2018

# Annual Report

SEB

# Contents



COVER: Power Sharing Planet, by Olafur Eliasson. a part of SEB's art collection at the offices at Arenastaden, Solna. The office building won the award Sweden's best-looking office in 2017 (Sveriges snyggaste kontor).

# 2018 in brief

## Important events and trends

SEB's updated strategy and new three-year business plan were presented.

Both large and smaller companies used SEB's traditional lending, advisory and cash management services to a higher degree, driving the 2018 result.

Customers increasingly utilised digital meetings and apps and SEB continuously introduced new functionality.

Payments and card transactions increased in the positive macroeconomic environment.

Late 2018 financial markets declined and volatility rose which improved Markets' result while the value of assets under management decreased.

Assets managed under SEB's sustainability criteria amounted to SEK 188bn.

Operating expenses were below the cost cap for the ninth year in a row.

Corporate transactions involving SEB Pension and UC AB resulted in a total capital gain of SEK 4.5bn.

## Key figures

| | **2018** | 2017 |
|---|---|---|
| Operating income, SEK m | 45,868 | 45,561 |
| Operating profit before items affecting comparability, SEK m | 22,779 | 22,655 |
| Operating profit, SEK m | 27,285 | 20,759 |
| Return on equity excluding items affecting comparability, per cent | 13.4 | 12.9 |
| Return on equity, per cent | 16.3 | 11.7 |
| Cost/income ratio | 0.48 | 0.48 |
| Earnings per share, SEK | 10.69 | 7.47 |
| Proposed total dividend per share, SEK | 6.50 1) | 5.75 |
| Common equity tier 1 capital ratio, per cent | 17.6 2) | 19.4 |
| Leverage ratio, per cent | 5.1 | 5.2 |
| Liquidity Coverage Ratio (LCR), per cent | 147 | 145 |

1) Ordinary dividend SEK 6.00 and extraordinary dividend SEK 0.50.
2) New rules in 2018. With the old rules outcome was 20.1 %. ▸▸ *see page 47.*

# Who we are

Our commitment to creating value for our customers is based on the tradition of entrepreneurship, an international outlook and a long-term perspective coupled with a continuous ability to adapt and to drive change.

As a bank we have an important role to play in the shift to a more sustainable world.

## With our vision and strategy…

### Our purpose

We believe that entrepreneurial minds and innovative companies are key to creating a better world. We are here to enable them to achieve their aspirations and succeed through good times and bad.

### Our vision

Deliver world-class service to our customers.

### Our strategic priorities

- Leading customer experience
- Maintaining resilience and flexibility
- Growing in areas of strength.

### Our sustainability aim

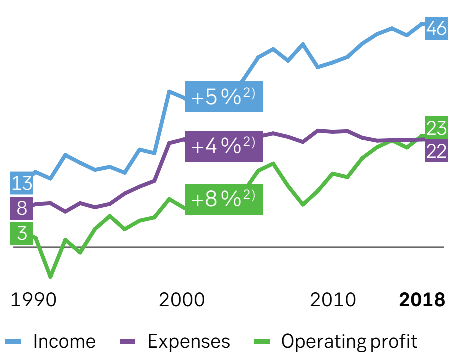
Be a role model in sustainability within the financial industry.

### Our financial targets and outcome

| | Outcome **2018** [1] | Outcome 2017 [1] |
|---|---|---|
| **Dividend payout ratio** at 40 per cent or more of earnings per share[2] | | |
| Ordinary dividend | 70% | 70% |
| Extraordinary dividend | 6% | |
| Total dividend | 76% | 70% |
| **Common Equity Tier 1** capital ratio of around 150 basis points over requirement[3] | 17.6% | 19.4% |
| **Return on equity** competitive with peers[4] | 13.4% | 12.9% |

1) Outcome excludes items affecting comparability. *See note 13.*
2) Board proposal: an ordinary dividend of SEK 6.00, an extraordinary dividend of SEK 0.50, in total SEK 6.50 (5.75). Outcome including items affecting comparability 61% (77).
3) New rules in 2018. With the old rules outcome was 20.1%. *See p. 47.* Regulatory requirement estimated by SEB: 14.9% (17.2)
4) Outcome including items affecting comparability: 16.3% (11.7%)

### Our profit development 1990–2018[1], SEK bn




1) Excluding items affecting comparability.
2) Compound Annual Growth Rate (CAGR).

# What we do

SEB plays an active part in the development of the societies in which the bank is operating, by helping our customers realise their ambitions through our strong customer relationships. In Sweden and the Baltic countries our offer includes financial advice and a wide range of financial services aimed at all types of customers. In the other Nordic countries, Germany and the United Kingdom, we are a full-service large corporate and institutional bank.

## ...via our areas of strength...

**Long-term customer relationships**

**Comprehensive offering.** We provide everything from banking to pensions and life insurance – for companies, institutions and private individuals.

**International perspective.** We support our Nordic, German, British and Baltic customers around the world and give international institutions access to Nordic markets.

**Long-term relationships.** Customer relations are based on deep knowledge about our customers and valuable advice. We are there for them in good times and bad.

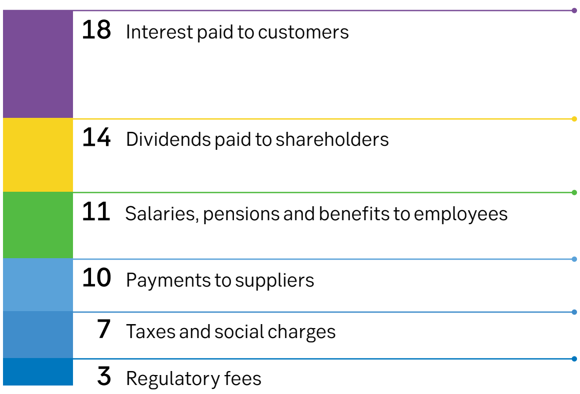
**Active ownership.** Through Investor the Wallenberg family serves as an active owner with a long-term perspective.

**Tradition of enterprise.** With more than 160 years in the service of enterprise, we provide banking services to the largest Nordic companies in every sector.

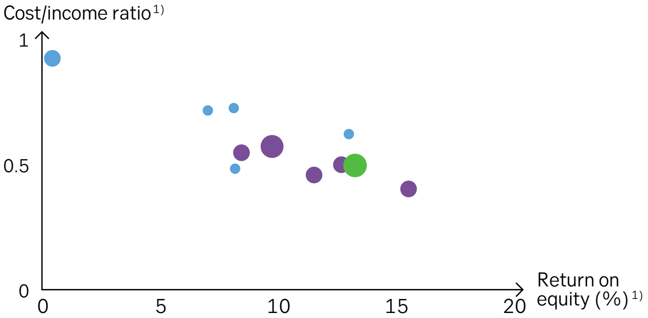
**Stability and trust.** We safeguard our financial resilience, always acting with transparency, high ethics and a proactive approach to sustainability.

### Financial value created by SEB, 2018

SEK 63bn




### SEB is profitable, efficient and well capitalised




SEB Nordic peers European peers (largest in terms of total assets)

Size of circle indicates CET 1 ratio (<13%, 13–17%, >17%)

1) For SEB and two Nordic peers, excluding items affecting comparability.

# Whom we serve

Our customers are served by around 15,000 committed and experienced employees working as a team to create customer value by building strong customer relationships in all the markets where we operate.

## ...we serve our customers.

**2,300** **Large corporations**

SEB's corporate customers in the Nordic region are among the largest in their respective industries. In Germany and the UK they range from large mid-corporate to large multinational companies.

**700** **Financial institutions**

SEB's institutional clients operate both in the Nordic countries and internationally.

**400,000** **Small and medium-sized companies**

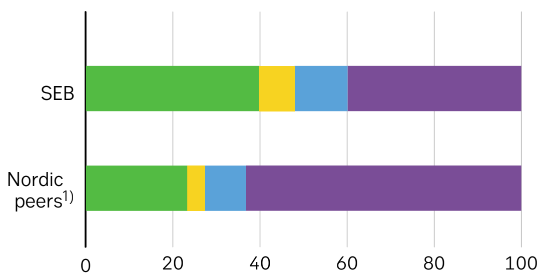
In all, SEB serves approximately 400,000 small and medium-sized companies in Sweden and the Baltic countries. Of these, some 267,000 are home bank customers.

**4,000,000** **Private individuals**

SEB has approximately 4 million private individuals among its customers in Sweden and the Baltic countries. Of these some 1.4 million are home bank customers.

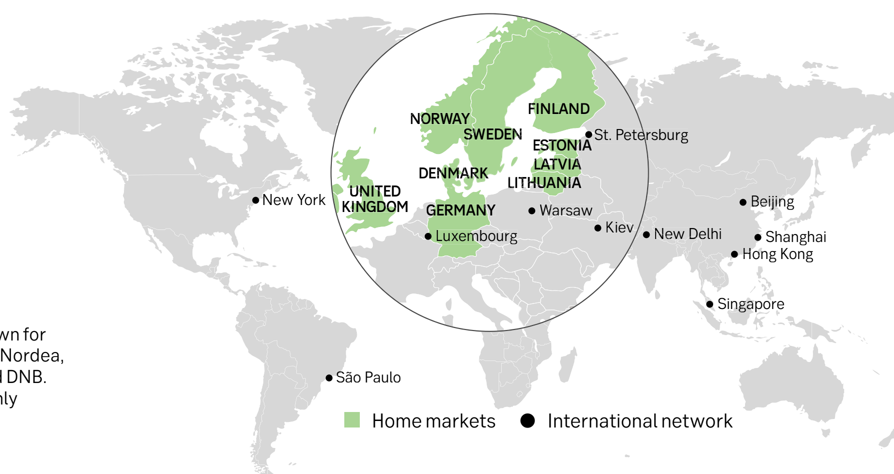
### SEB – strong diversified business

Share of income, %




1) Income breakdown for Swedbank, SHB, Nordea, Danske Bank and DNB. Business units only (indicative).

### We serve customers in our home markets and abroad



# Building trust and financial stability in an ever-changing landscape

As a bank we live in symbiosis with our customers and the societies in which we operate. We are a mirror of our customers' success, but also a requirement for it. SEB sees it as its mission to contribute to innovation, entrepreneurship and a thriving business sector; these form the foundation for long-term shareholder value and sustainable societal development.

At SEB we know our customers well and always strive to understand their existing and future needs better. Based on qualified advice, swiftly executed transactions, and a strong balance sheet, we have been able to develop close and uniquely strong relations with customers in our part of the world.

In the face of rapid change we continuously adapt to our customers' growing needs for more sophisticated services, more proactive advice and advanced digital solutions. We also need to closely monitor the long-term economic, geopolitical, technological and demographic trends.

In this increasingly complex world, with a global debate tilting towards protectionism, accommodating monetary policies, market volatility and an ever-changing regulatory environment in the financial industry, it is required that we accelerate the pace of our assessments and decision-making – without losing focus on the long-term effects of these changes on the financial strength and stability of SEB.

The development of artificial intelligence is expected to transform one sector after another. The increase in data, access to cloud technology and algorithms for machine learning are enabling us to interact with our customers in new ways. With artificial intelligence, we can make improvements in everything from back-office operations to the customer experience, product distribution, marketing, compliance and risk management. Blockchain is another technology that could change conditions in the financial sector by reducing the need for intermediaries in all types of transactions and contracts.

Disruption is also taking place as industry shifts into the Fourth Industrial Revolution – the breakthroughs unfolding in the wake of the Internet of Things – where connected, autonomous systems communicate with each other. In a world where production chains can steer themselves, financial services can be seamlessly integrated with companies' value chains. New business opportunities will emerge in new industrial ecosystems. We need to continuously develop our product and service offering to meet future customer demand.

As a bank we also have an important role to facilitate and finance our customers' shift to sustainable business models. Innovation and entrepreneurship will help achieve the Sustainable Development Goals that the UN has set for 2030. In this regard, the financial sector plays a key role in directing capital to the necessary investments in infrastructure, renewable energy and low-carbon technology. At SEB, we believe that sustainable business is better business – to the benefit of our customers, shareholders and employees.

SEB's most important assets are our trust and financial stability, which enable us to stand by our customers in good times and bad. We, the Board, have therefore dedicated a great deal of time to the new types of risks that SEB is facing, partly as a result of rapid technological developments throughout the banking landscape. We are investing substantial resources in protecting SEB from cyber threats, money laundering and other financial crimes, aiming to maintain trust and safeguard a solid and robust financial position. We uphold our trust and our brand best by adhering to the highest standards of corporate governance, sustainability, transparency and business ethics.

Tomorrow's winners in banking will be those that identify market potential early and address the associated challenges. SEB needs to embrace change while acting swiftly and decisively, at the same time as we navigate according to our long-term strategy to ensure stability in times of uncertainty and disruption.

As the Board, our role is to work together with the Group Executive Committee to gain an understanding of the strategic landscape. We need to continue to question established truths and proven business models. In our view, banking in the future will still be focused on uncompromising customer centricity and world-class service, but it will be based on real-time data and require an openness to the digital platforms our customers prefer – regardless of whether those exist on our own channels or in new financial ecosystems.

During 2018, SEB's President Johan Torgeby and the Group Executive Committee revisited and updated SEB's Vision 2025 as a foundation for a new three-year business plan. With a strategic focus on advisory leadership, operational excellence and extended presence, we are investing in the future to strengthen our ability to create value for our customers and thus for you as shareholders. This means that we are now taking the next step into an exciting future – on a journey we have been on for more than 160 years.

Stockholm, February 2019

Marcus Wallenberg
*Chair*
*Board of Directors*

# Entering the next phase of our transformation journey

Ever since SEB was founded in 1856 we have been committed to delivering long-term value to our customers and shareholders. Based on leading customer experience combined with a robust balance sheet and sound credit exposure, we aim to serve our customers through good times and bad.

As the global economy moves past peak growth in the cycle, change has also become the new normal in the banking landscape. Our ability to balance our long-term perspective with speed and swiftness in our daily operations will be essential to our success going forward.

In 2018, the financial market's long-lasting resilience came to a halt towards the end of the year as positive business and market sentiment turned into late cyclical concerns. Being a universal bank with a diversified business, we benefited from our exposure across customer segments, products and geographies. Corporate customers were the main drivers of our financial performance growth in 2018, while financial institutions compensated positively for the decrease in assets under management as market volatility and the resulting customer activity picked up towards the end of the year. Household mortgage volumes increased modestly throughout the year.

As we enter 2019, we are embarking on the next phase of our transformation journey towards our vision of delivering world-class service to our customers. During 2018 we revisited our long-term strategic direction to ensure we remain the preferred choice for our customers, and the business plan for 2019–2021 is our first step of putting this vision into action.

In response to the continuous transformation of customer behaviours and technology as well as the regulatory and competitive landscapes, we have identified three strategic areas on which we will focus our efforts: strengthening our advisory capabilities, accelerating operational speed, and extending our digital distribution and offering.

Along with new technology and increasing competition, where transactional banking products are becoming more and more standardised, we believe that *quality of advice* – through digital and human interaction – will be a key differentiator for SEB to remain relevant to customers going forward. While having the right skills and competences is a prerequisite, we aim to better respond to specific customer needs and behaviours by applying new technology and enhancing the use of data in all our customer interactions.

New technology will also be implemented to *accelerate speed* in our ongoing digitalisation and automation journey, aiming to increase productivity and improve cost efficiency in response to the ever changing banking landscape. This will also enhance the customer experience by providing our customers with smarter, faster and safer solutions.

With financial services becoming more integrated into the daily life of customers, we also aim to leverage this increasingly interconnected banking landscape by *widening SEB's distribution network*. Through partnerships and new technology we will offer our products and services to customers outside SEB while also identifying new, cutting-edge solutions from third-party providers to integrate in SEB's full-service offering.

In addition to developing our core strengths, we also aim to leverage the new adjacent opportunities that emerge as the industry continues to change. In order to accelerate growth and further enhance profitability, SEB will invest in a selection of strategic initiatives as part of our new three-year business plan. Sustainability is one of these initiatives and is a response to the increasing demand from customers and our determination to become a role model in sustainability within the financial industry. With the trust put in us by our customers, shareholders and employees, we believe SEB is well-positioned to innovate and drive the development in sustainable financial services. While continuing to integrate sustainability into our processes, we will also ensure we remain compliant and adhere to best-in-class code of conduct in order to position SEB as the go-to financial institution in the area of sustainability.

