6</b>	<b>120.5</b>	<b>652.8</b>	<b>8.6</b>	<b>312.3</b>	<b>28.9</b>	<b>5 869.7</b>	<b>4 766.1</b>

	On demand and less						Total	Carrying value in statement of financial position
	than 1 month	1-3 months	3-12 months	1-2 years	2-5 years	Over 5 years		
<b>31.12.15</b>								
Due to credit institutions	89.7	2.4	464.2	307.4	18.7	9.7	892.1	888.6
Due to customers	3 116.7	35.7	117.3	21.6	4.7	25.5	3 321.5	3 316.1
Other liabilities	67.8	0.0	0.0	0.0	0.0	0.0	67.8	67.7
Irrevocable off-balance sheet commitments	1 074.1	0.0	0.0	0.0	0.0	0.0	1 074.1	0.0
<b>Gross settled</b>								
Derivatives inflow	-139.1	-31.8	-21.1	-2.9	-111.0	-1.1	-307.0	-27.4
Derivatives outflow	139.0	31.6	21.1	2.9	111.0	1.1	306.7	25.8
	<b>4 348.2</b>	<b>37.9</b>	<b>581.5</b>	<b>329.0</b>	<b>23.4</b>	<b>35.2</b>	<b>5 355.2</b>	<b>4 270.8</b>

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

## 2.6. Operational risk

### Definition

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

### Risk management

Operational risk is inherent in all of SEB Pank Group's operations and the responsibility to manage operational risks rests with all managers throughout the bank. SEB Pank Group aims to maintain a sound risk culture with low operational risk and loss level through an effective internal control environment by ensuring a structured and consistent usage of risk mitigating tools and processes. All new or changed products, processes and/or systems as well as reorganisations are evaluated in a group-common New Product Approval Process (NPAP). The aim is to identify potential operational risks and ensure that proactive measures are taken to protect SEB Pank Group from entering into unintended risk-taking that cannot be immediately managed by the organisation.

All business units with significant risk embedded in their operations shall regularly complete Risk and Control Self-Assessments (RCSA) according to a group-wide methodology. The assessments are designed to identify and mitigate significant operational risks embedded in SEB Pank Group's various business and support processes. There is comprehensive participation by each business unit throughout the organisation. The RCSA framework is used to analyse SEB Pank Group's operational risk profile and help achieve operational excellence and high performance.

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

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

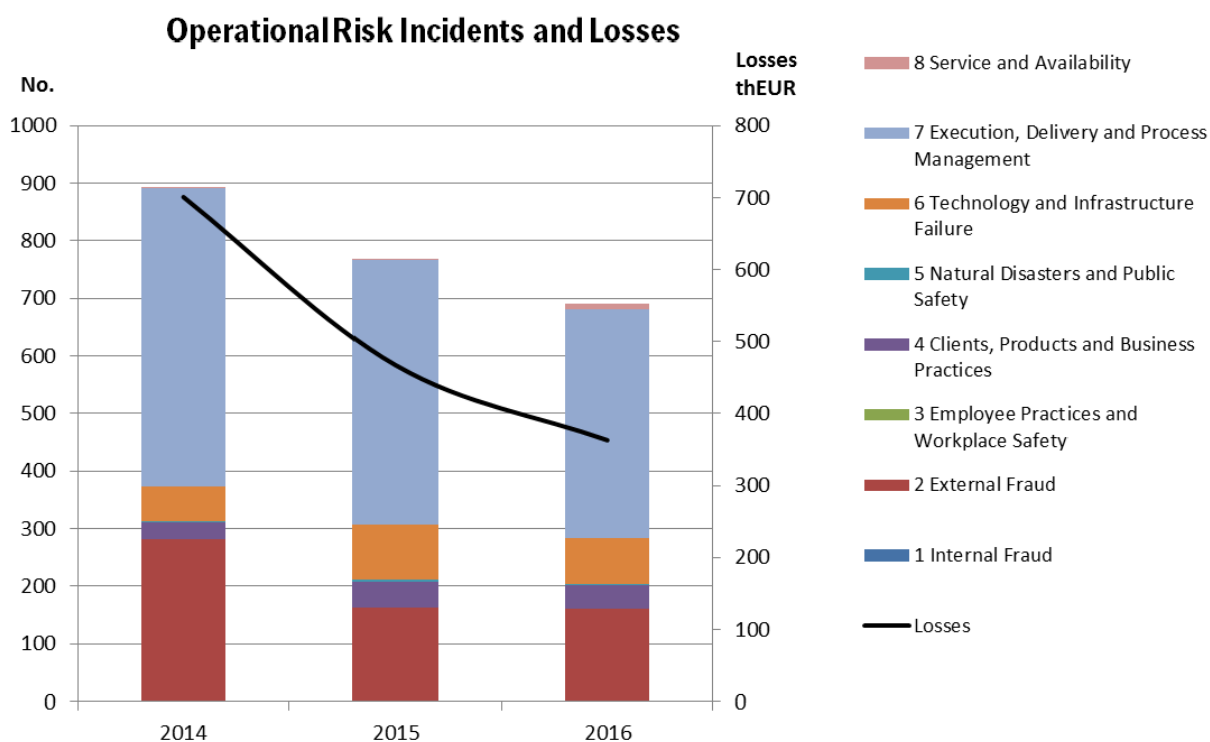
SEB Pank Group conducts regular training and education in key areas, including information security, fraud prevention, anti-money laundering, know-your-customer procedures and SEB's Code of Business Conduct. SEB Pank Group also has a formal whistle-blower procedure that encourages employees to report improprieties and unethical or illegal conduct.

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The risk department is responsible for measuring and reporting SEB Pank Group's operational risks. The risk level is analysed and reported monthly to the ALCO and on a quarterly bases to the Management and Supervisory Board. The total operational losses in 2016 amounted to 363 thousand euros (2015: 467 thousand euros).

### Risk measurement

SEB Pank Group uses the Advanced Measurement Approach (AMA) to calculate the regulatory capital requirement for operational risk. The regulatory capital requirement for operational risk amounted to 9,6 million euros at year-end 2016 (2015: 10,8 million euros).