By investing in our future, we want to confirm our position as the leading Nordic bank for corporations and institutions, and a top universal bank in Sweden and the Baltic countries. In order to achieve this, people will remain at the core of everything we do. I am very proud to be part of the SEB team who relentlessly strive to reach our vision of world-class service and deliver long-term value to our customers and shareholders.

Stockholm, February 2019

Johan Torgeby
*President and Chief Executive Officer*

# Business environment

**During most of 2018 the global economic boom** remained resilient to political uncertainty and global imbalances in a highly indebted world. New customer behaviours, new technology and new regulations are changing the playing field for the financial sector.

# Ten years after the financial crisis

Signs from the global financial crisis in 2008, which started with the Lehman Brothers collapse, are still tangible. Due to resolute action, authorities and central banks succeeded in mitigating the crisis and avoiding a full-scale depression. Since then a succession of regulations have created a more robust, transparent and highly capitalised banking system. The supervisory authorities are collaborating globally, financial resolution facilities are in place in the most important markets, and the global economic recovery continues, though with signs of slowdown.

But the cost has been negative interest rates and record-high indebtedness. The global debt level of households, non-financial corporations and governments has increased from 210 per cent of the gross domestic product in 2007, to more than 240 percent. This is due both to the acute crisis management following the Lehman Brothers collapse and the monetary stimulus packages that were adopted by many Western economies. In Sweden the prolonged period of low interest rates has contributed to a higher level of private debt and rising asset prices. In late 2018, the Swedish central bank announced its first repo rate hike in seven years; 25 basis points to –0.25 percent.

### Complex risk scenario

At a more overarching socio-political level, the financial crisis has resulted in larger socioeconomic gaps and global imbalances, which in turn have contributed to growing populism and nationalism in the political arena. In addition, protectionism came into display in 2018 in the form of trade barriers and the complications of the Brexit process, among other things. Environmental and climate issues are also high on the agenda. The prolonged economic upswing combined with growing political uncertainty contribute to the complex risk scenario.

Repo rate in Sweden

<0%

since February 2015

# High expectations for service among businesses and private individuals

### Comprehensive services

Large corporations and financial institutions have broadened their contact interfaces with banks and want to see seamless digital integration alongside proactive and value-creating advisory services. They expect banks to use their extensive sources of data to create customised analyses and make recommendations. They have high demands that their banks' advisers have solid industry knowledge, specialist expertise and access to sophisticated tools.

The same development can be seen among small and medium-sized enterprises, which have come to expect both proactive advice and digital services on their terms. In this area development is moving at a fast pace as companies want to be able to manage their payments directly in their own systems in order to eliminate duplicate work.

In the private market, customers expect services that are smarter, faster, more secure and designed according to their terms. Among customers in the Private Banking segment relationship banking

continues to be important and there is an expectation for individualised advice combined with comprehensive, convenient and sophisticated digital services.

Among other private customers as well there is a preference for personalised advice that is available in the form and channel of customers' choosing. They put great trust in banks and are open to sharing their personal data if it leads to smarter, more relevant and timely advice and services.

Willingness to embrace digital solutions is great. Customers are increasingly using more than one provider of financial services.

### Savings

Among private customers there is greater awareness that the demographic trends of an ageing population and strong migration pressure are challenging social welfare programmes. This is increasing the need for financial security and social welfare solutions. Attitude surveys show that half of all private individuals want to increase their long-term savings as long as they are presented with interesting and relevant solutions.

### Personal meetings

Despite the keen interest in and strong development of digital solutions, personal contact with customers is at least equally important when the need arises, which puts demands on flexible, accessible and modern meeting places and video calls.

# Digital development

The digital revolution is impacting many aspects of society. Business models, relationships and 'economic truths' are being re-examined. Company ideas are quickly becoming outdated, and new ones are emerging just as fast. For banks, the business model is being evaluated in the same way, and with digitalisation comes new opportunities to reach customers and create new services. At the same time risks for fraud, cybercrime and money laundering are increasing. New technologies provide SEB with new capabilities to identify suspicious activities and improve transaction reporting.

## Open Banking

New banking rules enable third-party developers to build their customer applications around banks' systems and data through the use of application programming interfaces (APIs). This development, which is known as Open Banking, entails both opportunities and challenges. Banks have large customer bases and great trust capital among their customers, which makes collaboration with new partners a great business opportunity. Banks with quality services also have the opportunity to use Open Banking to reach new customers. Open Banking regulations differ between markets, challenging cross-border solutions. In the EU, however, implementation of Payment Services Directive (PSD 2) has established a common ground.

## Data analysis

Customers are increasingly expecting customised services based on their personal situation. Using artificial intelligence, machine learning and its extensive data, banks can build smarter and more sophisticated services to meet customer needs. Customer benefit, ethical use of sensitive data as well as customer integrity must be weighted in the process.

## Evolving technologies

The rapid pace of technology development implies great exploitation potential. Through artificial intelligence (AI) and machine learning, accurate forecasts can be made on the basis of analysis of large amounts of data. Therefore, AI will be a game changer in the banking sector when it comes to providing advice based on data analysis. Blockchain technology, which enables transaction to be verified and processed in real time, may transform the way payments and business transactions are conducted while cloud computing may change how IT infrastructure and IT applications are managed and developed.

## Agile development

New, dynamic ways of working that are based on agile development and service design in close interaction with customers are rapidly being implemented in the industry for all types of processes. For instance, banks now have the opportunity to move away from large-scale IT projects that were previously conducted within the financial sector, in favour of new step-by-step solutions that are more flexible and can meet customer needs more quickly.

## Competence

As more and more services become digital, customers' expectations for value creation and proactive advice are growing. In this regard, a bank's ability to support the competence development of its employees and attract top talent is decisive for its future success.

# New regulations changing the playing field

During the year the financial sector continued to be characterised by an extensive agenda of regulation, which has required banks to implement major IT and operational adaptations.

## Consumer protection

As of the beginning of 2018 the EU's Markets in Financial Instruments Directive (MiFID II) came into force, which seeks to improve consumer protection and transparency in securities trading.

## Payment services

Implementation of the EU's revised Payment Services Directive (PSD 2) also began in 2018, aiming to make banks' information on customers' account and payment services available externally. This entails both opportunities and challenges for the banks' existing business models as banks and other companies – via standardised interfaces – will be able to access each other's customer information.

## Anti-money laundering

The regulations addressing money laundering and financing of terrorism were sharpened in 2017, and as the regulatory authorities subsequently stepped up their monitoring activities, these issues attracted greater attention in the media and political agendas. Several banks – both in the Nordic countries and internationally – have found themselves in the spotlight due to ineffective routines for countering money laundering.

## Sustainability requirements

In 2018 the EU Commission presented an action plan for how the financial sector shall contribute to the EU's achievement of the climate and energy targets required to meet the 2°C target. The Commission has recommended that the financial sector play a key role in steering capital flows towards a more sustainable economy, and in the years immediately ahead will formulate binding requirements and goals for this work.

## Other new regulations

The extensive new accounting standard IFRS 9 Financial Instruments went into force as of January 2018, and in May 2018 the EU's General Data Protection Regulation (GDPR) took effect.
*See p. 50.*

# Focus on sustainability

One clear and enduring trend in the general operating environment is the rising focus on sustainability. Customers in all segments expect banks to take great responsibility, and there is growing demand for sustainable products, where customers – through their choices of financial services – can participate in and influence development towards a more sustainable society.

Many companies are putting sustainability work high up on their own agendas and are beginning to implement the UN's SDGs in practice. In order to transform their business to be more sustainable, they seek the assistance and products that banks can provide.

At the global level, climate change is undoubtedly a great challenge. The UN's 17 Sustainable Development Goals (SDGs) that were adopted in 2015 represent a uniform, integrated approach and harmonise the three core elements of sustainable development: economic growth, social inclusion and environmental protection. Many scientists believe that the possibilities to achieve the sustainability goal of limiting Earth's temperature rise to 2°C are small given the current pace of change. Breaking this trend will require a radical shift in most industries combined with innovative solutions and investments in infrastructure. The financial sector has a relatively small direct environmental impact, but by meeting customers' needs for sustainability-related financing and offering products with a sustainability perspective, it has the potential to make a great impact.

## Sustainable development goals in focus at SEB

- Decent work and economic growth
- Industry, innovation and infrastructure
- Climate action
- Peace, justice and strong institutions

# SEB's conclusions

SEB's analysis of the business environment has resulted in seven conclusions, which contributed to updating the bank's strategy and new three-year plan.

- Customers expect smarter and faster services, secure and accessible on their terms.
- Long-term customer relationships and trust are built on valuable advice, based on best-in-class data capabilities.
- The customer offering can be enhanced through digitalisation, automation and partnerships with external suppliers.
- Sustainability will grow in importance for customers, employees and other stakeholders.
- People are at the core of everything we do and will be determinant for our success.
- The ability to manage risk and attract assets will be key.
- Regulatory pressures are expected to remain.

*See p. 8–13 for SEB's strategy and business plan.*

# Strategy for world-class service

**SEB's long-term vision,** to deliver world-class service to our customers, recognises that customer satisfaction is a prerequisite for all activities. By seizing opportunities that emerge in a continuously changing banking landscape the bank is pursuing customer satisfaction.

# A long-term perspective

Founded in the service of enterprise more than 160 years ago, SEB has through the years operated from a base of three pillars on which the present strategy and business plan are built.

**Leading customer experience** — Develop long-term relationships based on valuable advice, customers' trust in SEB as well as their appreciation of SEB's services.

**Resilience and flexibility** — Maintain resilience and flexibility, based on capital and liquidity strength, to enable adaptation to prevailing market conditions.

**Growth in areas of strength** — Focus on profitable organic growth in areas of strength.

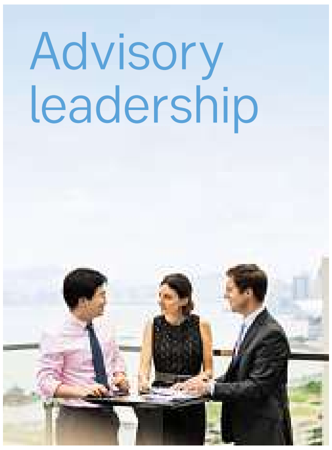
# Strategy

Delivering world-class services to customers is as crucial today as in 2015 when SEB established its long-term Vision 2025. A review of the current and future business environment form the basis for the updated Vision 2025 as well as the new strategy and business plan.

While maintaining and improving the current business operations, SEB aims to enhance customer services based on opportunities captured from new customer behaviours, emerging technologies and changing market conditions. This aims to ensure customer satisfaction and create sustainable shareholder value through long-term growth.

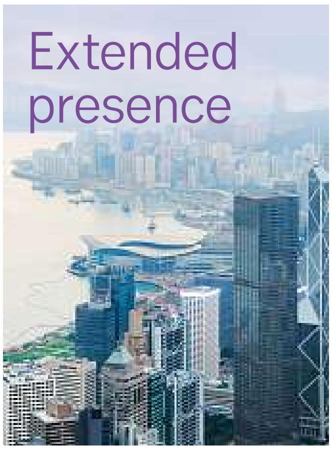
The ambition to be the undisputed leading Nordic corporate and institutional bank as well as the top universal bank in Sweden and the Baltic countries remains unchanged.

SEB's strategy has three main focus areas: advisory leadership, operational excellence and extended presence.




Provide customers with proactive, customised and valuable advice, based on customer insight and data analysis – through human and digital interaction.


Enhance customer value and increase process efficiency and speed by accelerating digitalisation and automation while extending the use of data.




Broaden the offering by supplying customers with external products and extend SEB's presence by providing products and services in customers' digital ecosystems.

# Business plan 2019–2021

The current business operations will be further developed within the strategic focus areas of advisory leadership, operational excellence and extended presence. Within these areas, strategic initiatives will also be undertaken in order to accelerate transformation by leveraging the business opportunities emerging from the changing banking landscape.

## Overall targets

Shareholder value is created through profitable growth and improved efficiency, while maintaining strong capital efficiency.

As part of the planning for the next three years, the Board reviewed its three financial targets. They remain unchanged:

- **A yearly dividend that is 40 per cent** or more of earnings per share.
- **A Common Equity Tier 1 (CET 1) capital ratio** of around 150 basis points above the current requirement from the Swedish Financial Supervisory Authority.
- **A return on equity** that is competitive with peers.

In the long term, SEB aspires to reach a sustainable return on equity of 15 per cent.

SEB will continue to operate with a strict cost discipline ensuring that its current operations are cost efficient. The new strategic initiatives, on an accumulated basis, are estimated to lead to total additional investments of SEK 2–2.5bn over the three years. This translates into an annual cost increase of SEK 1bn by 2021 (compared with 2018) and a new total cost target of around SEK 23bn, assuming 2018 foreign exchange rates. The pace of investments will be dependent on progress and will gradually increase over the next three years. The strategic initiatives are expected to lead to both revenue growth and cost efficiency.

The overall progress of the business plan will also be monitored in terms of customer satisfaction, employee engagement and efficiency as well as sustainability.

## Advisory leadership

An attractive full-service customer offering based on high-quality proactive advice and products will distinguish SEB when certain banking services and products are becoming more standardised.

By turning data into insight through data analysis, SEB will better meet customer needs and behaviours which will add value to the advisory services.

### Further development

- **Strengthen** and expand the large corporate and institutional business in SEB's home markets by offering proactive and improved customer services and platforms.
- **Focus** on sustainable growth in the Baltic countries, while carefully monitoring risks.
- **Provide** more relevant and targeted advice to small and medium-sized companies using data analytics.
- **Make** SEB the leading pension provider in Sweden and the Baltic countries and improve customer services by combining the savings and insurance offer.
- **Strengthen** SEB's position in sustainable financing and investment.

### Strategic initiatives

- **Savings and investments** – enhance the bancassurance offering and develop investment management capabilities.
- **Corporate and investment banking** – enhance advisory capacity, with special focus on opportunities in renewable energy and new technologies.
- **Private banking** – improve the private banking offering and expand in the Nordic markets.
- **Accelerate** innovation in sustainable financial services. *See p. 12.*

# Operational excellence

Customers demand smarter, faster and more secure services while fierce competition requires SEB to continuously become more efficient.

Focus will lie on efficiency and speed – enabling swift transaction execution through the use of new technology and data. By digitalising and automating end-to-end processes SEB will improve the customer offering and increase productivity and cost efficiency.

### Further development

- **Provide** customers with improved advice and new products, through new methods of using the unique data that SEB holds.
- **Invest** in new technology.
- **Enhance** accessibility and convenience for private customers across all channels, for instance digital agreement signing and digital customer onboarding.
- **Free up time** for more advisory meetings through leverage of self-service and data.
- **Improve** the efficiency of the risk and compliance functions by using digital methods.

### Strategic initiatives

- **End-to-end automation** of selected customer and internal processes.
- **Data-driven improvement** of competitiveness through advanced analytics of big data.
- **Agile processes** expansion to increase the speed of development.
- **Adaptation** of employee skills and competence to match future needs.

# Extended presence

Financial services are becoming more integrated in customers' daily life and operations. In order to meet customers' demand, SEB will extend the offering by integrating products and services from third-party providers. The distribution network will also be extended by offering SEB products and services to customers on platforms of their choice.

By using new distribution channels and platforms SEB aims to explore new business models, enter new markets and attract new customers.

### Further development

- **Enhance** the full-service offering and take part in Open Banking-related opportunities in order to, for example, distribute SEB's products to new markets.
- **Develop** the Greenhouse concept for small and medium-sized companies through a full-service offering complemented by adjacent services such as legal advice and recruitment services from external providers.
- **Continue** to engage in new partnerships and participate in industry initiatives, for instance on blockchain and other new technology.
- **Explore** new business models and services adjacent to banking, while also building competence in new technologies and innovation.
- **Invest** in fintech companies through SEB's venture capital business to foster new relationships benefitting customers.

### Strategic initiatives

- **Open Banking** – develop the business in co-operation with external parties.
- **ERP integrator** – collaborate with ERP (enterprise resource planning) vendors for better customer service.
- **Scaling Markets' system** – increase digital indirect distribution channels to utilise the existing trading system more efficiently.
- **SEBx** – explore and utilise new technology to meet future customer needs independently from the bank's operations.

# Transformation towards a sustainable future

In a world characterised by great uncertainty from both economic and sustainability perspectives, customers and other stakeholder groups raise their expectations on the bank to provide innovative and responsible solutions and actively contribute to a sustainable future.

Since several years, SEB has had the ambition to be a role model in sustainability within the financial industry. In 2018, SEB strengthened its focus even further on sustainability which is now a key component of the bank's business plan 2019–2021.

## Classifying and transforming portfolios

In view of the ongoing climate change, SEB will, in supporting its customers in their ambition to be more sustainable, start to classify and gradually transform its credit portfolio. The bank will also assess its total assets under management – this in addition to assets already assessed in SEB's fund company – and increase the share of assets managed according to sustainability criteria.

Simultaneously, SEB will enhance sustainability advisory capabilities to customers, based on market insight and the bank's expertise and thought leadership.

Additionally, SEB will establish an innovation centre where emphasis will be on creating new financing and investment opportunities, such as development of sustainable capital market products and services, this in addition to the daily product development in the divisions. The bank aims to provide a range of sustainability and impact products in all customer segments.

Among the areas for product development are:
- sustainable corporate loans, bonds and consumer credits
- financing and investment products based on the UN Sustainability Development Goals
- tools for sustainability-related advice to companies and financial institutions
- digital solutions for private customers to support sustainable consumption.

## Strengthening policies and processes

SEB will continue to include sustainability aspects as a natural part of its business. Policies and processes will be continuously strengthened and aligned with international and national requirements. The bank together with its employees shall always aim to conduct business in a responsible manner. The Code of Conduct, SEB's core values and culture shall be starting points in decision-making and behaviour. Learning and training in sustainability matters will be enhanced.

## Aligning incentive

SEB sees the importance of aligning incentive structures within the company and has therefore decided that senior management members will also be evaluated on their contribution to the bank's journey towards a sustainable future.

*Read more about SEB's sustainability work on p. 67–73.*

# Risk management

The Chief Risk Officer (CRO) has evaluated and supports the business plan from a risk perspective. The risk tolerance statements of the Board of Directors reflect the bank's view on risk taking and management in light of the business plan. *See p. 44.*

In order to better manage non-financial risks, the risk tolerance framework has been broadened to include metrics on cyber and information risk as well as compliance risk.

# Closing the business plan 2016–2018

The business plan for 2016– 2018 targeted competitive profitability, a strong capital position and long-term dividend growth. In order to achieve this, the bank aimed to be leading within customer service and to be the most attractive employer. The business plan also focused on growth in areas of strength and transformation to capture the full potential of digitalisation to add customer value and drive efficiency.

## Outcome business plan[1)]

**All customer segments ranked SEB highly** and customer satisfaction, measured as customers' willingness to recommend SEB as bank, developed positively during the plan period for SEB's four main customer segments.[2)]

**Return on equity** excluding items affecting comparability, improved to 13.4 per cent from 12.9 per cent.[3)]

**SEB's capital adequacy buffer remained above regulatory requirement** despite dividend increases and stricter measurement rules.[4)]

**Employee engagement**, **efficiency and trust** remained above financial sector average.[2)]

**Expenses** were below the cost cap of SEK 22bn each year.

**The dividend increased** by SEK 0.25 each year.[5)]

**SEB was the only Nordic bank included in the Dow Jones Sustainability Index** during the period.

1) All comparisons in this section are made with 1 January 2016.

2) *See page 14–15.*

3) Including items affecting comparability, the return on equity improved from 12.2 to 16.3 per cent.

4) On 1 January 2016 the buffer was 2.8 per cent; on 31 December 2018 – 2.7 per cent.

5) For 2018, proposed to the AGM. In addition, an extraordinary dividend of SEK 0.50 per share was proposed for 2018.

6) Includes corporate and SME customers.

## Selected indicators

| Growth | **Since 1 January 2016** |
|---|---|
| Accelerate growth in Sweden | 150 new large corporate customers |
| Expand business with Nordic and German large corporations and institutions | Growth in total corporate credits[6)] SEK 148bn |
| Expand savings offering to private individual and corporate customers | Net inflow of assets under management amounted in total to SEK 136bn |

| Transformation | **Since 1 January 2016** |
|---|---|
| Create leading customer experience of world-class service | Increase in private customer usage of mobile services in Sweden 87 per cent |
| Use digitalisation for customised advisory tools and interfaces | 12,349 remote advisory meetings in the Baltic countries. |
| Continuous learning for employees | 2,878 employees in leadership/talent management programmes. |

| Sustainability success factor | **Since 1 January 2016** |
|---|---|
| Increase loans under SEB's green framework | Loans classified according to SEB's green framework increased to SEK 16bn |
| Increase sustainable investments | Funds managed with sustainability criteria reached SEK 188bn |
| Support innovation and entrepreneurship | Contribution to entrepreneurial and innovation partnerships SEK 41 million |

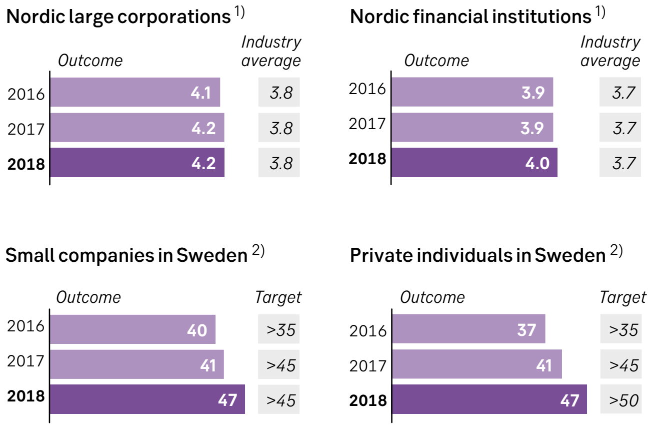
# Overall targets and outcome

**The progress of the strategy** and three-year business plan is monitored and measured at many levels. These selected metrics provide a progress overview.

## Customers

**Customer experience and satisfaction**
Various internal and external metrics are used to measure customer satisfaction. Customers' willingness to recommend SEB is one of the key measures of the bank's progress.

### Customers' willingness to recommend SEB




1) According to Prospera
2) According to SEB's Net Promoter Score method

**Target**
Leading position in selected customer segments and meeting or exceeding the internal customer satisfaction targets.

**Prospera – overall performance**
In Prospera's overall performance evaluation, SEB was ranked as no. 2 by Nordic large corporations, down one notch from 2017. Swedish large corporations ranked SEB as no.1. Both Nordic and Swedish financial institutions ranked SEB as no. 1.

**Swedish Quality Index**
In the Swedish Quality Index measurement of customer satisfaction banks' scores improved for the first time in several years. SEB's private customers were somewhat more satisfied while companies' satisfaction was unchanged.

**Action**
The new business plan focuses on improving the customer offer in many ways and thereby customer satisfaction.

## Shareholders

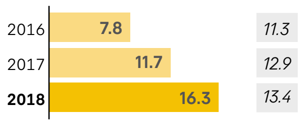
**Financial targets**
Through the resilience and flexibility that come from a strong capital base, good access to funding, high credit ratings and cost efficiency, SEB can create shareholder value in varying market conditions. The Board of Directors sets three financial targets that contribute to financial strength.

### Common Equity Tier 1 capital ratio, per cent


1) Calculation changed in 2018. Without the change the outcome would have been 20.1 per cent See p. 47.

**Target**
SEB shall maintain a Common Equity Tier 1 (CET1) capital ratio that is around 1.5 percentage points above the regulatory requirement. Per 31 December 2018 SEB's buffer was 2.7 percentage points. SEB's estimate of the current CET1 requirement from the Swedish Financial Supervisory Authority was 14.9 per cent at year-end 2018.

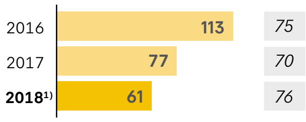
### Return on equity, per cent




Outcome excluding items affecting comparability in grey box.

**Target**
SEB shall generate a competitive return on equity. This means that the bank in the long term aspires to achieve a 15 per cent return on equity.

### Dividend payout ratio, per cent




Outcome excluding items affecting comparability in grey box.

1) Based on the proposed dividend of SEK 6.50 for 2018 which consists of SEK 6.00 as ordinary dividend and SEK 0.50 as extraordinary dividend.

**Target**
40 per cent or more of earnings per share. SEB strives for long-term growth in dividend per share. The size of the dividend takes into account SEB's financial position, the prevailing economic situation, earnings, regulatory requirements and opportunities for growth.

## Employees

### Motivation and engagement

The annual employee survey, Insight, measures employee engagement, efficiency and trust. It also measures employees' willingness to recommend SEB as a place to work.

**Employee engagement,** Index
Engagement

| | Outcome | Financial sector average |
|---|---|---|
| 2016 | 77 | *73* |
| 2017 | 77 | *73* |
| **2018** | **79** | *74* |

**Performance excellence,** Index
Efficiency and trust

| | Outcome | Financial sector average |
|---|---|---|
| 2016 | 81 | *76* |
| 2017 | 81 | *77* |
| **2018** | **82** | *78* |

**Employees,** Index
Willingness to recommend SEB as a place to work

| | Outcome | Financial sector average |
|---|---|---|
| 2016 | 78 | *74* |
| 2017 | 78 | *73* |
| **2018** | **82** | *75* |

**Target**
SEB's target is to be the most attractive employer in the financial sector. Progress is measured through the employee survey Insight.

**Comment**
SEB continues to outperform the financial sector on employee engagement, performance excellence as well as willingness to recommend SEB as a place to work. The outcome in performance excellence was an all-time high.

**Action**
The bank is addressing the findings of Insight in many ways. The employees' need for better access to IT and technology is part of the business plan. Inclusion and diversity issues are addressed by, among other things, the appointment of an inclusion & diversity manager and the Board has in its policy set the framework for the continued work.

## Society

### Reputation

SEB monitors the results of Kantar Sifo's Corporate Reputation Index, which measures the bank's reputation among consumers and business owners.

### Sustainability

As a bank, SEB has relatively low direct environmental impact. However, the ambition is to lower the internal $CO_2$ impact.

**Corporate reputation[1],** Index
Sweden

| | Outcome | Average[2] |
|---|---|---|
| 2016 | 45 | *40* |
| 2017 | 42 | *38* |
| **2018** | **43** | *33* |

1) Corporate reputation among the general public, according to Kantar Sifo's Corporate Reputation Index.

2) SEB, SHB, Swedbank, Nordea, Danske Bank.

**Target**
Reduce the gap to the no. 1 in the industry and in the long term have the strongest reputation among industry peers.

**Comment**
The long-term trend in Sweden is stable. SEB kept its no. 2 ranking, with a score that was above market average.

**Action**
SEB will continue to take an active part in society, promoting entrepreneurship and contributing to a sustainable economy.

**Sustainable financing, SEK bn**
Green loan portfolio

| | Outcome |
|---|---|
| 2016 | 11.8 |
| 2017 | 13.2 |
| **2018** | **16.0** |

**Sustainable investments**
Share of assets under management being managed according to sustainability criteria.

Gradually increase the share of assets under management being managed according to sustainability criteria.

**Comment**
SEB aims to gradually transform credit and investment portfolios towards a sustainable profile.

**Action**
Sustainability has been defined as a strategic initiative in the business plan. Roles, responsibilities and targets will be developed to meet SEB's commitments and stakeholders' expectations.

**$CO_2$ emissions**
Tonnes

| | Outcome | Target for 2020 |
|---|---|---|
| 2016 | 24,054 | *18,500* |
| 2017 | 23,797 | *18,500* |
| **2018** | **23,198** | *18,500* |

**Target**
Reduce $CO_2$ emissions by 20 per cent between 2016 and 2020, reaching 18,500 tonnes $CO_2$. The measurement method and therefore the target changed in 2018. *See p. 73.*

**Comment**
The decrease in $CO_2$ emissions is mainly due to a smaller office space. *See p. 73 for more information.*

# Long-term value creation

**Customer centricity, long-term perspectives and financial strength** form the foundation for meeting the expectations of customers, employees and society at large. Ultimately, this creates value for the shareholders.

## Meeting stakeholders' expectations

### Customers

**1.7 million corporate and private home bank customers**
The customers' needs are at the core of the bank's business. Customers' high expectations on both personal and digital service, on quality advice and on sustainable solutions drive the bank's business development and offerings.

### Shareholders

**261,000 shareholders**
The capital provided by SEB's shareholders is a prerequisite for conducting the bank's business. The shareholders expect a competitive and sustainable return on their capital. Many of the major owners have a long-term perspective on their engagement in the bank.

### Employees

**15,000 employees**
SEB's employees build and deepen customer relationships. Their commitment, skills and continuous learning are key success factors for the bank's business and future development.

### Society

**Society at large**
Banks play an integral role in society and are vital for creating economic growth and social value. With this comes an expectation that the bank takes great responsibility for how it acts, to enable society to continue to develop in a sustainable way.

## via SEB's business model


### Strategy

**Long-term strategy**
SEB's strategy is built on developing deep customer relationships with a long-term perspective. *See p. 9.*

### Service

**Customer-oriented offering**
Proactive quality advice and a holistic, digital and personal, offering are provided at the customers' convenience, based on customer insight.
*See p. 18–23.*

### Business development

**Agile and proactive process**
Products and services are developed proactively and with agility, based on customer preferences and market outlook. *See p. 9 and 27.*

### IT and data

**Secure and functional IT**
The IT structure promotes stability in the daily operations, manages large amount of data and promotes agile development of products and services.
*See p. 38.*

## Value creation based on trust

Banks play a fundamental role in society by acting as an intermediary providing, and advising on, a wide range of financing and savings solutions, risk management and payment services. SEB's operations impact – and is impacted by – customers, shareholders, employees and society. Their trust is a prerequisite for SEB's license to operate. This is why the bank adapts to a changing environment, acts in accordance with expectations and regulations, and provides services that are proactive, insightful, transparent and accessible on customers' terms.

In addition, high ethical standards are being upheld internally in order to maintain stakeholders' trust. SEB's code of conduct and internal rules are in place supported by a culture based on openness, business acumen and SEB's core values.
*Read more about the Code of Conduct on p. 28 and on sebgroup.com*


creates sustainable value

### For customers

By providing proactive advice and a wide range of convenient services, SEB supports its customers' long-term aspirations and adds value in all phases of life of individuals and development stages of companies and institutions. *See p. 18–23.*

### For shareholders

Dividends and potential increase in market value over time contribute to shareholders' financial security and enable new investments. SEB's competitiveness is increased and long-term risks are reduced through the integration of environmental, social and governance aspects in business operations. *See p. 29.*

### For employees

The employees take part in, and value, the opportunities for learning and further development that are integrated in SEB's business. Employees also participate in the many partnerships that SEB supports to help communities develop and prosper. *See p. 26.*

### For society at large

SEB intermediates financial solutions, provides payment services and manages risks, which together promote economic growth and prosperity. SEB pays taxes and fees according to local rules where it operates. SEB takes responsibility as a provider of financing and as an asset manager and works proactively with environmental, social and governance issues. *See p. 24.*

Distribution of financial value
**SEK 63bn** for 2018

Interest paid to customers
**SEK 18bn**

Dividends paid to shareholders
**SEK 14bn**

Salaries, pensions and benefits to employees
**SEK 11bn**

Payments to suppliers
**SEK 10bn**

Taxes and social charges
**SEK 7bn**

Regulatory fees
**SEK 3bn**

## Resilience
### Financial strength

Financial strength gives the resilience and flexibility required to serve customers in good times and bad. *See p. 44.*

## Governance
### Solid corporate governance

Corporate governance is based on clear allocation of responsibility, a well developed structure for internal control and owner involvement. *See p. 52.*

## Risk
### Sound risk culture

To meet customers' needs SEB assumes and manages risks. SEB knows its customers well and risks are mitigated by prudence, risk awareness and expertise throughout the organisation. *See p. 44.*

# Customers

**Customers demand** both smart digital solutions and personal meetings. They want a partner who is proactive, who provides a long-term perspective, and can offer objective advice in order for them to reach their ambitions.

# Customer activity 2018

Owing to the improved business climate, large corporations in all segments increased their level of activity during the year. Companies began increasing their investments in capacity and new technology. This resulted in an increase in credit demand after several years at an unchanged level. The positive business climate also led to demand for a wide range of services such as advice, trade finance and custody management.

Financial institutions were more active in 2018 in pace with growing market volatility. Implementation of MiFID II gave rise to a larger volume of transactions on electronic platforms at the same time as greater transparency led to greater competition and stronger pressure on margins in the market.