**2.7. Fair value of financial assets and liabilities**

(millions of EUR)

**A) Financial instruments measured at fair value**

	31.12.16				31.12.15			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit and loss</b>								
<b>Financial assets held for trading</b>	<b>0.0</b>	<b>23.3</b>	<b>0.0</b>	<b>23.3</b>	<b>0.1</b>	<b>28.3</b>	<b>0.0</b>	<b>28.4</b>
Equity securities	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Derivatives	0.0	23.3	0.0	23.3	0.0	28.3	0.0	28.3
<b>Financial assets designated at fair value through profit or loss at inception</b>								
<b>Debt securities</b>	<b>86.7</b>	<b>0.0</b>	<b>0.0</b>	<b>86.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Debt securities	86.7	0.0	0.0	86.7	0.0	0.0	0.0	0.0
<b>Available for sale financial assets</b>	<b>6.9</b>	<b>0.0</b>	<b>2.4</b>	<b>9.3</b>	<b>6.1</b>	<b>0.0</b>	<b>12.2</b>	<b>18.3</b>
Investment securities - equity	6.9	0.0	2.4	9.3	6.1	0.0	12.2	18.3
<b>TOTAL ASSETS</b>	<b>93.6</b>	<b>23.3</b>	<b>2.4</b>	<b>119.3</b>	<b>6.2</b>	<b>28.3</b>	<b>12.2</b>	<b>46.7</b>
<b>Financial liabilities at fair value through profit and loss</b>								
<b>Financial liabilities held for trading</b>	<b>0.0</b>	<b>23.6</b>	<b>0.0</b>	<b>23.6</b>	<b>0.0</b>	<b>28.7</b>	<b>0.0</b>	<b>28.7</b>
Financial liabilities held for trading	0.0	23.6	0.0	23.6	0.0	28.7	0.0	28.7
<b>TOTAL LIABILITIES</b>	<b>0.0</b>	<b>23.6</b>	<b>0.0</b>	<b>23.6</b>	<b>0.1</b>	<b>28.7</b>	<b>0.0</b>	<b>28.7</b>

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

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

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

The change implies an adjustment for counterparty credit risk (Credit Value Adjustment, CVA). This adjustment is relevant for OTC derivatives with a positive value classified in Level 2 and 3 of the fair value hierarchy where credit risk is typically not reflected in the pricing models. Changes attributable to the CVA effect in amount of +0,3 million euros has been recognised as Net financial income in the income statement 2016, (2015: -0,2 million euros).

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

euros has been recognised as Net financial income in the income statement 2016, (2015: +0,1 million euros).

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

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

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

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

#### Reconciliation of Level 3 Items

	<u>Available-for-sale financial assets</u>	
	Investment securities - equity	Total
<b>At 1 January 2015</b>	<b>0.1</b>	<b>0.1</b>
Other comprehensive income	12.1	12.1
<b>At 31 December 2015</b>	<b>12.2</b>	<b>12.2</b>
Total losses for the period included in profit or loss for assets/liabilities held at 31.12.15	0.0	0.0
<b>At 1 January 2016</b>	<b>12.2</b>	<b>12.2</b>
Other comprehensive income	-11.9	-11.9
Purchases	2.2	2.2
Settlements	-0.1	-0.1
<b>At 31 December 2016</b>	<b>2.4</b>	<b>2.4</b>
Total losses for the period included in profit or loss for assets/liabilities held at 31.12.16	0.0	0.0



**B) Financial instruments not measured at fair value**

	31.12.16		31.12.15	
	Carrying value	Fair value, Level 3	Carrying value	Fair value, Level 3
<b>ASSETS</b>				
Loans and advances to credit institutions	983.3	983.3	392.5	392.5
Loans and advances to customers	4 337.5	4 248.7	4 096.3	3 960.9
<i>Loans to Corporates</i>	2 169.6	2 172.5	2 077.0	2 079.5
<i>Loans to households</i>	2 167.9	2 076.2	2 019.3	1 881.4
Other assets	30.1	30.1	29.0	29.0
<b>TOTAL ASSETS</b>	<b>5 350.9</b>	<b>5 262.1</b>	<b>4 517.8</b>	<b>4 382.4</b>
<b>LIABILITIES</b>				
Due to credit institutions	992.4	989.2	888.6	888.2
Due to customers	3 687.0	3 689.3	3 316.1	3 318.4
<i>Due to Corporates</i>	2 113.8	2 116.3	1 884.8	1 886.9
<i>Due to households</i>	1 573.2	1 573.0	1 431.3	1 431.5
Other financial liabilities	86.5	86.5	67.7	67.7
Subordinated loans	0.0	0.0	0.0	0.0
<b>TOTAL LIABILITIES</b>	<b>4 765.9</b>	<b>4 765.0</b>	<b>4 272.4</b>	<b>4 274.3</b>

AS SEB Pank conducts assessment of fair value of financial assets and liabilities which are not presented in the Group's statement of financial position at their fair value. All finance instruments not measured at fair value 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. Similarly have been calculated also fixed-interest rate deposits, floating interest rate and fixed-interest rate balances due to credit institutions.

As of reporting date fair value of loans and advances to customers was 2.05% lower (31.12.2015: 3.31% lower) than the carrying amount. Fair value of balances due to credit institutions was 0.33% lower (31.12.2015: 0.04% lower) than the carrying amount. Fair value of balances due to customers was 0.06% higher (31.12.2015: 0.07% higher) than the carrying amount.

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## 2.8. Capital requirements

The SEB Pank Group`s Own funds in amount of 945,0 million euros (2015: 904,5 million euros) consists:

1. Tier 1 Capital 945,5 million euros (2015: 904,5 million euros);
2. Tier 2 Capital 0,0 million euros (2015: 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 3%, 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 local Financial Supervisory Authorities, a more concentrated ICAAP project starts. The yearly recurring process normally starts during Q4 and ends during the next coming Q1. Each year`s ICAAP planning including deliveries and deadlines is communicated by Group Financial Management to responsible parties in key subsidiaries, including AS SEB Pank. Typically, at the end of January every year the responsible person, Head of Treasury, has to send the first draft of their ICAAP document to Group Financial Management. At the end of February Group Financial Management should receive the final version including comments on issues raised by Group Financial Management.

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

methodology, while SEB Pank Treasury focuses on processes, monitoring, reporting and compliance with Estonian regulations.

## 2.9. Internal control system

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

The bank's Supervisory Board carries out supervision of the activities of the bank and the entire Group by establishing the general risk management principles.

To achieve the approved business goals, the Management Board of the bank establishes in accordance with the statutory requirements the necessary sub-plans, incl. competence and scope of liability as well as the internal rules that regulate activities, the accounting rules and the procedure for preparing and submitting operating reports.