For small and medium-sized companies, the year was characterised by a high level of activity, and credit demand increased both in Sweden and the Baltic countries. In Sweden SEB continued to advance its position as a corporate bank.

Household economies remained strong in the wake of the strong economy and low interest rates. Customer activity was high, and the use of digital services was rising both in Sweden and the Baltic countries. In Sweden, 33,800 private individuals became customers in an entirely digital manner during the year, and nearly a third of all applications for mortgage commitments were submitted digitally. In the Baltic countries a new version of the mobile app was launched, and the number of users increased by more than 50 per cent. Customers appreciate the possibility of obtaining advice via web-based video meetings, and more than a third of sales were made via digital channels.

# Customer segments

## Large corporations

SEB has an enduring and uniquely strong relationship with large corporations in Sweden and the other Nordic countries, where the bank has supported them in their business and their international expansion, and has stayed with them as a partner through both good times and bad. Today SEB serves some 2,300 large corporations across a broad spectrum of industries. Most conduct extensive international operations and many of them are global market leaders. In the Nordic countries these companies are among the largest in their respective industries, while in Germany and the United Kingdom customers range from the mid-corp segment up to multinational corporations.

*Read more on page 20*

## Small and medium-sized companies

SEB has an established position as the bank for entrepreneurs and small business owners, and currently serves some 400,000 small and medium-sized companies in all. Of these, 166,000 are home bank customers in Sweden and 101,000 in the Baltic countries. The segment includes approximately 650 mid-corp, many with international operations, and public sector customers in Sweden such as government agencies, state-owned companies and municipalities.

*Read more on page 22*

## Financial institutions

SEB serves some 700 financial institutions, comprising a broad spectrum of pension and asset managers, hedge funds, insurance companies, state-owned investment funds and other banks. Customers range from Nordic actors to global institutions seeking Nordic exposures.

*Read more on page 21*

## Private individuals

SEB is one of the major banks in Sweden, Estonia, Latvia and Lithuania. In Sweden SEB has a solid reputation and is one of the market leaders in private banking. In collaboration with its corporate customer business in the Nordic countries, Germany and the United Kingdom, SEB has established private banking operations in these countries.

In total SEB has approximately 4 million private customers in Sweden and the Baltic countries. Of these 489,000 are home bank customers in Sweden and 950,000 in the Baltic countries. In private banking SEB has approximately 35,000 customers.

*Read more on page 23*

# Large corporations

Large corporations are in need of a bank with a long-term perspective that can serve as a partner and support them on their journey of growth. They expect smooth system solutions and proactive, value-creating advice.

### Meet one of our customers

## Kion Group

**Dirk Baltzer**
*Senior Director Corporate Treasury*

Our needs and preferences are at the top of SEB's list of priorities."

Kion is Europe's largest manufacturer of industrial trucks and forklifts and a leading provider of logistics solutions for factories, warehouses and distribution centres.

With operations on six continents, Kion has a need for several banks, but SEB is the group's core bank providing financing solutions, cash management in the Nordic countries, and various types of derivative services coupled to currency management.

"What's most important in a banking relationship is that the bank has a long-term commitment, not least when it comes to financing. You must be able to trust that the bank will be there for you over the years. I feel we are important for the bank and that our needs and preferences are at the top of their priorities list. It's reassuring", says Dirk Baltzer.

*Read more on sebgroup.com*

### Easy-to-use integrated services

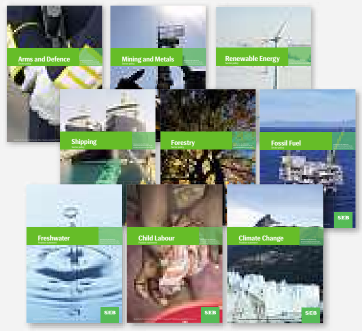
SEB has for many years built integrated solutions that allow large corporates to manage and automate payments, account reporting and reconciliations directly in their business systems instead of via the bank's internet service C&I Online. This development is continuing at an accelerated pace with the emergence of Open Banking, which is creating new opportunities to gather customer data from various actors in consolidated services.

One example of product development in this area is Advanced Analytics, a service that is imbedded in C&I Online. It is an easy-to-use and flexible service with functions for trend analysis, simulations, searches and data mining, where customers can, for example, combine data from accounts they have with SEB with data from accounts they have with other banks.

### Advice on digital business

During 2018 SEB established a corporate finance function specialising in advice on digital business models and strategies. By building up cutting-edge competence on new high-tech companies with business models based on digital technology, SEB can increase the relevance of its strategic dialogues with large corporations.

### SEB's position statements and sector policies




*See sebgroup.com/about-seb/sustainability*

### Green financing

The sustainability perspective– manifested in sector policies and position statements, among other things – has long been an integral part of SEB's credit process and continuing dialogue with corporate customers.

SEB has been one of the key players behind the emergence of the market for green bonds, an investment form that combines favourable returns with documented environmental benefits. The market for green financing solutions is growing, and in 2018 SEB participated as adviser and arranger when the property company Vasakronan was first in the world to issue a green certificate for financing of defined green assets.

In 2017 SEB issued its own green bond of SEK 4.9bn, which has been used to provide green loans to customers for environmental investments such as in renewable energy, sustainable forestry, green buildings and clean transports in Sweden, Norway and Finland.

### Corporate transactions

Large corporates appreciate SEB's specialised business and advisory services in connection with mergers and acquisition and other corporate finance activities. In 2018 the bank facilitated 19 mergers and acquisitions and 24 equity capital market transactions in the Nordic countries. For example, SEB was contracted as sole financial adviser when the Norwegian furniture group Ekornes was acquired by the furniture maker Qumei. SEB was also financial adviser in Atlas Copco's spin-off of Epiroc.

# Financial institutions

Financial institutions have a need for accessibility, delivery, customised advice, sustainable investment alternatives and effective financial infrastructure.

## Growth for Investor World

During the year SEB successfully rolled out its Investor World concept on the market. It consists of, among other things, a global custody services platform that has been created in partnership with the US-based financial services firm Brown Brothers Harriman. Customers are offered SEB's services from a new technical platform, giving them greater opportunities both from service and technology perspectives. In 2018 more than 30 customers chose to switch to this platform, of which the ten largest customers in global custody services.

Within the Investor World framework SEB offers a range of services that support the investment process regardless of asset class. Customers gain access to clearing for derivatives, collateral management, risk and appraisal services, and administrative back office services. Together with a comprehensive offering in currency trading, cash management and corporate transactions, financial institutions can thereby focus on their core businesses of creating value for their customers.

Through Investor World SEB has advanced its positions among all institutional customers in the Nordic countries.

## Sustainable investments

Financial institutions are showing a distinctly keener interest in sustainability, as evidenced by higher demand for sustainable investment alternatives and advice surrounding sustainability-related issues. SEB has a well-established position in this area and was one of the first banks in the world to include sustainability aspects in its asset management.

Interest is also growing for other types of investments that can help solve global society challenges and social problems. Financial institutions have shown great interest in SEB's microfinance funds, which funnel capital to small business owners in developing countries, who do not have access to the traditional banking system. Since 2013 SEB has launched six microfinance funds with combined capital of close to SEK 7bn that works for the benefit of more than 23 million small business owners in developing countries.

**Meet one of our customers**

### Alecta

**Magnus Billing,** *CEO*

Confident and happy customers are created through a long-term approach and high efficiency. We are very pleased with SEB and greatly value our relation."

Alecta is a mutual occupational pension company providing services for many officials and companies in Sweden.

The focus is on creating long-term sustainable pensions through good returns and efficient management. Sustainability is an integral part of the business, due to customer demand and as an important part of risk management.

Alecta has a long-term banking relationship with SEB, where it primarily uses capital market services and cash management. Since 1948, the company has also been an owner of SEB.

*Read more on sebgroup.com*

# Small and medium-sized companies

Small and medium-sized companies are looking for proactivity and engagement, and they want convenient digital solutions that are accessible in the channels of their choosing.

## Meet one of our customers

## BioGaia AB

**Isabelle Ducellier,** *CEO*
**Margareta Hagman,** *CFO*

“We feel that SEB is at the forefront when it comes to sustainability, which is important for us since we work with sustainability across our entire value chain.”

BioGaia is a research-based healthcare company that develops probiotic dietary supplements, that is, products that contain living micro-organisms with clinically proven health benefits. BioGaia has 130 employees, holds 440 patents, and sells its products in 100 markets.

BioGaia has relied on SEB as its home bank since 2016 to manage payment flows, for currency hedging and for analysis services.

“Banks’ services are virtually identical, so personal relationships are important. We think SEB are professional, they offer a high level of service and they offer interesting seminars and talks”, says Margareta Hagman.

*Read more on sebgroup.com*

## Support to growth companies

In Sweden SEB continued developing its Greenhouse concept, which provides a holistic solution for supporting growth companies. This is done by providing support and advice both from the bank’s own experts and from selected business partners. The concept consists of everything from wide-ranging seminars to customised programmes. Through Greenhouse and the bank’s collaboration with organisations in all steps of the entrepreneur staircase (*see p. 25*), SEB continues to strengthen its position as the bank of choice for entrepreneurs.

## Comprehensive cover

SEB is one of the few actors that offers a combination of traditional banking services and comprehensive insurance cover for small business owners. This includes services for their employees’ needs for financial security and pension solutions as well as for a prompt return to work following an illness. SEB also helps small business owners to plan for their pensions and offers health insurance plans that can give small business owners the same level of protection as employees of larger organisations.

## Digital services

Companies are in search of a greater offering of proactive and digital services and automated solutions. During the year SEB made it possible to digitally sign for around a dozen products via the corporate internet bank. During the year, a pilot for a digital new-customer process was initiated, which enables a simple onboarding process and enhances customer experience, while ensuring that the bank is in compliance with know-your-customer and anti-money laundering regulations.

## Open Banking creating new services

The trend towards Open Banking entails that over time banking services will be accessible and possible to integrate with other actors’ systems and channels – regardless of whether they are banks or entirely different kinds of companies. In the same way, banks will be able to integrate others’ services in their channels. This trend is noticeable in many ways. For example, during the year SEB’s developer portal was made accessible for external users. The portal features Application Programming Interfaces (APIs), which are standardised communication protocols that are coupled to payment and account information from SEB.

SEB is also working actively on building integration with vendors of business systems as well as bookkeeping and payroll services firms. These types of solutions make it possible for companies to use automation to make payments, reconcile accounts and conduct bookkeeping at one and the same location, either in their own business systems or through their bookkeeping and payroll services firms. SEB has since previously established integration with Visma Autoplay, and in 2018 the bank entered into partnerships with Capcito and PE Accounting.

# Private individuals

Private individuals want digital solutions that make everyday life easier. They want to be acknowledged and understood, and they expect custom-tailored, personalised advice in digital channels as well as in face-to-face meetings.

## Personal and digital advice

In 2018 SEB launched a digital advice tool that gives customers the opportunity to obtain a diagnosis of their personal economies. In contrast with most competitors, SEB uses a function that draws on the customer's total financial situation and not only an investment perspective.

The diagnosis is based on a number of questions that the customer answers along with automatically retrieved information about the customer's assets and liabilities with SEB. On the basis of this information, advice is provided according to a priority of factors. For some customers the advice is to start risk-based saving, while others are advised to first consider their debt or build up a savings buffer to be able to manage unforeseen events. The advice provided digitally is saved in the bank's customer system, so that advisers can continue the dialogue at a physical meeting based on this.

## Green investments

Among private individuals there is also clearly a growing interest in sustainability, as evidenced by strong growth in the bank's sustainability funds, among other things. In 2018 SEB was the first bank in Sweden to launch green mortgages, which offer a lower interest rate for people who live in climate-smart houses. These include homes that meet the Swedish National Board of Housing, Building and Planning's energy classification criteria, homes with the Nordic Swan ecolabel, Sweden Green Building Council certification, and passive house certification.

## Home mortgage market development

Several factors contributed to a weakening in the Swedish housing market during the year. New regulations, such as new amortisation requirements, made it difficult for customers to borrow more than four and a half times their annual incomes. Expectations for higher interest rates from Riksbanken have prompted customers to lock in a larger share of their mortgages at fixed rates. Competition from new actors with niche offerings increased somewhat.


## Managing crucial steps in life

Aside from digital tools, customers also value the ability to meet competent and engaged advisers face to face. SEB continues to develop its branches as meeting places with extended office hours and generous space for meetings and events.

In 2018 the bank also launched a holistic advisory concept based on customers' important life events. Using pedagogic methods SEB offers advice and tools for managing crucial steps in life such as moving in with a partner, getting married, and having children. The bank's financial advice in these areas is an integrated part of customers' everyday lives and day-to-day situations.

**Meet one of our customers**

## Marje Michalski

*Private customer at SEB in Tallinn, Estonia*

"I really like my adviser. She is pleasant and helpful, and always tries to find the best solution for me."

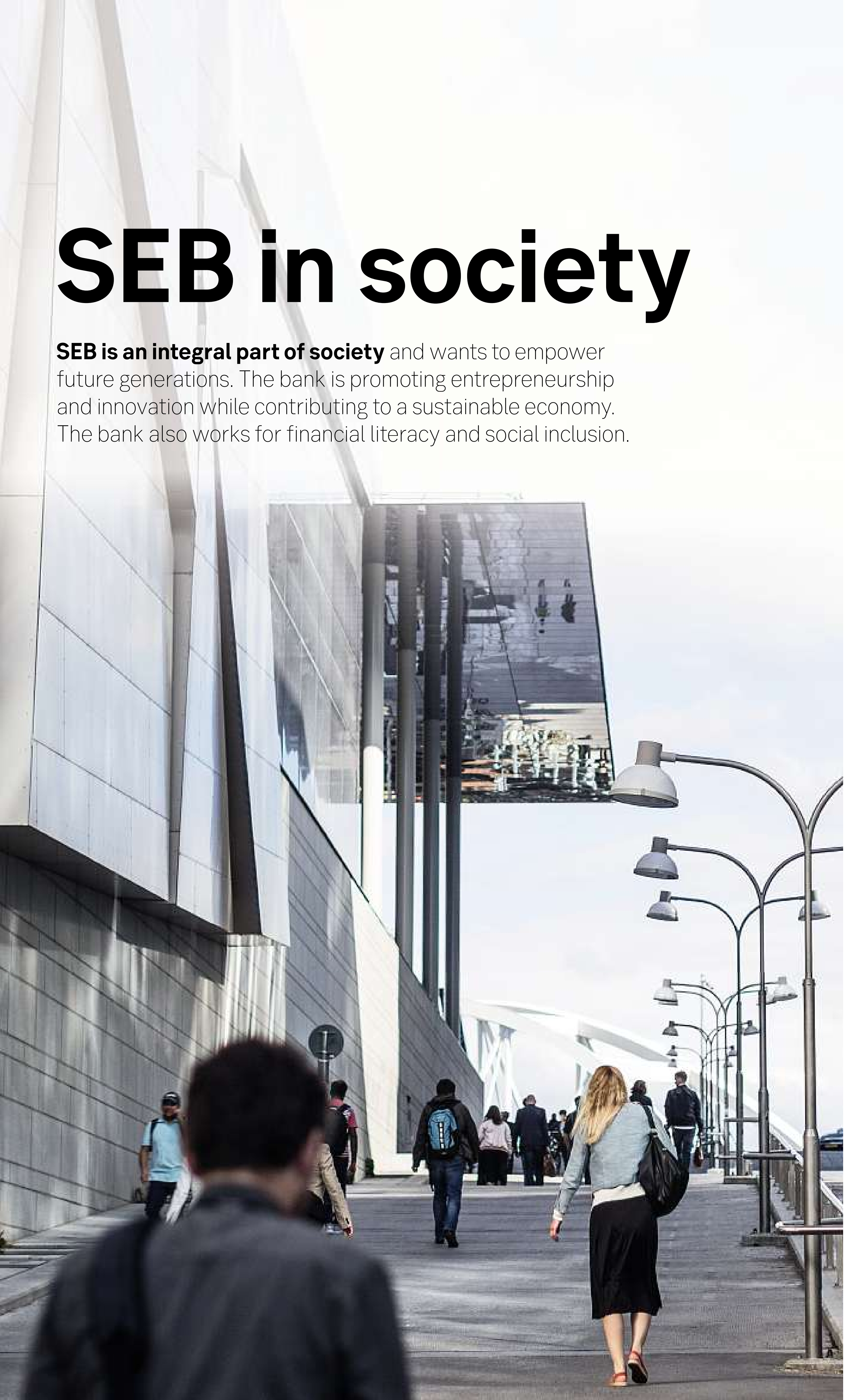
Marje Michalski works as a financial manager at a dental clinic in Tallinn. She has been an SEB customer since 2000. Marje uses the internet bank to manage her daily finances, and she has her home mortgage, debit card, mutual funds and pension savings with SEB.

"I like the possibility to round off card purchases upward and have the difference going into my Digital Coin Jar[1)]. It's a convenient way of saving without having to think about it."

1) A form of savings account offered to SEB's Baltic customers.

# SEB in society

**SEB is an integral part of society** and wants to empower future generations. The bank is promoting entrepreneurship and innovation while contributing to a sustainable economy. The bank also works for financial literacy and social inclusion.



Banks play a key role in society's infrastructure and are instrumental in contributing to economic growth and social values. SEB assists households, entrepreneurs and businesses with financing, investments, payments and savings, thereby promoting economic development, growth, new jobs and international trade, and contributing to financial security.

Since its start SEB has been driven by an aspiration to connect ideas, people and capital. As an example, the bank has long partnered with a number of entrepreneurship organisations that support business owners at various levels – from new small businesses via Junior Achievement (Ung Företagsamhet) and Venture Cup, to the entrepreneurial elites recognised in the Entrepreneur of the Year awards.

In 2018 the bank began a collaboration with Base10, a start-up hub where tech companies can meet with aspiring entrepreneurs. During the year SEB also ran an Entrepreneur Camp, a summer initiative where teens could attend presentations on company law and private finance, and get advice and inspiration from business angels, mental coaches and rhetoric experts. In the Baltic countries SEB runs eAcadeemia, a web-based platform for newly started companies and entrepreneurs. It offers practical tips, tools for implementing ideas, and recommendations from established small business owners for achieving success. The platform had 115,000 page visits during the year.

## Mentor

Since 1997 SEB has partnered with Mentor, an organisation dedicated to building relationships and trust between young people and adults. Through Mentor, SEB's employees can support young teens and contribute to society while at the same time working on their own personal development and leadership skills. During 2018 a total of 6,944 youths met with 159 SEB employees in the Mentor programme.

## Supporting social entrepreneurs

Social entrepreneurs play an ever more important role in societies where social and economic gaps as well as inequality are growing. SEB collaborates with Inkludera, an umbrella organisation for social entrepreneurs that provides support to groups in society who are at risk of exclusion.


Based on her experiences as a social worker, Moa Gürbüzer created the best-selling non-alcoholic sparkling wine in Sweden. She was named Settler of the year 2016 and the female rising star in western Sweden, in the competition Entrepreneur of the year 2018.

## Expand financial literacy

SEB strives to support young people in society to make informed financial decisions. The bank sponsors Ungdomar.se, one of Sweden's largest digital meeting places for young people aged 13 to 25. The We Change tour is an initiative that inspires and includes young people in societal development and helps them find solutions that contribute to achievement of the UN's Sustainable Development Goals.

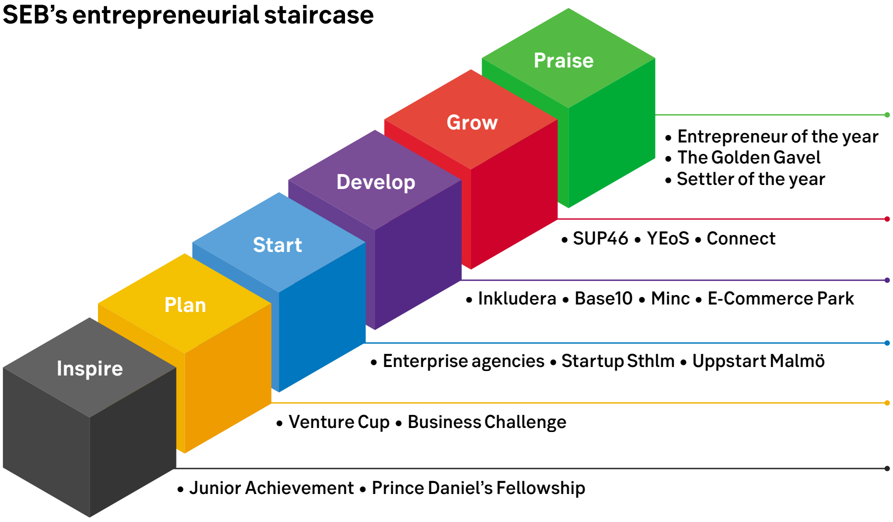
In 2018 SEB participated in several locations in Sweden, among other things by helping to build up young people's financial literacy and demonstrating tools for reducing inequality in Sweden and the world.

In the Baltic countries SEB has for many years arranged a Financial Literacy Roadshow, where SEB employees have visited schools with the aim of increasing young people's financial literacy. During the last three years more than 20,000 youths have gained better knowledge about salaries and taxes, budgeting and long-term savings while gaining inspiration for the future. In 2018 some 400 employees have run the training for 6,500 youths.

## Sustainable communities

The UN's global goals ensure ever-greater focus on sustainable development. Climate change is one of today's most important challenges. SEB recognises the importance of working actively to reduce environmental impact and carbon footprint. SEB has an indirect impact through its lending and asset management activities, and in these areas SEB is developing products and ways of working to address these challenges. The bank is working to mitigate its direct impacts primarily by further reducing emissions related to business travel as well as reducing its own energy and paper consumption. ▶▶*Read more in the Sustainability Report, p. 67.*

**SEB's entrepreneurial staircase**



# SEB's employees

**To work at SEB** is to be a positive force in society by virtue of helping customers achieve their goals. As an employer SEB will always support people with aspirations, and the bank firmly believes that diversity and inclusion are decisive for success.

Employee event at the Arenastaden office for presentation of the new three-year Business Plan 2019–2021.

The annual employee survey, Insight, shows that the bank's employees are engaged and motivated. Insight also shows that employees understand and are inspired by the bank's vision, and that they feel involved in decisions that affect them. The KPIs for employee engagement and performance excellence were at historically high levels and are high compared with the bank's peers in the international financial sector.

### Working methods for business development

The methods for driving business development are based to a growing extent on cross-functional teams, transparency and time-efficient processes. The customer journey – a methodical analysis of the customer's needs and experiences with the bank – forms the basis for this development. To engage more and more employees to embrace new methods in their work, SEB offers internal training and inspirational initiatives like The Buzz, where more than 1,000 employees were invited to spend a full day learning more about and testing different ways of working in the area of agile methods.

### Transformative and inclusive leadership

SEB's management philosophy is designed to prepare managers to lead in a complex and rapidly changing world. An important role for leaders involves building well-functioning teams, which requires the capability to listen in an empathetic way. Focus is on driving change, promoting innovation and ensuring that the corporate culture reflects the bank's values, vision and purpose.

To better understand each other and to meet customers' needs, SEB fosters diversity and an inclusive culture at all levels of the bank. During the year a new manager role was created with responsibility for driving these issues.

SEB undertakes to:

- Foster an inclusive, value-driven culture in which employees feel valued, respected and involved irrespective of who they are, what they believe in, and where they come from
- Enable learning about inclusion and diversity, including addressing unconscious bias and fostering inclusive leadership
- Increase diversity in teams
- Actively appoint more women to key leadership roles
- Recruit, develop and promote employees with an international background
- Ensure that SEB's teams and management groups are balanced with respect to gender, age, competences and geographical backgrounds.

## Meet Andra and Viktor

**Age:** 43
**Role:** Head of Strategy and Customer Insight, SEB Baltic Division
**Works for SEB since:** 2007

### Andra Altoa

**Why SEB:**
SEB is a model of innovative thinking. Our commitment to innovation is not only appreciated by customers and employees, it is also a source of inspiration for other companies and sectors. My personal interest in ground-breaking innovation makes SEB a great place to work.

**The best thing about my job:**
My personal development is in constant motion. There is never a quiet moment, and I'm constantly faced with a challenge in which my own initiatives are appreciated.

**My source of inspiration:**
There are many talented people at SEB who I'm inspired by. And then my internal curiosity is a source of inspiration that gives me courage to challenge and to change.

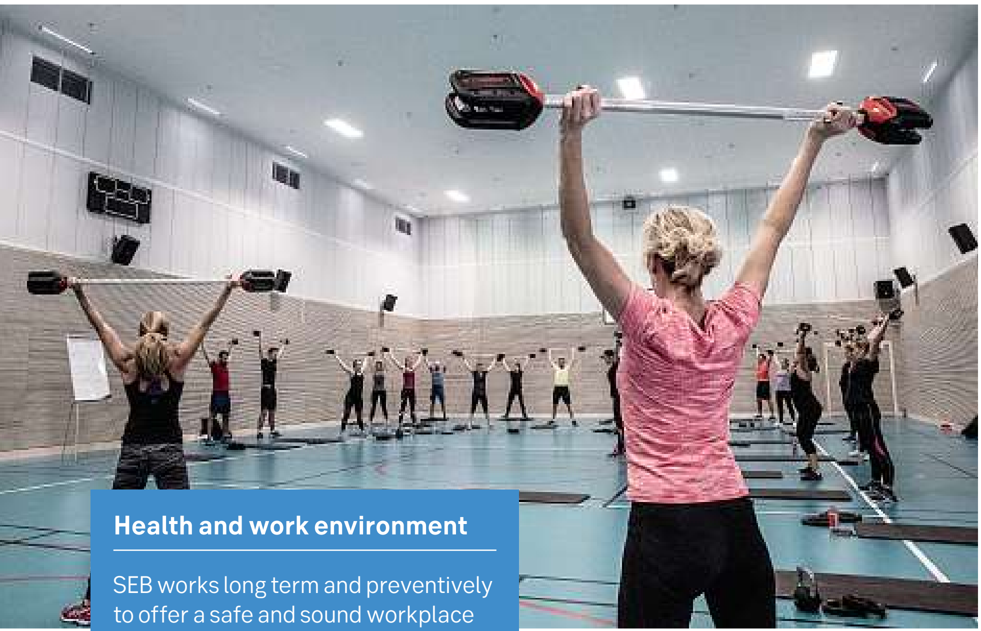
**Age:** 26
**Role:** Co-worker at the Experience Center in Stockholm
**Works for SEB since:** 2015

### Viktor Sjöberg

**Why SEB:**
SEB offers an opportunity to go on a transformation journey in a large organisation and in an industry in which a lot is happening right now. On top of this I'm a strong believer in SEB's sustainability work and entrepreneurial spirit.

**The best thing about my job:**
Working together with customers to create the bank and meeting place of the future. Customers come to the Experience Center not only for assistance, but also to be inspired.

**My source of inspiration:**
The feedback we receive from customers, event attendees, entrepreneurs and colleagues, who confirm that we are on the right path toward the future.



## Health and work environment

SEB works long term and preventively to offer a safe and sound workplace in an effort to ensure employee well-being and a healthy work/life balance.

In Sweden, SEB's level of sick leave remains low, at 2.9 per cent, compared with other industries as well as the financial sector. In the employee survey, Insight, SEB's index for health and work environment was nearly 10 percentage points higher than the industry average.

At the bank's new offices in Arenastaden, the existing fitness center was expanded during the year with a gym and spinning room, and in the employee canteens a wide range of healthy dishes are always offered. It should be easy to live a healthy life at SEB.

### Employee statistics

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Employees, average full-time equivalents | 14,751 | 14,946 | 15,279 |
| Employees, average | 15,683 | 15,946 | 16,260 |
| *Sweden* | *7,972* | *8,053* | *8,222* |
| *Other Nordic countries* | *1,121* | *1,304* | *1,369* |
| *Baltic countries* | *5,348* | *5,213* | *5,125* |
| *Other countries* | *1,243* | *1,376* | *1,544* |
| Employees at year-end | 15,562 | 15,804 | 16,087 |
| Employee turnover, % | 12.9 | 12.8 | 10.7 |
| Sick leave, % (in Sweden) | 2.9 | 2.9 | 3.0 |
| Female managers, % | 45 | 47 | 46 |
| Insight | | | |
| Employee engagement | 79 | 77 | 77 |
| Performance excellence | 82 | 81 | 81 |

## Learning for the future

The pace of change in society is constantly accelerating. This applies also for the type of competences that are needed for the bank to continue to be successful. Toward this end, every year SEB conducts strategic planning of future needs in which every business unit identifies future key competences, identifies development needs for existing roles, and conducts succession planning. The results are then used to design internal training and for recruitment.

SEB's philosophy is that competence development is achieved above all through continuous learning in the daily work and through collaboration with others. This is complemented with training activities for a large share of employees. One such initiative is Boost your service, where the purpose is to support and give employees tools on their journey toward SEB's vision of providing world-class service. SEB's employees are also offered a course catalogue for both internal and external training. During the year the bank entered into several partnerships where, for example, instruction in service design is conducted in collaboration with the Stockholm School of Economics.

## The search for competence

SEB has a strong employer brand according to annual rankings conducted among students and young professionals. In pace with the ongoing competence shift and growing recruitment need in new competence areas, the bank is working on strengthening its attractiveness among talents who are targeted by IT companies and tech start-ups. Today SEB has expanded its reach beyond participation at traditional recruitment fairs for economics students and now also uses interactivity and new formats such as arranging hackathons and knowledge-sharing seminars. In addition, SEB works actively with its talent programmes, where the IT programme for young talents has now celebrated 10 years. This concept continues to be relatively unique in the market, and to date more than 100 specialists in technology and IT have joined the bank via this channel.

To ensure that it nurtures relationships with talented individuals already employed by the bank, SEB uses its Global Talent Review programme, which involves a yearly review to identify individuals with future potential for a key role or management position. More than 10 per cent of employees are included in this talent pool and are considered for review, where among other things they get an opportunity to broaden their networks by participating in various development projects outside of their ordinary units.

## Labour law and unions

SEB's employees are covered by collective or local agreements. SEB has a European works council with representatives from all EU and EES countries in which the bank is represented.

## SEB's core values

SEB's core values serve as the foundation for the bank's ways of working and culture. In combination with the bank's vision – to deliver world-class service – they serve to motivate and inspire employees, managers and the organisation as a whole. These values are described in SEB's Code of Conduct, which provides guidance on ethical matters for all employees.

### Customers first

We put our customers' needs first, always seeking to understand how to deliver real value.

### Commitment

We are personally dedicated to the success of our customers and are accountable for our actions.

### Collaboration

We achieve more working together.

### Simplicity

We strive to simplify what is complex.

*Read the Code of Conduct on sebgroup.com*

# Shareholders and the SEB share

**The closing price of the SEB Class A share was SEK 86.10 (96.30).** The share price decreased in line with the development of the OMX Stockholm 30 Index (OMXS30) in 2018. Earnings per share amounted to SEK 10.69 (7.47). The Board proposes an ordinary dividend of SEK 6.00 and an extraordinary dividend of SEK 0.50 per share for 2018.

## Share capital

SEB's share capital amounts to SEK 21,942m distributed on 2,194.2 million shares. Each Class A share entitles the holder to one vote and each Class C share to 1/10 of a vote.

## Stock exchange trading

The SEB shares are listed on Nasdaq Stockholm, but are also traded on other exchanges.

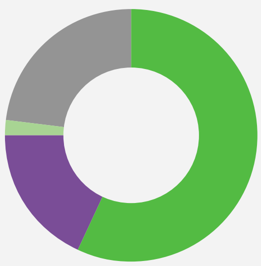
Compared to year-end 2017 the value of the SEB Class A share decreased by 11 per cent. The OMX Stockholm 30 Index (OMXS30) decreased at the same rate while the MSCI Europe Banks Index decreased by 27 per cent. Total turnover in SEB shares in 2018 was SEK 324bn (312) of which SEK 139bn (124) on Nasdaq Stockholm. Market capitalisation by year-end was SEK 189bn (211). The share is part of the Dow Jones Sustainability Index and the FTSE4Good Index, which facilitate investments in companies which are globally recognised for their corporate responsibility.

## Dividend policy

SEB strives to achieve long-term dividend growth without negatively impacting the fulfilment of the group's capital targets. The annual dividend per share shall correspond to 40 per cent or more of earnings per share. Each year's dividend is assessed in the light of prevailing economic conditions and the group's earnings, growth possibilities, regulatory requirements and capital position.