## 2.10. Control functions

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

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

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

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

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

**Notes 3 - 34 to Consolidated Financial Statements of AS SEB Pank**

(millions of EUR)

**3. Interest and similar income**

	<b>2016</b>	<b>2015</b>
Loans and deposits	76.7	77.2
Leasing	13.3	13.7
Deposits with other banks	1.7	0.0
Fixed income securities	0.2	0.6
	<b>91.9</b>	<b>91.5</b>

**4. Interest expenses and similar charges**

	<b>2016</b>	<b>2015</b>
Credit institutions	-0.5	-4.1
Time and other saving deposits	-1.3	-1.9
Demand deposits	-1.7	-3.3
From balances with central bank and credit institutions	-2.9	-0.9
Other	-2.6	-2.6
	<b>-9.0</b>	<b>-12.8</b>

**5. Fee and commission income**

	<b>2016</b>	<b>2015</b>
Payment cards related commissions	22.2	24.7
Securities market services *	10.8	11.0
Transaction fees	5.0	5.4
Credit contracts**	4.0	4.9
Insurance brokerage fees	3.6	3.2
Other settlement fees	6.0	4.5
Income from leasing agreements (full service)	0.7	0.8
Income from electronic channels	1.5	1.5
Cash handling fees	0.6	0.8
Commodity futures fees	0.3	0.4
Other	5.3	5.3
	<b>60.0</b>	<b>62.5</b>

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

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

**6. Fee and commission expense**

	<b>2016</b>	<b>2015</b>
Credit and payment cards	-10.1	-11.4
Cash collecting fees	-1.1	-1.3
Expenses to leasing agreements (full service)	-0.7	-0.8
Securities market	-1.6	-1.7
Transaction fees	-1.1	-1.2
Other	-1.0	-0.9
	<b>-15.6</b>	<b>-17.3</b>

**7. Net income from foreign exchange**

	<b>2016</b>	<b>2015</b>
Gain (loss) from transactions	5.0	11.4
Currency translation differences	-0.3	-6.4
	<b>4.7</b>	<b>5.0</b>

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

	<b>2016</b>	<b>2015</b>
<b>Gain (loss) from trading securities</b>	<b>0.3</b>	<b>0.3</b>
Gain (loss) from fixed income securities	0.3	0.3
<b>Derivatives</b>	<b>0.5</b>	<b>0.7</b>
Equity derivatives	0.1	0.3
Interest derivatives	0.4	0.4
	<b>0.8</b>	<b>1.0</b>

Respective assets are disclosed in Notes 16 and 31.



**9. Other income**

	<b>2016</b>	<b>2015</b>
Gains on sales of assets	0.1	0.5
Rental income	0.5	0.4
Penalties	0.1	0.0
Other income	0.5	0.7
	<b>1.2</b>	<b>1.6</b>

**10. Personnel expenses**

	<b>2016</b>	<b>2015</b>
Personnel expenses*	-27.8	-26.4
Social security expenses**	-8.9	-8.5
Other personnel expenses (hiring, training)	-1.7	-1.7
	<b>-38.4</b>	<b>-36.6</b>

\* Costs related to the Long Term Incentive programmes are booked under personnel expenses in total amount 0.6 EUR mio in 2016 (0.5 EUR mio in 2015). These programmes are the Performance Share Programme, Employee Stock Option and the Share Savings Programmes (Note 1.18).

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

**11. Other expenses**

	<b>2016</b>	<b>2015</b>
Rooms rent	-9.4	-6.9
Premises cost (utilities)	-2.3	-2.1
IT related expenses	-1.9	-2.9
Advertising and marketing	-1.7	-1.7
Other administrative cost	-2.4	-1.4
Information services	-0.9	-0.9
Consulting	0	-0.5
Other operating expenses	-0.9	-0.7
	<b>-19.5</b>	<b>-17.1</b>

## 12. Impairment losses on loans and advances

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

2015	Credit institutions	Corporates	Housing loans	Other loans to Private individuals	Seized assets	TOTAL
<b>Impairment losses</b>	<b>0.0</b>	<b>0.7</b>	<b>3.2</b>	<b>0.1</b>	<b>0.0</b>	<b>4.0</b>
impairment losses of reporting period (Note 15)	0.0	-3.2	0.0	-0.1	0.0	-3.3
recoveries from writeoffs (Note 15)	0.0	0.7	0.1	0.1	0.0	0.9
decreasing of impairment losses of previous period (Note 15)	0.0	3.2	3.1	0.1	0.0	6.4
Impairment losses for contingent liabilities	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>
	<b>0.0</b>	<b>0.6</b>	<b>3.2</b>	<b>0.1</b>	<b>0.0</b>	<b>3.9</b>

## 13. Balances with central bank

	31.12.16	31.12.15
Demand deposits	250.9	615.0
incl -mandatory reserve requirement	40.9	37.0
-demand deposits, cash equivalents	210.0	578.0
	<b>250.9</b>	<b>615.0</b>

Mandatory reserve deposits are available for use by the Group's day-to-day business. Mandatory reserve expends interest at -0,4%. In 2016 the Group interest expenses were in amount of -0.8 thousand EUR (In 2015 expenses were in amount of -0.1 thousand EUR).

## 14. Loans and advances to credit institutions

	31.12.16	31.12.15
Demand deposits*	924.7	389.8
Time deposits	50.7	0.6
Other*	7.8	2.1
Accrued interest receivable	0.1	0
	<b>983.3</b>	<b>392.5</b>
* Cash equivalents.	932.5	391.9
Due from credit institutions, registered in EU (except Estonia)	964.5	381.1
Due from credit institutions, registered in Estonia	0.2	0.8
Due from credit institutions, registered in other countries	18.6	10.6
	<b>983.3</b>	<b>392.5</b>

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

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**15. Loans and advances to customers**

	<b>31.12.16</b>	<b>31.12.15</b>
Loans to Corporates	2 123.4	2 008.0
Public sector	112.7	134.1
Housing loans	1 833.4	1 695.2
Other loans to Private individuals	268.0	259.0
	<b>4 337.5</b>	<b>4 096.3</b>
Due from customers, registered in EU (except Estonia)	20.7	20.4
Due from customers, registered in Estonia	4 314.6	4 074.3
Due from customers, registered in other countries	2.2	1.6
	<b>4 337.5</b>	<b>4 096.3</b>

Loan portfolio by economic sector presented in Note 2 "Risk policy and management", on page 63.

Due from customers by currency is presented in Note 2, on page 59.

Due from customers by maturity is presented in interest restatement by maturity on page 61.

Past due is presented in Note 2, on page 55.

Geographic concentration of assets and liabilities is presented in Note 2, on page 62.