### Trading in SEB Class A-shares

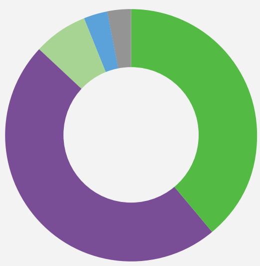
**By type of trading, per cent**



| | **2018** | 2017 |
|---|---|---|
| Traditional trading | 57 | 56 |
| Off-book | 18 | 37 |
| Anonymous trades | 2 | 5 |
| Other | 23 | 2 |

Source: Fidessa

**By stock exchange, per cent**



| | **2018** | 2017 |
|---|---|---|
| Nasdaq Stockholm | 39 | 40 |
| Chicago Board of Exchange | 48 | 36 |
| London Stock Exchange | 7 | 9 |
| Turquoise | 3 | 4 |
| Other | 3 | 11 |

## Proposed dividend for 2018

The Board of Directors proposes to the Annual General Meeting an ordinary dividend of SEK 6.00 per Class A and Class C share, which corresponds to a 56 per cent dividend payout ratio. Further, the Board of Directors proposes an extraordinary dividend of SEK 0.50 per Class A and Class C share. Thus the proposed dividend amounts to SEK 6.50 per Class A and Class C share, which corresponds to a 61 per cent dividend payout ratio. The proposed record date for the dividend is 28 March 2019. If the Annual General Meeting resolves in accordance with the proposal, the share will be traded ex-dividend on 27 March 2019 and dividend payments will be disbursed on 2 April 2019.

### Number of outstanding shares

31 December 2018

| | Share Class A | Share Class C | **Total no. of shares** |
|---|---|---|---|
| **Total number of issued shares** | **2,170,019,294** | **24,152,508** | **2,194,171,802** |
| Repurchased own shares for equity-based programmes 1) | –30,276,332 | 0 | **–30,276,332** |
| Repurchased own shares for capital purposes 2) | 0 | 0 | **0** |
| **Total number of outstanding shares** | **2,139,742,962** | **24,152,508** | **2,163,895,470** |

1) Utilisation of authorisation from the Annual General Meeting 2018 to acquire own shares for the equity-based programmes.

2) 2018 AGM decision, no repurchases made.

### Distribution of shares by size of holding

| Size of holding | No. of shares | Per cent | No. of shareholders |
|---|---|---|---|
| 1 – 500 | 31,004,695 | 1.4 | 167,766 |
| 501 – 1,000 | 30,557,642 | 1.4 | 39,987 |
| 1,001 – 5,000 | 96,755,424 | 4.4 | 43,837 |
| 5,001 – 10,000 | 41,475,196 | 1.9 | 5,798 |
| 10,001 – 20,000 | 32,069,047 | 1.5 | 2,291 |
| 20,001 – 50,000 | 33,051,214 | 1.5 | 1,060 |
| 50,001 – 100,000 | 19,980,793 | 0.9 | 278 |
| 100,001 – 500,000 | 57,159,865 | 2.6 | 256 |
| 500,001 – 1,000,000 | 45,106,063 | 2.1 | 62 |
| 1,000,001 – | 1,807,011,863 | 82.4 | 111 |
| | **2,194,171,802** | **100.0** | **261,446** |

Source: Euroclear and Holdings

## Data per share

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Basic earnings, SEK | 10.69 | 7.47 | 4.88 | 7.57 | 8.79 |
| Diluted earnings, SEK | 10.63 | 7.44 | 4.85 | 7.53 | 8.73 |
| Shareholders' equity, SEK | 68.76 | 65.18 | 65.00 | 65.11 | 61.47 |
| Net worth, SEK | 74.74 | 73.60 | 73.00 | 72.09 | 68.13 |
| Net expected credit losses [1], SEK | 0.54 | 0.37 | 0.46 | 0.40 | 0.06 |
| Dividend per A and C share, SEK | 6.50[2] | 5.75 | 5.50 | 5.25 | 4.75 |
| Year-end share price [3], SEK | | | | | |
| per Class A share | 86.10 | 96.30 | 95.55 | 89.40 | 99.55 |
| per Class C share | 86.40 | 96.05 | 95.20 | 88.85 | 97.65 |
| Highest price paid [3], SEK | | | | | |
| per Class A share | 102.70 | 109.00 | 99.75 | 111.50 | 100.60 |
| per Class C share | 103.60 | 109.90 | 101.10 | 112.50 | 99.10 |
| Lowest price paid [3], SEK | | | | | |
| per Class A share | 79.16 | 94.05 | 67.75 | 83.45 | 82.25 |
| per Class C share | 80.50 | 95.15 | 70.35 | 83.75 | 77.45 |
| Dividend as a percentage of earnings (payout ratio),% | 60.8 | 77.0 | 112.8 | 69.4 | 54.0 |
| Dividend yield, % | 7.5 | 6.0 | 5.8 | 5.9 | 4.8 |
| P/E (share price at year-end/earnings) | 8.1 | 12.9 | 19.6 | 11.8 | 11.3 |
| Number of outstanding shares, million | | | | | |
| average | 2,164.4 | 2,167.6 | 2,177.6 | 2,191.2 | 2,186.8 |
| at year-end | 2,163.9 | 2,167.0 | 2,169.0 | 2,193.3 | 2,188.7 |

1) 2018: Net ECL level based on IFRS 9 expected loss model.
2014–2017: Credit loss level based on IAS 39 incurred loss model.

2) As proposed by the Board of Directors an ordinary dividend of SEK 6.00 per share and an extraordinary dividend of SEK 0.50 per share.

3) Source: Nasdaq Stockholm.

## Changes in share capital

| Year | Transaction | SEK | Change in number of shares | Accumulated number of issued shares | Share capital SEK m |
|---|---|---|---|---|---|
| 1972 | | | | 5,430,900 | 543 |
| 1975 | Rights issue 1:5 | 125 | 1,086,180 | 6,517,080 | 652 |
| 1976 | Rights issue 1:6 | 140 | 1,086,180 | 7,603,260 | 760 |
| 1977 | Split 2:1 | | 7,603,260 | 15,206,520 | 760 |
| 1981 | Rights issue 1B:10 | 110 | 1,520,652 | 16,727,172 | 837 |
| 1982 | Bonus issue 1A:5 | | 3,345,434 | 20,072,606 | 1,004 |
| 1983 | Rights issue 1A:5 | 160 | 4,014,521 | 24,087,127 | 1,204 |
| 1984 | Split 5:1 | | 96,348,508 | 120,435,635 | 1,204 |
| 1986 | Rights issue 1A:15 [1] | 90 | 8,029,042 | 128,464,677 | 1,284 |
| 1989 | Bonus issue 9A+1C:10 | | 128,464,677 | 256,929,354 | 2,569 |
| 1990 | Directed issue [2] | 88.42 | 6,530,310 | 263,459,664 | 2,635 |
| 1993 | Rights issue 1:1 | 20 | 263,459,664 | 526,919,328 | 5,269 |
| 1994 | Conversion | | 59,001 | 526,978,329 | 5,270 |
| 1997 | Non-cash issue | 91.30 | 61,267,733 | 588,246,062 | 5,882 |
| 1999 | Rights Issue 1:5 [3] | 35 | 116,311,618 | 704,557,680 | 7,046 |
| 2005 | Reduction of the share capital | | –17,401,049 | 687,156,631 | 6,872 |
| 2009 | Rights issue 11:5 | 10 | 1,507,015,171 | 2,194,171,802 | 21,942 |

1) The recorded share capital as of 31 December 1986 was SEK 1,204m since the proceeds from the rights issue were not paid in full until early 1987.

2) The issue was directed at the member banks of Scandinavian Banking Partners.

3) Subscribed and paid shares were not registered as share capital in the balance sheet until the rights issue had been registered which took place in January 2000.

Through splits in 1977 (2:1) and 1984 (5:1). the nominal value of the shares was changed from SEK 100 to SEK 10.

## The largest shareholders

31 December 2018

| | No. of shares | *Of which Class C shares* | Share of capital % | Share of votes % 2018 | Share of votes % 2017 |
|---|---|---|---|---|---|
| Investor AB | 456,198,927 | *4,000,372* | 20.8 | 20.8 | 20.8 |
| Alecta | 153,952,500 | | 7.0 | 7.1 | 6.5 |
| Trygg Foundation | 114,673,802 | | 5.2 | 5.3 | 5.3 |
| Swedbank Robur Funds | 92,984,015 | | 4.2 | 4.3 | 4.7 |
| AMF | 88,173,815 | | 4.0 | 4.1 | 3.6 |
| BlackRock | 52,164,287 | | 2.4 | 2.4 | 2.1 |
| SEB Funds | 34,201,886 | | 1.6 | 1.6 | 1.5 |
| SEB own shareholding[1] | 30,276,332 | | 1.4 | 1.4 | 1.2 |
| Nordea Funds | 27,148,008 | | 1.2 | 1.2 | 1.2 |
| Vanguard | 26,060,775 | *71,784* | 1.2 | 1.2 | 1.2 |
| XACT Funds | 25,321,316 | | 1.2 | 1.2 | 1.1 |
| Fourth Swedish National Pension Fund | 23,447,866 | | 1.1 | 1.1 | 1.2 |
| First Swedish National Pension Fund | 21,662,731 | | 1.0 | 1.0 | 1.0 |
| Didner & Gerge Funds | 18,678,843 | | 0.9 | 0.9 | 0.9 |
| AFA Insurance | 16,730,016 | | 0.8 | 0.8 | 0.7 |

1) *See table Number of outstanding shares on p. 29*

Source: Euroclear and Holdings

Different voting power of class A shares (voting power 1) compared to C shares (voting power 0.1) gives minor differences in share of votes vs. share of capital.

## Market capitalisation

SEK m

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Year-end market capitalisation [1] | 188,925 | 211,293 | 209,645 | 194,146 | 218,384 |
| Volume of shares traded [2] | 139,134 | 123,889 | 133,790 | 142,188 | 113,566 |

1) Based on Nasdaq Stockholm share price of SEK 86.10 for Class A-shares and SEK 86.40 for Class C-shares.

2) Shares traded at Nasdaq Stockholm.

## Shareholder structure

Per cent

Percentage holdings of equity on 31 December 2018

| | |
|---|---|
| Swedish shareholders | 74 |
| *Institutions and foundations* | *63* |
| *Private individuals* | *11* |
| Foreign shareholders | 26 |

The majority of the banks 261,400 shareholders are private individuals with small holdings. The ten largest shareholders account for 49 per cent of capital and votes.

Source: Euroclear and Holdings

# Why invest in SEB?

**Over the years SEB has capitalised** on its long-standing strong position as the leading corporate bank in the Nordic region and on its financial strength. SEB stands out among Nordic banks due to its committed owner and by virtue of its unique customer base.

## Owner with a long-term perspective

SEB is one of the core investments of Investor AB, the largest industrial holding company in Northern Europe. As a long-term, engaged owner, Investor exercises its influence through the Board of Directors. The Board of Directors' prioritises a balance between risk and return and regulatory compliance enforcement. Additionally, the Board's view on operations extends across several business cycles ensuring that the bank's strategic position and profitability are maintained and that financing is secured also in more difficult times. Further, the long-term perspective represented by Investor ensures that the bank's vision and strategy are upheld at times of organisational or management change.

## Unique customer base

Around 70 per cent of SEB's corporate customers operate on a global basis. Since global growth is expected to be about twice the growth of Sweden over time, this provides an opportunity for higher growth for SEB compared to banks with more domestic exposures. The global economy is also more diversified than in Sweden, which means that over time credit risk is expected to be lower, all else equal.

In the customer segment private individuals in Sweden, SEB's market share is around 15 per cent. However, in metropolitan areas where growth and disposable income is higher, the corresponding market share is almost 25 per cent. This customer segment is in greater need of such savings and pension products that are provided by SEB.

## Return on investment

The return on an investment in SEB depends on both the share price development and the dividend. In 2018, SEB's share price dropped by 11 per cent while the dividend increased and the total shareholder return (TSR), i.e. share price development and reinvested dividends per share, was –5 per cent for 2018 (6). The average TSR for the Nordic peer group was –14 per cent (6) in 2018. Over the past five years, TSR for the SEB share has been 6 per cent on average.

SEB's Board of Directors has proposed to the Annual General Meeting that in total SEK 6.50 shall be distributed for 2018. The dividend yield, i.e. the dividend in relation to the share price at year-end 2018 was 7.5 per cent (6.0) based on the proposed dividend.

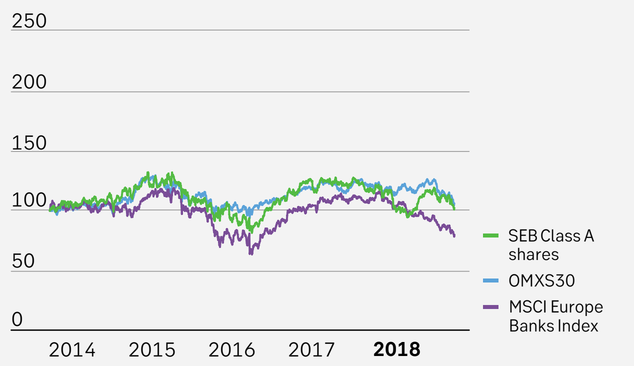
## Beta value and volatility of the SEB share

The beta value of SEB's share price in 2018 was 0.90 (0.99). This measure shows how the share price moves in relation to the stock market as a whole, in this case represented by OMXS30. A beta value of 1.00 indicates that the share price development is the same as the market.

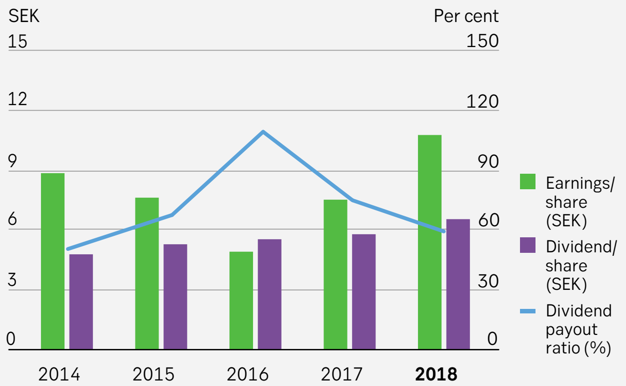
The volatility of SEB's share price was 21 per cent for 2018 (15). The corresponding value for the Nordic peer group was 22 per cent (17). The measure shows the daily change in share price compared with its average for a given time period.

**Share price development SEB Class A share**

Index 1 January 2014=100




**Earnings and dividend[1] per share**




1) An ordinary dividend of SEK 6.00 per share and an extraordinary SEK 0.50 per share is proposed for 2018.

# Financial review of the group

**The business sentiment in SEB's markets of operations was in general positive.** SEB's operating profit, before items affecting comparability, increased by 1 per cent. The bank's financial position is strong and a total dividend of SEK 6.50 per share is proposed.

## Result and profitability

*Operating profit before items affecting comparability* increased by 1 per cent and amounted to SEK 22,779m (22,655). *Items affecting comparability* amounted to SEK 4,506m (–1,896). *Operating income* (including items affecting comparability) was SEK 27,285m (20,759) and net profit was SEK 23,134m (16,197).

### Operating income

*Total operating income* increased by 1 per cent and amounted to SEK 45,868m (45,561).

*Net interest income* amounted to SEK 21,022m, which represented an increase of 6 per cent compared with 2017 (19,893), in spite of an increase in regulatory fees compared with 2017. The Swedish repo rate which was –0.5 per cent throughout the year pressured the interest margins affecting the net interest income negatively.

| SEK m | 2018 | 2017 | Change, % |
|---|---|---|---|
| Customer-driven net interest income | 23,217 | 21,794 | 7 |
| Net interest income from other activities | –2,195 | –1,901 | 15 |
| **Total** | **21,022** | **19,893** | **6** |

Customer-driven net interest income increased by SEK 1,423m compared with 2017. The net interest income increased primarily from the growth in lending volumes whereas the lending margins were stable. The negative interest rate environment continued to have a negative effect on deposit margins.

Net interest income from other activities (such as treasury and funding) was SEK 294m lower than 2017. Funding costs relating to both senior and subordinated debt were lower in 2018 than 2017. Certain supervisory fees are accounted for as net interest income. The lower financing costs were counteracted by a supervisory resolution fund fee that increased by 3.5 basis points to 12.5 basis points applied to certain business volumes. Therefore regulatory fees, including both resolution fund and deposit guarantee fees, were SEK 697m higher than 2017 and amounted to SEK 2,495m (1,798). The resolution fund fee in 2019 will be 9 basis points.

*Net fee and commission income* increased by 4 per cent to SEK 18,364m (17,677). The very high activity among corporate and institutional customers in the capital markets in 2017 was not fully matched in 2018 and net securities commissions decreased by SEK 669m to SEK 8,220m even though a pick-up was noted towards the end of the year.

Gross fee income from custody and mutual funds, excluding performance fees, increased by SEK 172m to SEK 7,855m driven by increased volumes and market values, despite the large drop

## Important events and trends in 2018

*First quarter*

- Geopolitical uncertainty and volatile equity markets dampened customer activity.
- Most of SEB's business in Germany was transferred from SEB AG to the German branch of SEB AB.
- A number of new regulatory requirements – MiFID II, AML 4, IFRS 9 and IFRS 15 – with direct impact on SEB's operations, results and reporting entered into force.

*Second quarter*

- Corporate customers benefitted from the positive macroeconomic development and the demand for both advice and funding increased.
- The SEB Pension divestment was completed at an in principle tax-exempt capital gain of SEK 3.6bn and as a consequence the assets under management decreased by SEK 116bn.
- Asiakastieto Group acquired UC AB. SEB's share of the transaction resulted in a tax-exempt capital gain of SEK 941m.
- The Baltic division completed the divestment of its investment properties and procedures to close the real estate holding companies are ongoing.

*Third quarter*

- Corporate customer activity remained high despite a seasonal slowdown.
- For the third year in a row SEB qualified for inclusion in the Dow Jones Sustainability Index as the only Nordic bank.
- SEB acted as adviser and arranger of the world's first reen certificate for financing of predefined green assets.

*Fourth quarter*

- SEB presented its updated strategy and the new business plan for 2019–2021.
- Stock market values decreased lowering the value of SEB's assets under management and custody.
- As market volatilities increased, institutional customers became more active, which benefitted Markets' operations.

in market values towards the end of the year. One purpose of the new regulations under MiFID II was to increase transparency on fees. The implementation in SEB resulted in a change in how compensation to and from fund companies is paid. The effect was a decrease in net fees by approximately SEK 146m compared with 2017. With the more challenging financial market conditions in late 2018, performance fees decreased by SEK 130m to SEK 227m.

High customer activity fuelled an increase in net fees relating to payments and cards of SEK 397m to SEK 3,851m. Gross lending fees increased by SEK 273m to SEK 2,527m as credit volumes increased. The net life insurance commissions related to the unit-linked insurance business increased by SEK 222m to SEK 1,283m.

*Net financial income* decreased by 12 per cent to SEK 6,079m (6,880). Financial institutions reviewed their positions and were increasingly interested in risk management services in the latter part of the year when market volatilities increased. Change in credit spreads affected the value of counterparty risk (CVA) and own credit risk in derivatives (DVA). The change compared to last year was SEK –329m and amounted to SEK –119m.

Other life insurance income, net, decreased by SEK 754m to SEK 984m. The main reason was the divestment of SEB Pension, SEB's life business in Denmark. ▸▸ *see Items affecting comparability below.*

*Net other income* decreased by 64 per cent to SEK 402m (1,112). Realised capital gains as well as unrealised valuation and hedge accounting effects were included in this line item. There were fewer such items this year.

## Operating expenses

*Total operating expenses* were virtually unchanged at SEK 21,940m (21,936), below the cost cap for 2018 of SEK 22bn. SEB's cost target for 2019–2021 is outlined in the new business plan. ▸▸ *See page 10.*

Staff costs were unchanged, while other expenses increased by 4 per cent, offset, however, by lower depreciation and amortisation expense. The average number of full-time equivalents decreased to 14,751 (14,946). Approximately 250 employees moved to Danica with the divestment of SEB Pension (see items affecting comparability). Ordinary fees to financial supervisory authorities amounted to SEK 153m (168). Combined with the SEK 2,495m that is accounted for as net interest income, total regulatory fees amounted to SEK 2,648m (1,966).

## Net expected credit losses

Net expected credit losses amounted to SEK 1,166m. Asset quality remained high and the net expected credit loss level was low at 6 basis points.

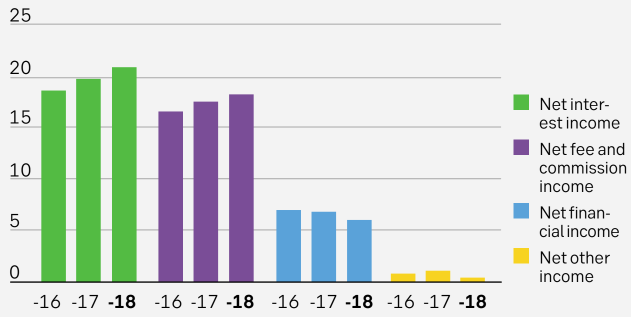
## Items affecting comparability

The items affecting comparability for 2018 amounted to SEK 4,506m (–1,896). In 2018 there were two items affecting comparability.

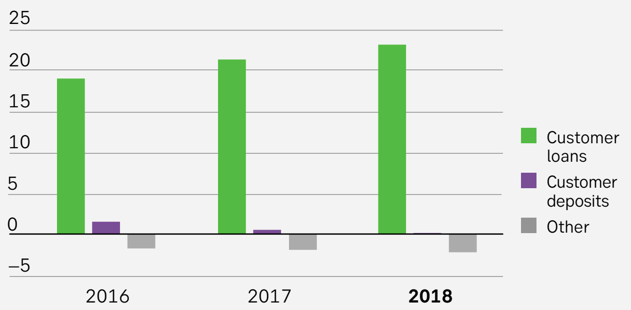
SEB divested all shares in SEB Pensionsforsikring A/S and SEB Administration A/S (SEB Pension) to Danica Pension Livsforsikringsaktieselskab (Danica), a subsidiary to Danske Bank. The capital gain from the transaction, which was in principle tax-exempt, amounted to SEK 3,565m.

The acquisition by the listed Finnish credit information company Asiakastieto Group Plc (Asiakastieto) of UC AB was finalised. SEB received shares in Asiakastieto, equivalent to 10.2 per cent of the company, and SEK 0.3bn in cash. The transaction resulted in a tax-exempt capital gain of SEK 941m. ▸▸ *See note 13.*

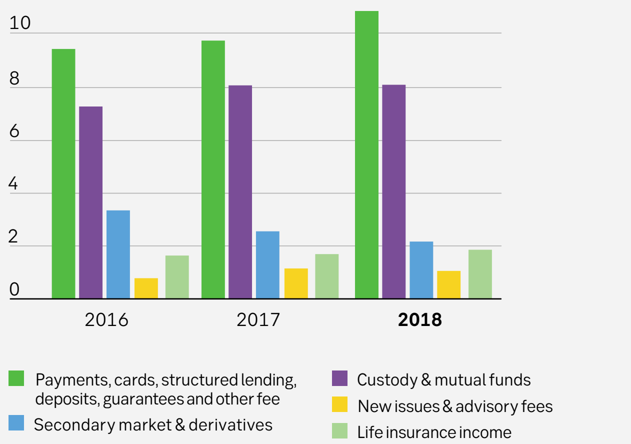
**Operating income** SEK bn



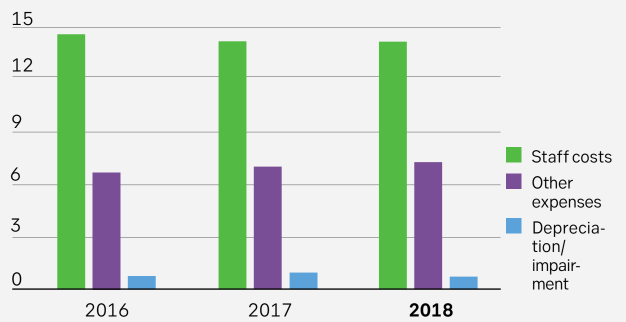

**Net interest income** SEK bn




**Fee and commission income, gross** SEK bn




**Operating expenses** SEK bn



## Income tax expense

Income tax expense amounted to SEK 4,152m (4,562) corresponding to an effective tax rate of 15 per cent (22).

Income tax expense and the effective tax rate were low for three reasons. The divestments of UC and SEB Pension were largely tax exempt since they were held for business purposes. In addition, the decision to reduce the Swedish corporate tax rate from 22 per cent to 21.4 per cent in 2019 and to 20.6 per cent in 2021 led to a revaluation of deferred taxes, which reduced income tax expense. Finally, the Administrative Court in Stockholm decided in favour of SEB in an issue related to a tax-exempt treatment of a sale of a subsidiary. The combined effect of the two latter reasons was SEK 608m, which reduced the income tax expense.

## Return on equity

Return on equity for 2018 was 16.3 per cent (11.7). Excluding items affecting comparability return on equity was 13.4 per cent (12.9).

## Other comprehensive income

Other comprehensive income consists of items that have an effect on the balance sheet, but the effect is not reported in the income statement. In total other comprehensive income amounted to SEK –923m (–1,036).

The change in value of the pension plan assets is reported as other comprehensive income. The value of the pension plan assets exceeded the defined benefit obligations. The discount rate used for the pension obligation in Sweden was 2.0 per cent (2.2 at year-end 2017). The net value of the defined benefit pension plan assets and liabilities decreased which affected other comprehensive income by SEK –846m (784).

The net effect from the valuation of balance sheet items that may later be reclassified to the income statement, i.e. cash-flow hedges and translation of foreign operations amounted to SEK –298m (–1,820).

### Financial effects from IFRS 9 and IFRS 15

As at 1 January 2018, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers entered into force. The presentation of the balance sheet was therefore changed to reflect business volumes under the new rules. The historical information was restated per 1 January 2018. IFRS 15 changed the accounting for deferred acquisition costs. The implementation affected net fee and commission income, which led to a restatement of the 2017 result, return on equity and earnings per share.

*See note 53.*

# Holistic management

Creating sustainable value is a continuous process in an environment that is under constant change. The Board of Directors sets the conditions by deciding on the bank's long-term strategic direction, financial targets, business plans and overall risk tolerance. Profitability targets are set within the framework of the risk tolerance level and the capital adequacy targets.

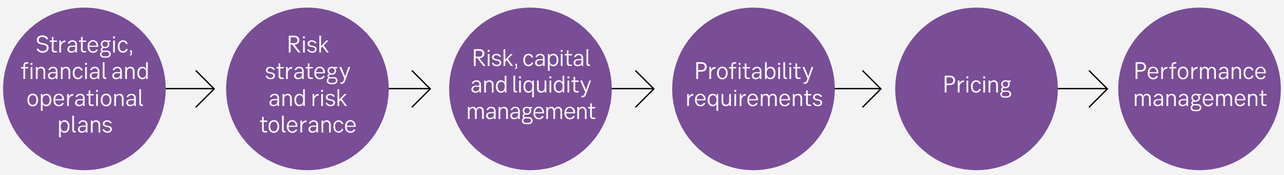
In order to maximise customer and shareholder value, the financial consequences of business decisions are evaluated and operations are managed proactively based on these aspects:

1. growth, mix and risk level of business volumes
2. capital and liquidity requirements driven by the business
3. profitability.

Pricing in accordance with risk is thereby a natural part of the business and monitoring nominal and risk-based returns is an important part of management.

The Board's overarching risk tolerance statements convey the direction and level of risk, funding structure, liquidity buffers and capital targets. SEB's main risk is credit risk. Other material risks include liquidity, market, operational (including IT and information security), business, pension and insurance risks. SEB strives to continuously identify and manage potential future risks, for instance by using stress tests and scenario analysis. The capital buffer and liquidity reserves are held to cover the risk in case of unforeseen events.

All activities are carried out responsibly based on economic, environmental and social aspects and in accordance with regulations and expectations – all in order to maintain the confidence of the stakeholders.



# Financial structure

Total assets, which at 31 December 2018 amounted to SEK 2,568bn, increased by SEK 12bn since 1 January 2018 (2,556).

## Loans

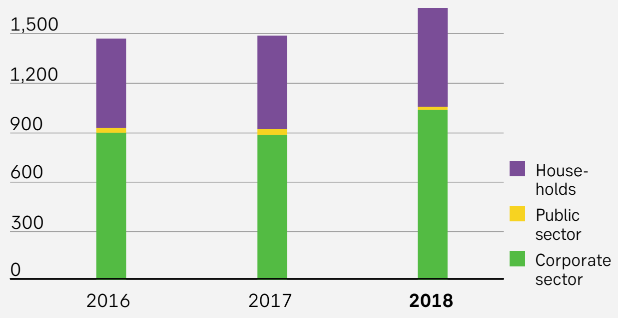
Loans to the public reported in the balance sheet amounted to SEK 1,645bn, an increase of SEK 159bn year-on-year. Loans to credit institutions increased by SEK 6bn to SEK 44bn.

The majority of the bank's credit risk arises in the credit portfolio (in which loans, commitments and derivatives are included). Excluding credits to other banks where volumes are short-term and more volatile, the credit portfolio increased by SEK 159bn to SEK 2,220bn (2,061). The main growth was in the corporate portfolio across all industries. In particular, the wholesale and retail segment was strong and growth amounted to SEK 20bn, as was the finance and insurance segment where growth amounted to SEK 54bn. The Swedish and Baltic household mortgage credit portfolios increased by SEK 17bn. In the area of public administration the credit portfolio decreased by SEK 15bn. *See p. 44–49 and note 41.*

## Debt securities

Debt securities held for the purpose of serving customer risk management and trading needs as well as internal liquidity management on the balance sheet amounted to SEK 156bn (169).

**Loans to the public** SEK bn




SEB is also a market maker in certain debt securities. The short position (liability) in these debt securities amounted to SEK 10bn (11). SEB's credit risk exposure in the bond portfolio, which consists of debt securities, certain credit derivatives and futures amounted to SEK 141bn (156). *See note 41a.*

## Equity instruments

Equity instruments held for the purpose of customer risk management and trading needs as well as in the bank's role as a market maker amounted to SEK 50bn (60). The short position

### Key figures

| | **2018** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Return on equity, % | 16.34 | 11.70 | 7.80 | 12.24 | 15.25 |
| Return on equity excluding items affecting comparability, % | 13.36 | 12.86 | 11.30 | 12.85 | 13.07 |
| Return on total assets, % | 0.82 | 0.57 | 0.37 | 0.57 | 0.71 |
| Return on risk exposure amount, % | 3.66 | 2.64 | 1.80 | 2.71 | 3.23 |
| Cost/income ratio | 0.48 | 0.48 | 0.50 | 0.49 | 0.50 |
| Basic earnings per share, SEK | 10.69 | 7.47 | 4.88 | 7.57 | 8.79 |
| Weighted average number of shares[1], millions | 2,164 | 2,168 | 2,178 | 2,191 | 2,187 |
| Diluted earnings per share, SEK | 10.63 | 7.44 | 4.85 | 7.53 | 8.73 |
| Weighted average number of diluted shares[2], millions | 2,177 | 2,178 | 2,188 | 2,203 | 2,202 |
| Net expected credit loss level[3], % | 0.06 | 0.05 | 0.07 | 0.06 | 0.09 |
| Stage 3 loans/Total loans, gross, % | 0.50 | | | | |
| Stage 3 loans/Total loans, net, % | 0.30 | | | | |
| Liquidity Coverage Ratio (LCR)[4], % | 147 | 145 | 168 | 128 | 115 |
| Risk exposure amount, SEK m | 716,498 | 610,819 | 609,959 | 570,840 | 616,531 |
| Risk exposure amount, expressed as own funds requirement, SEK m | 57,320 | 48,866 | 48,797 | 45,667 | 49,322 |
| Common Equity Tier 1 capital ratio, % | 17.6 | 19.4 | 18.8 | 18.8 | 16.3 |
| Tier 1 capital ratio, % | 19.7 | 21.6 | 21.2 | 21.3 | 19.5 |
| Total capital ratio, % | 22.2 | 24.2 | 24.8 | 23.8 | 22.2 |
| Leverage ratio, % | 5.1 | 5.2 | 5.1 | 4.9 | 4.8 |
| Number of full time equivalents[5] | 14,751 | 14,946 | 15,279 | 15,605 | 15,714 |
| Assets under custody, SEK billion | 7,734 | 8,046 | 6,859 | 7,196 | 6,763 |
| Assets under management, SEK billion | 1,699 | 1,830 | 1,749 | 1,668 | 1,689 |

1) The number of issued shares was 2,194,171,802. SEB owned 27,125,923 Class A shares for the equity-based programmes at year-end 2017. During 2018 SEB repurchased 6,920,449 shares and 3,770,040 shares were sold. Thus, at 31 December 2018 SEB owned 30,276,332 Class A-shares with a market value of SEK 2,607m.