**Loans and advances to customers by remaining maturity**

	<b>Less than 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>Over 10 years</b>	<b>Total</b>
<b>31.12.16</b>	244.4	685.6	1 939.2	524.6	943.7	4 337.5
<b>31.12.15</b>	244.1	635.1	1 835.4	513.2	868.5	4 096.3

**Gross and net investments on finance leases**

	<b>31.12.16</b>	<b>31.12.15</b>
<b>Gross investment</b>	<b>541.4</b>	<b>495.1</b>
up to 1 year	176.2	154.9
1 - 5 years	356.2	330.6
over 5 years	9	9.6
<b>Unearned future finance income on finance leases (-)</b>	<b>-20.1</b>	<b>-20.7</b>
<b>Net investment in finance leases*</b>	<b>521.3</b>	<b>474.4</b>
up to 1 year	167.9	146
1 - 5 years	344.7	319.1
over 5 years	8.7	9.3

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

	<b>31.12.16</b>	<b>31.12.15</b>
<b>Net investment in finance leases by interest rates</b>	<b>521.3</b>	<b>474.4</b>
<= 5%	519.2	471.2
5-10%	2.1	3.2
	<b>521.3</b>	<b>474.4</b>
<b>Net investment in finance leases by base currencies</b>	<b>521.3</b>	<b>474.4</b>
EUR	521.3	474.4

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**Allowances for impaired debt**

	<b>Credit insti- tutions</b>	<b>Corporates</b>	<b>Housing loans</b>	<b>Other loans to Private individuals</b>	<b>TOTAL</b>
<b>2016</b>					
<b>At the beginning of period (January, 1)</b>	<b>0.0</b>	<b>16.3</b>	<b>10.5</b>	<b>2.2</b>	<b>29.0</b>
Allowances of reporting period (Note 12)	0.0	3.1	0.0	0.0	3.1
Decreasing of allowances of previous period (Note 12)	0.0	-1.8	-0.6	0.0	-2.4
Loans and advances written off	0.0	-2.4	-2.3	-0.4	-5.1
<b>At the end of period (December, 31)</b>	<b>0.0</b>	<b>15.2</b>	<b>7.6</b>	<b>1.8</b>	<b>24.6</b>
Recoveries from write-offs (Note 12)	0.0	-1.2	-0.3	-0.5	-2.0
<b>2015</b>					
<b>At the beginning of period (January, 1)</b>	<b>0.0</b>	<b>27.1</b>	<b>14.7</b>	<b>2.6</b>	<b>44.4</b>
Allowances of reporting period (Note 12)	0.0	3.2	0.0	0.1	3.3
Decreasing of allowances of previous period (Note 12)	0.0	-3.2	-3.1	-0.1	-6.4
Loans and advances written off	0.0	-10.8	-1.1	-0.4	-12.3
<b>At the end of period (December, 31)</b>	<b>0.0</b>	<b>16.3</b>	<b>10.5</b>	<b>2.2</b>	<b>29.0</b>
Recoveries from write-offs (Note 12)	0.0	-0.7	-0.1	-0.1	-0.9

**16. Financial investments**

	<b>31.12.16</b>	<b>31.12.15</b>
<b>Financial assets held for trading</b>	<b>23.4</b>	<b>28.3</b>
Derivatives (Note 31)	23.4	28.3
<b>Financial assets designated at fair value through profit or loss at inception</b>	<b>86.7</b>	<b>0.0</b>
Debt securities (all S&P rating AA)	86.7	0.0
<b>Available for sale financial assets</b>	<b>9.3</b>	<b>18.3</b>
Shares and fund participations*	9.3	18.3
<b>Total</b>	<b>119.4</b>	<b>46.6</b>
Securities of entities, registered in EU (except Estonia)	88.2	13.8
Securities of entities, registered in Estonia	28.8	32.8
Securities of entities, registered in other countries	2.4	0.0
	<b>119.4</b>	<b>46.6</b>

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

\* Includes participations in pension funds managed by AS SEB Varahaldus in the total value of 6.9 EUR mio (2015 6.0 EUR mio), ownership of which is required (1-2% of the specific managed fund) according to the Investment Fund's Act.

## Movements of financial investments

	Financial assets held for trading	Derivatives (Note 31)	Financial assets designated at fair value through profit or loss at inception	Available-for-sale financial assets	TOTAL
<b>At the beginning of period (31.12.14)</b>	<b>0.0</b>	<b>28.7</b>	<b>102.2</b>	<b>5.2</b>	<b>136.1</b>
Acquisitions	578.5	0.0	0.0	1.0	579.5
Disposals and redemptions	-578.5	0.0	-101.2	0.0	-679.7
Changes of value	0.0	-1.1	-1.0	12.1	10.0
Changes of currency rate	0.0	0.7	0.0	0.0	0.7
<b>At the end of period (31.12.15)</b>	<b>0.0</b>	<b>28.3</b>	<b>0.0</b>	<b>18.3</b>	<b>46.6</b>
<b>At the beginning of period (31.12.15)</b>	<b>0.0</b>	<b>28.3</b>	<b>0.0</b>	<b>18.3</b>	<b>46.6</b>
Acquisitions	655.5	0.0	85.7	2.9	744.1
Disposals and redemptions	-655.5	0.0	-1.8	0.0	-657.3
Changes of value	0.0	-1.3	1.3	-11.9	-11.9
Changes of currency rate	0.0	-3.6	1.5	0.0	-2.1
<b>At the end of period (31.12.16)</b>	<b>0.0</b>	<b>23.4</b>	<b>86.7</b>	<b>9.3</b>	<b>119.4</b>

## 17. Other financial assets

	31.12.16	31.12.15
Client receivables	13.9	17.0
Trade receivables	4.4	7.3
	<b>18.3</b>	<b>24.3</b>

## 18. Prepaid expenses and accrued income

	31.12.16	31.12.15
Prepaid taxes	1.2	0.8
Accrued revenue and prepaid expenses	10.6	3.9
	<b>11.8</b>	<b>4.7</b>

## 19. Investments in associates

### Movements of investments in associates

	At the beginning of period	Disposals and redemptions	Profit from equity method	Paid dividends	At the end of period
2016	0.8	0.0	0.0	0.0	0.8
2015	0.8	0.0	0.0	0.0	0.8

### Associated companies

	Nominal value	Assets	Liabilities	Total revenues	AS SEB Pank in calculated profit/-loss	Balance value	Ownership, %
<b>2016</b>							
AS Sertifitseerimiskeskus	without nominal value	5.1	1.9	4.4	0.0	0.8	25.00%
<b>Total</b>		<b>5.1</b>	<b>1.9</b>	<b>4.4</b>	<b>0.0</b>	<b>0.8</b>	
<b>2015</b>							
AS Sertifitseerimiskeskus	without nominal value	3.9	0.7	4.2	0.1	0.8	25.00%
Tieto Estonia Services OÜ	1278 EUR	1.0	0.8	1.3	0.0	0.0	20.00%
<b>Total</b>		<b>4.9</b>	<b>1.5</b>	<b>5.5</b>	<b>0.1</b>	<b>0.8</b>	

### Acquisitions, disposals and merging of associated companies and subsidiaries

#### Acquisitions

No acquisitions occurred in 2016 and 2015.

#### Disposals

In 31.05.2016 an associate Tieto Estonia Services OÜ was sold (20% ownership held by AS SEB Pank).



**20. Intangible assets****At the beginning of period (01.01.15)**

Cost	7.4
Accumulated amortisation	-6.3
<b>Carrying value</b>	<b>1.1</b>

**Opening carrying value**

Opening carrying value	1.1
Additions	2.5
Acquisition cost of sold assets	-1.2
Amortisation charge	-0.5
<b>Closing carrying value</b>	<b>1.9</b>

**At end of period (31.12.15)**

Cost	8.2
Accumulated amortisation	-6.3
<b>Carrying value</b>	<b>1.9</b>

**At the beginning of period (01.01.16)**

Cost	8.2
Accumulated amortisation	-6.3
<b>Carrying value</b>	<b>1.9</b>

**Opening carrying value**

Opening carrying value	1.9
Additions	1.6
Amortisation charge	-0.6
<b>Closing carrying value</b>	<b>2.9</b>

**At end of period (31.12.16)**

Cost	8.5
Accumulated amortisation	-5.6
<b>Carrying value</b>	<b>2.9</b>

**21. Property, plant and equipment**

	<b>Buildings</b>	<b>Other tangible assets</b>	<b>Total</b>
<b>At the beginning of period (01.01.15)</b>			
Cost	5.7	23.9	29.6
Accumulated depreciation	-2.6	-16.8	-19.4
<b>Carrying value</b>	<b>3.1</b>	<b>7.1</b>	<b>10.2</b>
<b>Opening carrying value</b>			
Additions	0.6	3.4	4.0
Impairment charge (carrying value)	0.0	-0.2	-0.2
Depreciation charge	-0.6	-2.6	-3.2
Reclassification	0.0	-1.5	-1.5
<b>Closing carrying value</b>	<b>3.1</b>	<b>6.2</b>	<b>9.3</b>
<b>At end of period (31.12.15)</b>			
Cost	6.2	23.5	29.7
Accumulated depreciation	-3.1	-17.3	-20.4
<b>Carrying value</b>	<b>3.1</b>	<b>6.2</b>	<b>9.3</b>
<b>Opening carrying value</b>			
Additions	0.3	4.2	4.5
Impairment charge (carrying value)	-0.2	-0.2	-0.4
Depreciation charge	-0.6	-2.3	-2.9
Reclassification	0.0	-1.7	-1.7
<b>Closing carrying value</b>	<b>2.6</b>	<b>6.2</b>	<b>8.8</b>
<b>At end of period (31.12.16)</b>			
Cost	5.9	23.6	29.5
Accumulated depreciation	-3.3	-17.4	-20.7
<b>Carrying value</b>	<b>2.6</b>	<b>6.2</b>	<b>8.8</b>

**22. Due to credit institutions**

	<b>31.12.16</b>	<b>31.12.15</b>
Demand deposits	73.2	87.6
Time deposits and loans (remaining maturity up to 1 year)	1.5	1.5
Time deposits and loans (remaining maturity more than 1 year)	917.8	799.4
Accrued interest payable to credit institutions	-0.1	0.1
	<b>992.4</b>	<b>888.6</b>
	<b>31.12.16</b>	<b>31.12.15</b>
Due to credit institutions, registered in EU (except Estonia)	942.9	879.8
Due to credit institutions, registered in Estonia	47.3	7.7
Due to credit institutions, registered in other countries	2.2	1.1
	<b>992.4</b>	<b>888.6</b>

916,0 EUR mio as at 31.12.2016 and 798,2 EUR mio as at 31.12.2015 were due from group to parent bank Skandinaviska Enskilda Banken AB (publ) (Note 33).

**23. Due to customers**

	<b>31.12.16</b>	<b>31.12.15</b>
Demand deposits	3 313.3	2 961.2
Time deposits and other saving deposits	338.3	298.1
Investment deposits (index-linked)	16.1	34.6
Loan funds	18.6	21.8
Accrued interest payable to customers	0.7	0.4
	<b>3 687.0</b>	<b>3 316.1</b>
Non-residents	329.5	340.7
Residents	3 357.5	2 975.4
	<b>3 687.0</b>	<b>3 316.1</b>
<b>Due to customers by type of customer</b>		
Due to corporate customers	1 796.4	1 616.4
Public sector	317.4	268.4
Due to households	1 573.2	1 431.3
	<b>3 687.0</b>	<b>3 316.1</b>
Due to customers, registered in EU (except Estonia)	80.6	119.0
Due to customers, registered in Estonia	3 357.5	2 975.4
Due to customers, registered in other countries	248.9	221.7
	<b>3 687.0</b>	<b>3 316.1</b>

Due from customers by currency is presented in Note 2, on page 59.

Due from customers by maturity is presented in interest restatement by maturity on page 61.

## Customer assets under management of the group

As of 31.12.2016 the customer securities portfolios under management of the group amounted to 179.7 million euros (including 114.3 million in portfolio of SEB Elu- ja Pensionikindlustus). The total volume of aforementioned portfolios as of 31.12.2015 was 172.4 million euros (including 102.7 million in portfolio of SEB Elu- ja Pensionikindlustus). Commission fee is received from management of these portfolios and no credit or market risk is born by the group.

As at 31.12.2016 the group's asset management company belonging to the Group (AS SEB Varahaldus) managed 11 investment and pension funds (i.e. 4 open-end investment funds, 5 mandatory pension funds and 2 voluntary pension fund) with total volume of 652.0 million euros. As at 31.12.2015 AS SEB Varahaldus managed 11 investment and pension funds (i.e. 5 open-end investment funds, 4 mandatory pension funds and 2 voluntary pension fund) with total volume of 623.9 million euros. Investment management service was also performed to the SEB (parent Group) Eastern-European funds (4 funds): total volume 733.6 million euros as at 31.12.16, 345.2 million euros as at 31.12.15.

### 24. Other financial liabilities

	<u>31.12.16</u>	<u>31.12.15</u>
Client payables	67.5	57.6
Trade payables	1.1	1.1
	<u>68.6</u>	<u>58.7</u>

### 25. Accrued expences and prepaid income

	<u>31.12.16</u>	<u>31.12.15</u>
Tax debts	2.1	1.6
Other prepaid income	4.8	3.3
Other accrued expences	10.9	4.1
Other liabilities	0.1	0.0
	<u>17.9</u>	<u>9.0</u>

### 26. Financial liabilities at fair value through profit or loss

	<u>31.12.16</u>	<u>31.12.15</u>
Derivatives (Note 31)	23.5	28.7
	<u>23.5</u>	<u>28.7</u>

AS SEB Pank has no any class of debt or equity instruments in a public market since 16.06.2009. Therefore also segment analysis according to IFRS 8 is not described.

**27. Provisions**

	<b>Provisions total</b>
<b>Provisions as at 01.01.15</b>	<b>0.0</b>
Added to the provisions	0.4
<b>Provisions as at 31.12.15</b>	<b>0.4</b>
<b>Provisions as at 01.01.16</b>	<b>0.4</b>
Amounts used and unused amounts reversed	-0.3
<b>Provisions as at 31.12.16</b>	<b>0.1</b>

31.12.15	Carrying amount	<b>Future expected undiscounted cash flows by years</b>				
		0-5 years	5-10 years	10-15 years	15-20 years	>20 years
Provisions	0.4	0.4	0.0	0.0	0.0	0.0

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

**28. Shareholders**

	<b>Country</b>	<b>Number of shares</b>	<b>% from total number</b>
<b>Shareholders of AS SEB Pank at 31.12.2016:</b>			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66 562 381	100.00
<b>Shareholders of AS SEB Pank at 31.12.2015:</b>			
Skandinaviska Enskilda Banken AB (publ)	Sweden	66 562 381	100.00
Share capital, EUR		42 541 115	
Nominal value of shares, EUR		0.64	

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

All issued shares are paid for.

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

<b>Share information</b>	<b>31.12.16</b>	<b>31.12.15</b>
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	84.7	75.0

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## 29. Dividend policy

AS SEB Pank is 100%-owned by Skandinaviska Enskilda Banken AB (publ). In working out the strategy for equity management, profit distribution and formation of reserves the bank is following the common approach of future risks and performance strategy of the Skandinaviska Enskilda Banken AB (publ) group. On 30.03.2016 the AS SEB Pank has paid dividend 20 million euros for year 2015.

## 30. Other reserves

	<b>31.12.16</b>	<b>31.12.15</b>
General banking reserve	19.1	19.1
Statutory reserve	0.3	0.3
Revaluation reserve of Available-for-sale financial assets	0.9	12.8
	<b>20.3</b>	<b>32.2</b>

### Movements of other reserves

	<b>General banking reserve</b>	<b>Revaluation reserve of Available-for- sale financial assets</b>	<b>Statutory reserve</b>	<b>Total other reserves</b>
<b>Balance at the beginning of the period (01.01.15)</b>	<b>19.1</b>	<b>0.7</b>	<b>0.3</b>	<b>20.1</b>
Net gain/loss from the change in fair value	0	12.1	0	12.1
<b>Balance at the end of the period (31.12.15)</b>	<b>19.1</b>	<b>12.8</b>	<b>0.3</b>	<b>32.2</b>
<b>Balance at the beginning of the period (01.01.16)</b>	<b>19.1</b>	<b>12.8</b>	<b>0.3</b>	<b>32.2</b>
Net gain/loss from the change in fair value (Note 2.7)	0	-11.9	0	-11.9
<b>Balance at the end of the period (31.12.16)</b>	<b>19.1</b>	<b>0.9</b>	<b>0.3</b>	<b>20.3</b>

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

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

AS SEB Pank profit for the year 1994 - 1997 has been allocated to that general banking reserve (except for 0.4 million euros from the 1995-year profit). The reserve amounts to 19.1 million euros, including also the bank's statutory reserve capital according to the Commercial Code. In 1998 - 2015 the bank made no allocations to the reserves. In 2001 - 2015 the subsidiaries of AS SEB Pank made allocations to the statutory reserves from their undistributed profits in the amount of 0.3 million euros.



**31. Contingent assets and liabilities and commitments**

31.12.16	Contract amount		Balance value	
	Assets	Liabilities	Assets	Liabilities
<b>1. Irrevocable and revocable transactions</b>	<b>103.6</b>	<b>1096.3</b>	<b>0.0</b>	<b>0.0</b>
1.1. Guarantees and other similar off-balance sheet irrevocable liabilities and claims	103.6	321.2	0.0	0.0
incl. financial guarantees	103.6	133.8	0.0	0.0
1.2. Loan commitments	0.0	775.1	0.0	0.0
<b>2. Derivatives (Notes 16, 26)</b>	<b>645.8</b>	<b>626.6</b>	<b>23.3</b>	<b>23.5</b>
2.1. Currency related derivatives	249.9	249.9	14.2	14.1
2.2. Interest related derivatives	392.7	373.9	9.0	9.3
2.3. Equity related derivatives*	3.2	2.8	0.1	0.1
	<b>749.4</b>	<b>1 722.9</b>	<b>23.3</b>	<b>23.5</b>

31.12.15	Contract amount		Balance value	
	Assets	Liabilities	Assets	Liabilities
<b>1. Irrevocable and revocable transactions</b>	<b>69.1</b>	<b>1 074.1</b>	<b>0.0</b>	<b>0.0</b>
1.1. Guarantees and other similar off-balance sheet irrevocable liabilities and claims	64.1	310.3	0.0	0.0
incl. financial guarantees	64.1	129.3	0.0	0.0
1.2. Loan commitments	5.0	764.0	0.0	0.0
<b>2. Derivatives (Notes 16, 26)</b>	<b>667.3</b>	<b>666.7</b>	<b>28.4</b>	<b>28.7</b>
2.1. Currency related derivatives	295.2	294.9	1.3	1.0
2.2. Interest related derivatives	363.3	363.3	26.4	26.9
2.3. Equity related derivatives*	8.8	8.5	0.7	0.8
	<b>736.4</b>	<b>1 740.8</b>	<b>28.4</b>	<b>28.7</b>

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

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

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Potential income tax on distribution of dividends

The retained earnings of the AS SEB Pank Group as at 31 December 2016 were 836.8 (31 December 2015: 771.4) 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. 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 358.9 million euros and the corresponding income tax would amount to 89.7 million euros. As of 31 December 2015, taking into account regulatory requirements for Net Own funds and capital, it would have been possible to pay out dividends the amount of 409.7 million euros, and the corresponding income tax would have amounted to 102.4 million euros.

As at 31 December 2016 (and 31 December 2015) 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 2016 the tax authority did not conduct tax audit in the AS SEB Pank and subsidiaries. The tax authorities may at any time inspect the books and records of the company within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.

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

Legal disputes

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

**32. Subsequent events**

No such material events have occurred after the end of the financial year in AS SEB Pank Group, that would affect the conditions of the assets and liabilities as at the reporting date 31.12.2016.

### 33. Related parties

	31.12.16	31.12.15
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	2.1	1.9
Contingent liabilities to members of Management Board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons (credit lines and commitments to extend credit)	0.1	0.0
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	1.9
Loans and advances to parent company	947.9	25.6
In 2016, the loans and advances to parent company includes demand deposits 907.9 EUR mio and term deposits with a term up to 11 months 38,2 EUR mio with interest rate 1.04%.		
In 2015, the loans and advances to parent company includes demand deposits 23.2 EUR mio and term deposits with a term up to 2 year 0.6 EUR mio with interest rate 1.1%.		
Due to parent company	938.3	819.6
In 2016, due to parent company includes credit lines in EUR with contractual tenor up to 10 years, interest rate -0,22% – 4.58%, in amount of 915.1 EUR mio (in Note 22 together with interests 916,0 EUR mio).		
In 2015, due to parent company includes credit lines in EUR with contractual tenor up to 10 years, interest rate 0 – 4.58%, in amount of 798.1 EUR mio (in Note 22 together with interests 798.2 EUR mio).		
Contingent assets and commitments to parent company (received guarantees)	28.4	39.0
Contingent liabilities and commitments to parent company	0.5	0.4
Loans and advances to enterprises of parent company's consolidation group	15.2	353.3
Due to enterprises of parent company's consolidation group	18.6	59.6
In 2016, the due to enterprises of parent company's consolidation group includes investment deposits 0.1 EUR mio and demand deposits 18.2 EUR mio.		
In 2015, the due to enterprises of parent company's consolidation group includes investment deposits 0.2 EUR mio, demand and overnight deposits 59.2 EUR mio, all with interest rate up to 0.25%.		
Contingent assets and commitments to enterprises of parent company's consolidation group	3.2	3.5
Contingent liabilities and commitments to enterprises of parent company's consolidation group	0.5	0.9
Interest and similar income from parent company	1.3	0.6
Interest expenses and similar charges to parent company	-2.6	-4.8
Fee and commission income from parent company	0.6	0.7
Fee and commission expense to parent company	-0.1	-0.1
Interest and similar income from enterprises of parent company's consolidation group	0.2	0.0
Interest expenses and similar charges to enterprises of parent company's consolidation group	0.0	0.0
Fee and commission income from enterprises of parent company's consolidation group	2.9	2.5
Fee and commission expense to enterprises of parent company's consolidation group	-0.9	-0.9

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

Related parties are:

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

	2016	2015
<b>Salaries and other benefits to the management in AS SEB Pank</b>		
Members of Management Board	0.7	0.7
- salaries and bonuses	0.5	0.6
- termination benefits to the management leaving the group	0.1	0.0
- other benefits to the key management	0.1	0.1
<b>Salaries and other benefits to the management in subsidiaries of AS SEB Pank</b>		
Members of Management Board	0.3	0.2
- salaries and bonuses	0.3	0.2

No salary or benefits were paid in 2016 and 2015 to the members of the Supervisory Board of AS SEB Pank or its subsidiaries.

### Remuneration and compensations to the Management Board members

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

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

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

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

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

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

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

The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 30.12.2016 was 95.55 SEK (10.00 EUR). The closing price of Skandinaviska Enskilda Banken AB (publ) share as at 30.12.2015 was 89.40 SEK (9.73 EUR).

### 34. Primary statements of parent company as a separate entity

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

#### 1. Income statement, Bank

(millions of EUR)

	2016	2015
<i>Interest and similar income</i>	79.1	78.8
<i>Interest expenses and similar charges</i>	-9.0	-11.7
Net Interest Income	70.1	67.1
<i>Fee and commission income</i>	51.6	54.4
<i>Fee and commission expense</i>	-13.7	-15.4
Net fee and commission income	37.9	39.0
Net income from foreign exchange	4.7	5.0
Gains less losses from financial assets at fair value through profit or loss	0.8	1.0
Gains less losses from investment securities	16.1	-0.6
Other income	1.2	1.5
Personnel expenses	-36.4	-34.7
Other expenses	-16.1	-13.7
Depreciation, amortisation and impairment of tangible and intangible assets	-3.9	-3.8
<b>Profit before impairment losses on loans and advances</b>	<b>74.4</b>	<b>60.8</b>
Impairment losses on loans and advances	1.4	4.1
<b>Profit before income tax</b>	<b>75.8</b>	<b>64.9</b>
Income tax	-5.0	-2.2
<b>Net profit</b>	<b>70.8</b>	<b>62.7</b>
Profit attributable to the sole equity holder	70.8	62.7

#### 2. Statement of comprehensive income, Bank

(millions of EUR)

	2016	2015
<b>Net profit</b>	<b>70.8</b>	<b>62.7</b>
<b>Other comprehensive income/expense</b>		
Revaluation of available-for-sale financial assets	-12.1	12.1
<b>Total other comprehensive income/expense</b>	<b>-12.1</b>	<b>12.1</b>
<b>Total comprehensive income</b>	<b>58.7</b>	<b>74.8</b>
Sole equity holder of the parent entity (total)	58.7	74.8
Total comprehensive income from continued operations	58.7	74.8
	<b>58.7</b>	<b>74.8</b>

**3. Statement of financial position, Bank**

(millions of EUR)

	<b>31.12.16</b>	<b>31.12.15</b>
<b>ASSETS</b>		
Cash	41.7	42.5
Balances with central bank	250.9	615.0
Loans and advances to credit institutions	983.3	392.5
Loans and advances to customers	4 151.8	3 925.1
Financial assets held for trading	23.4	28.3
Financial assets designated at fair value through profit or loss at inception	86.7	0.0
Available-for-sale financial assets	2.4	12.2
Other financial assets	17.1	17.3
Prepaid expenses and accrued income	7.2	7.7
Investments in subsidiaries and associates	5.5	5.5
Intangible assets	2.9	1.9
Property, plant and equipment	8.8	9.3
<b>TOTAL ASSETS</b>	<b>5 581.7</b>	<b>5 057.3</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Due to credit institutions	991.1	886.8
Due to customers	3 729.4	3 360.3
Other financial liabilities	42.0	33.0
Accrued expenses and prepaid income	13.6	5.5
Financial liabilities at fair value through profit or loss	23.6	28.7
Provisions	0.1	0.4
<b>Total Liabilities</b>	<b>4 799.8</b>	<b>4 314.7</b>
Share capital	42.5	42.5
Share premium	86.1	86.1
Other reserves	19.1	31.2
Retained earnings	634.2	582.8
<b>Total shareholders' equity</b>	<b>781.9</b>	<b>742.6</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5 581.7</b>	<b>5 057.3</b>



**4. Statement of cash flows, Bank**

(millions of EUR)

	<b>2016</b>	<b>2015</b>
<b>I. Cash flows from operating activities</b>		
Interest received	78.5	79.2
Interest paid	-8.9	-12.6
Fee and commission received	51.6	54.4
Fee and commission paid	-13.7	-15.3
Net trading income and other operating income	9.4	9.4
Personnel expenses and other operating expenses	-54.4	-49.9
Income tax paid	-5.0	-2.2
	<b>57.5</b>	<b>63.0</b>
Cash flows from operating activities before changes in the operating assets and liabilities		
<b>Changes in operating assets:</b>		
Loans and advances to credit institutions and mandatory reserve in central bank	-49.5	-264.9
Loans and advances to customers	-225.1	-297.1
Other assets	1.2	1.5
<b>Changes of operating liabilities:</b>		
Due to credit institutions	115.8	24.5
Due to customers	368.8	127.3
Other liabilities	0.4	3.4
<b>Cash flow from (used in) operating activities</b>	<b>269.1</b>	<b>-342.3</b>
<b>II. Cash flows from investing activities</b>		
Net increase-/decrease+ of investment portfolio securities	13.8	0.0
Purchase of tangible and intangible assets	-4.5	-5.0
Proceeds from sale of tangible and intangible assets	0.0	1.2
<b>Cash flow from (used in) investing activities</b>	<b>9.3</b>	<b>-3.8</b>
<b>III. Cash flows from financing activities</b>		
Dividends paid	-20.0	-10.0
<b>Cash used in financing activities</b>	<b>-20.0</b>	<b>-10.0</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>258.4</b>	<b>-356.1</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>1 012.5</b>	<b>1 368.6</b>
Effect of exchange rate changes on cash and cash equivalents	0.0	0.0
<b>Cash and cash equivalents at the end of period</b>	<b>1 270.9</b>	<b>1 012.5</b>
<b>Cash and cash equivalents includes:</b>	<b>31.12.16</b>	<b>31.12.15</b>
Cash on hand	41.7	42.5
Balances with the central bank without mandatory reserve	210.0	578.0
Liquid deposits in other credit institutions	932.5	391.9
Liquidity securities	86.7	0.1
	<b>1 270.9</b>	<b>1 012.5</b>

All cash equivalents are short-dated.

**5. Statement of changes in shareholders' equity, Bank**

(millions of EUR)

	Share capital (Note 28)	Share premium	Other reserves (Note 30)	Retained earnings	Total shareholders' equity
<b>Year beginning 01.01.2015</b>	<b>42.5</b>	<b>86.1</b>	<b>19.1</b>	<b>529.6</b>	<b>677.3</b>
Dividend paid	0.0	0.0	0.0	-10.0	-10.0
Other	0.0	0.0	0.0	0.4	0.4
Net profit	0.0	0.0	0.0	62.8	62.8
Other comprehensive income:					
Net change in available-for-sale financial assets	0.0	0.0	12.1	0.0	12.1
Total other comprehensive income	0.0	0.0	12.1	0.0	12.1
<b>Total comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>12.1</b>	<b>62.8</b>	<b>74.9</b>
<b>Final balance 31.12.2015</b>	<b>42.5</b>	<b>86.1</b>	<b>31.2</b>	<b>582.8</b>	<b>742.6</b>
Book value of holdings under control or significant influence					5.5
Value of holdings under control or significant influence, calculated by equity method					195.3
Adjusted unconsolidated equity as at 31.12.2015	<b>42.5</b>	<b>86.1</b>	<b>31.2</b>	<b>582.8</b>	<b>932.4</b>
<b>Year beginning 01.01.2016</b>	<b>42.5</b>	<b>86.1</b>	<b>31.2</b>	<b>582.8</b>	<b>742.6</b>
Dividend paid	0.0	0.0	0.0	-20.0	-20.0
Other	0.0	0.0	0.0	0.6	0.6
Net profit	0.0	0.0	0.0	70.8	70.8
Other comprehensive income/expense:					
Net change in available-for-sale financial assets	0.0	0.0	-12.1	0.0	-12.1
Total other comprehensive expense	0.0	0.0	-12.1	0.0	-12.1
<b>Total comprehensive income/expense</b>	<b>0.0</b>	<b>0.0</b>	<b>-12.1</b>	<b>70.8</b>	<b>58.7</b>
<b>Final balance 31.12.2016</b>	<b>42.5</b>	<b>86.1</b>	<b>19.1</b>	<b>634.2</b>	<b>781.9</b>
Book value of holdings under control or significant influence					5.5
Value of holdings under control or significant influence, calculated by equity method					209.5
Adjusted unconsolidated equity as at 31.12.2016	<b>42.5</b>	<b>86.1</b>	<b>19.1</b>	<b>634.2</b>	<b>985.9</b>



## INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)\*

To the Shareholder of AS SEB Pank

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### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS SEB Pank and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We audited the Group's consolidated financial statements that comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

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

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### Other information

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

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

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



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

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

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

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

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Ago Vilu', is written over a light blue horizontal line.

Ago Vilu  
Auditor's Certificate No.325

9 March 2017

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

**AS SEB PANK**  
Located at Tornimäe 2, Tallinn  
**MANAGEMENT BOARD RESOLUTION NO 28**

In Tallinn

March 9th, 2017

**Distribution of the profit of the financial year 2016**

1. The profit of the financial year 2016 was 70 833 738 EUR (seventy million, eight hundred and thirty-three thousand, seven hundred and thirty-eight euros).
2. To make a proposal to the sole shareholder to pay dividends from the profit of the financial year 2016 in the amount of 30 000 000 EUR (thirty million euros).

To make a proposal to the sole shareholder not to distribute the profit of the financial year 2016 in the amount of 40 833 738 EUR (fourty million, eight hundred and thirty-three thousand, seven hundred and thirty-eight euros).

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

Allan Parik  
Chairman of the Management Board

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



### Signatures of Supervisory Board to annual report

The Management Board has prepared the management report and the annual accounts of AS SEB Pank for the financial year ended 31 December 2016.

The Supervisory Board of AS SEB Pank has reviewed the Annual Report 2016, 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 the annual report for presentation to the sole shareholder.

The annual report has been signed by all members of the Supervisory Board :

"23" March	2017		Riho Unt
"29" March	2017		Martin Johansson
"29" March	2017		Stefan Stignäs
"29" March	2017		Tony Kylberg
"29" March	2017		Erkka Näsäkkälä
"28" March	2017		Susanne Tamm