2) Calculated dilution based on the estimated economic value of the equity-based programmes.

3) 2018: Net ECL level based on IFRS 9 expected loss model. 2014–2017: Credit loss level based on IAS 39 incurred loss model.

4) 2018: According to EU definition. 2014–2017: According to Swedish FSA regulations for respective period.

5) Average for the year.

*A five-year summary of the group and the parent bank's income statements and balance sheets is available on p. 180–181.*
*Definitions are available on p. 187–188.*

(liability) in equity instruments amounted to SEK 13bn (14). ▸▸See note 20 and 31.

## Insurance assets and liabilities

Financial assets within the insurance operations amounted to SEK 295bn (305). Out of this, financial assets where the customers bear the investment risk (mostly unit-linked insurance), amounted to SEK 270bn (283) and other assets (mostly traditional and risk insurance) amounted to an additional SEK 25bn (22).

Liabilities in the insurance operations amounted to SEK 292bn (303). Out of this, SEK 271bn (284) was financial liabilities for which the customers bear the investment risk (mostly unit-linked insurance), while SEK 22bn (19) was related to insurance contracts (mostly traditional and risk insurance). ▸▸See note 29, 43 and 44.

## Derivatives

The fair value of the derivative contracts is booked as assets and liabilities on the balance sheet. They amounted to SEK 115bn (105) and SEK 97bn (85) respectively.

The mix and volumes of derivatives reflect the demand for derivatives by the bank's customers for management of their financial risks. The bank is a market maker for derivatives and also uses derivatives for the purpose of protecting its own cash flows and fair value of its financial assets and liabilities from for instance interest rate fluctuations ▸▸See note 21.

## Other assets and other liabilities

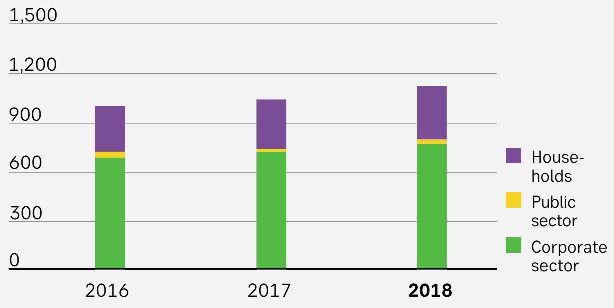
Other assets decreased to SEK 44bn (225) while other liabilities decreased to SEK 75bn (256). The main reason for the decrease was the divestment of SEB Pension. The assets and liabilities were classified as other assets and liabilities when the transaction was announced in 2017 and removed from the balance sheet when the transaction was finalised.

Intangible assets totalled SEK 8bn (8), of which 58 per cent represented goodwill. Goodwill items are subject to a yearly impairment test. There was no impairment in 2018. Due to the implementation of IFRS 15 the deferred acquisition costs in the insurance operations decreased by SEK2.6bn in 2018. ▸▸See note 23.

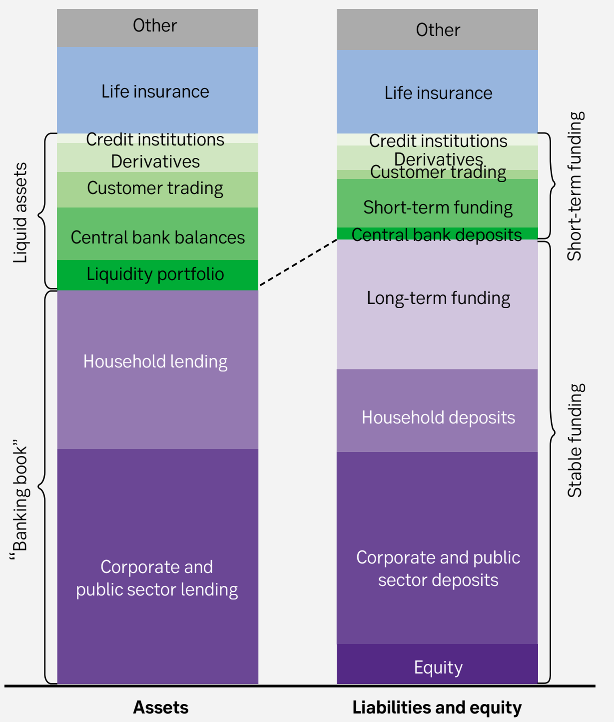
## Deposits and borrowings

The financing of the group consists of deposits from the public (households, corporates, etc.), borrowings from financial institutions as well as issuance of money market instruments, bonds, covered bonds and subordinated debt. ▸▸See p. 48 and note 41f for information on liquidity management.

**Deposits from the public** SEK bn




**Balance sheet structure** 31 December 2018




## Rating

Moody's rates SEB's long-term senior unsecured debt at Aa2 with a stable outlook reflecting SEB's asset quality and solid capitalisation underpinned by strong earnings generation capacity and good profitability.

Standard & Poor's (S&P) rates SEB's long-term senior unsecured debt at A+ with a stable outlook. The rating is based on the bank's strong capitalisation and well-diversified earnings in terms of geography and business areas.

Fitch rates SEB's long-term senior unsecured debt at AA– with a stable outlook. The rating is based on SEB's strong capital and leverage ratios, sound asset quality and healthy liquidity profile.

| Moody's | | Standard & Poor's | | Fitch | |
|---|---|---|---|---|---|
| Short[1] | Long[2] | Short[1] | Long[2] | Short[1] | Long[2] |
| P–1 | Aaa | A–1+ | AAA | F1+ | AAA |
| P–2 | Aa1 | A–1 | AA+ | F1 | AA+ |
| P–3 | Aa2 | A–2 | AA | F2 | AA |
| | Aa3 | A–3 | AA– | F3 | AA– |
| | A1 | | A+ | | A+ |
| *Outlook stable* | | *Outlook stable* | | *Outlook stable* | |

1) Short-term debt and commercial paper
2) Long-term senior unsecured debt

Deposits and borrowings from the public amounted to SEK 1,111bn (1,035). Household deposits increased by SEK 23bn while corporate deposits increased by SEK 39bn during the year.

## Debt securities issued

Short-term funding, in the form of commercial paper and certificates of deposit, increased by SEK 59bn during the year.

SEK 100bn of long-term funding matured during 2018 (of which SEK 65bn covered bonds and SEK 35bn senior debt). Based on its favourable credit rating the bank was able to issue SEK 101bn (of which SEK 67bn constituted covered bonds and SEK 34bn senior debt) during the year. Issued subordinated debt amounted to SEK 35bn (32). *See note 35.*

## Total equity

Total equity at the opening of 2018 amounted to SEK 141bn. In accordance with a resolution of the Annual General Meeting in 2018, SEK 12.5bn of equity was used for the dividend (11.9). Net profit amounted to SEK 23.1bn and other comprehensive income decreased equity by SEK –1bn. The final effect on equity from implementing IFRS 9 reduced equity by SEK 2.4bn. At year-end 2018, total equity amounted to SEK 149bn.

## Dividend

The Board of Directors proposes to the Annual General Meeting an ordinary dividend of SEK 6.00 per Class A and Class C share, which corresponds to a payout ratio of 56 per cent. The total ordinary dividend amounts to SEK 13.0bn.

The Board of Directors also proposes to the Annual General Meeting an extraordinary dividend of SEK 0.50 per Class A and Class C share.

### Assets under management

SEK bn

| | **2018** | 2017 | 2016[1)] |
|---|---|---|---|
| **Start of period** | **1,830** | **1,749** | **1,668** |
| Inflow | 536 | 491 | 255 |
| Outflow | –491 | –477 | –178 |
| Acquisition/disposal, net | –116 | 0 | 0 |
| Change in value | –60 | 66 | 4 |
| **End of period** | **1,699** | **1,830** | **1,749** |

1) Pro forma

Thus, the total dividend per Class A share and Class C share is SEK 6.50 (including the extraordinary dividend), which corresponds to a payout ratio of 61 per cent. The total ordinary and extraordinary dividend amounts to SEK 14.1bn (12.5), calculated on the total number of issued shares as per 31 December 2018, excluding own shares held.

The payout ratio for the ordinary dividend based on the net profit excluding items affecting comparability is 70 per cent. *See the Board's Proposal for the distribution of profit on p. 182.*

## Assets under management and custody

Assets under management amounted to SEK 1,699bn (1,830). The net inflow of volumes was SEK 45bn. With the downturn in the financial markets, the decrease in the value was SEK 60bn. In total, assets under management in the amount of SEK 116bn related to the divestment of SEB Pension were transferred out.

Assets under custody were also affected by the market downturn and decreased to SEK 7,734bn (8,046).

## Looking ahead

### Changes in accounting policies – IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases and related interpretations. The standard is effective as from 1 January 2019 and is endorsed by the EU. The new standard significantly changes how SEB as a lessee accounts for leases by introducing a single, on-balance sheet lease accounting model requiring the recognition of lease assets (right-of-use assets) and lease liabilities. Upon transition to IFRS 16, the group has decided to apply the modified retrospective approach. The main impact on the group's financial statements is from the accounting of property leases. The total of right-of-use assets amounts to SEK 5.7bn and will be recognised on the balance sheet, and an amount of SEK 0.2bn will reduce equity. The implementation of IFRS 16 will not significantly affect net profit in 2019 compared to 2018.

### Risks and uncertainties

SEB assumes credit, market, liquidity, IT and operational as well as life insurance risks. The risk composition of the group, as well as the related risk, capital and liquidity management, are described on page 44–49 and notes 41 and 42, in the Capital Adequacy and Risk Management Report for 2018 as well as the quarterly additional Pillar 3 disclosures and in the Fact Book.

Global growth levelled out towards the end of the year. The geopolitical uncertainty and the large global economic imbalances remain. The potential reduction of liquidity support to financial markets from central banks world-wide may create direct and indirect effects that are difficult to assess. In January 2019, the Swedish repo rate was raised by 0.25 percentage points to –0.25 per cent and the expectation is that more hikes will be made. There has been a gradual stabilisation in the Swedish residential real estate market. However, there is an oversupply of unsold newly constructed apartments in the main cities that may put pressure on prices.

### Organisational changes

As per 1 January 2019, SEB reorganised and the division Life & Investment Management was split into two separate divisions. The new organisation will be reflected in the first quarterly report in 2019.

The Life division is headed by David Teare, who reports to Mats Torstendahl, Head of division Corporate & Private Customers. David Teare is an additional member of the Group Executive Committee.

From mid-2019 the Investment Management division will be headed by Javiera Ragnartz who will report to the President and CEO.

# Divisions and business support

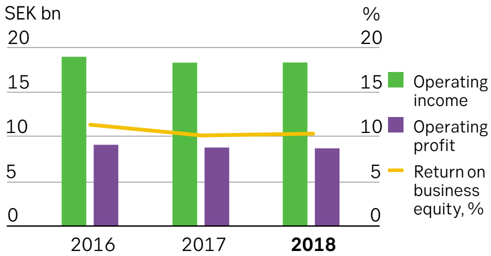
| | Division | Business offering |
|---|---|---|
| Large Corporates & Financial Institutions | <br>**Co-heads:** Joachim Alpen<br>William Paus | The division serves 2,300 large corporate customers and 700 financial institutions and offers advisory-driven commercial and investment banking services in the Nordic region, Germany, United Kingdom and through an international presence. The division has a full-service offering supporting enterprises with capital and offering investment opportunities for pension funds and other investors.<br>Customers are offered equity and debt capital markets transaction services, bilateral and syndicated loans as well as advice relating to acquisitions, divestments and mergers; products and services for managing customers' working capital and trade finance; brokerage and trading in foreign exchange, securities, interest rates, commodities and other derivatives; funds and other investment products; post trade investor services such as custody, risk and valuation services and collateral management; macroeconomic analysis and securities research. |
| Corporate & Private Customers | <br>**Head:** Mats Torstendahl | The division serves some 489,000 private and 166,000 corporate home bank customers in Sweden with universal banking services through digital meeting points, 116 physical meeting places and a contact centre with 24/7 accessibility.<br>The division has a broad offering to both private and corporate customers, ranging from everyday banking services to private individuals and smaller companies, to private banking services with global reach to high net worth individuals in the Nordic countries. In addition complex banking and advisory services are provided to medium-sized companies (mid-corp). The division also issues cards in the Nordic countries under SEB's own brand as well as under Eurocard, Diners Club and several partner brands. |
| Baltic | <br>**Head:** Riho Unt | The division provides universal banking and advisory services to private individuals and all corporate customer segments in Estonia, Latvia and Lithuania, with significant market shares across key segments and products in all three countries. The division has 75 branch offices in the three Baltic countries and serves approximately 950,000 private home bank customers and 101,000 SME and corporate customers. Services are increasingly provided through digital meeting places such as mobile applications, electronic document signing and remote video advice.<br>SEB's Baltic real estate holding companies also formed part of the division, but are now in a liquidation process after the last properties were divested during 2018. |
| Life & Investment Management[1] | <br>**Head:** David Teare | The division provides life insurance and asset management products and services for private individuals, companies and financial institutions primarily in the Nordic and Baltic regions.<br>The insurance offering covers mainly unit-linked, portfolio bond, and traditional insurance as well as health and sickness insurance.<br>The asset management offering is composed of a broad range of mutual funds and tailored portfolios for institutional investors as well as retail and private banking clients. The aim is to be the advisory leader with an ambition to include sustainability in all products, services and processes. SEB actively engages in ownership dialogues on sustainability matters to offering a wide range of products with a clear sustainable profile, i.e. sustainability and microfinance funds. |

1) The bank reorganised as of 1 January 2019. *See p.53.*

| | Unit | Function |
|---|---|---|
| Business Support | <br>**Head:** Martin Johansson | Business Support is a cross-divisional function with the responsibility to support business operations with proactive IT development and execution of back-office services as well as to ensure stable daily operations of the IT systems – all carried out with focus on cost efficiency.<br>The IT development is done step-by-step, taking many small initiatives and using agile ways of working. In this way fast delivery and outcome in line with customer and business needs are ensured.<br>Reliable services are provided to SEB's customers, by ensuring that digital channels are running without disruption and payments and other transactions are handled efficiently. |

## Operating income and profit

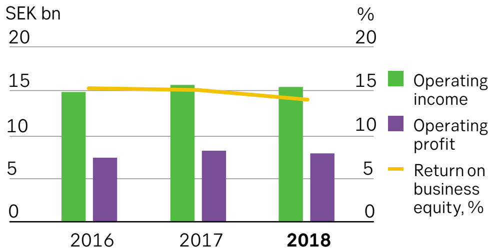
### Large Corporates & Financial Institutions




## Comments on the result

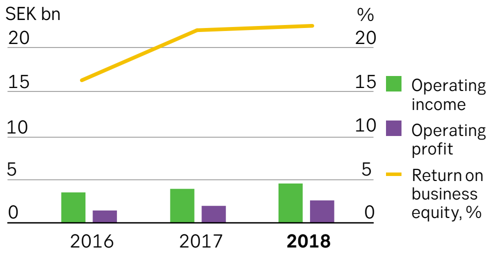
Operating profit decreased to SEK 8,733m. Net interest income increased primarily related to cash management services. Net fee and commission income was higher as a result of improved investment banking activity. Net financial income decreased somewhat in the challenging macro environment. Operating expenses were slightly down. Asset quality remained high with a net expected credit loss level of 7 basis points.

### Corporate & Private Customers



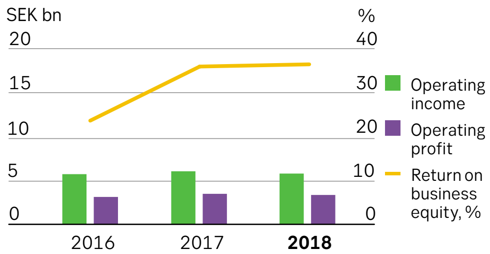

Operating profit decreased to SEK 7,845m. Net interest income was virtually unchanged. Net fee and commission was affected negatively by lower compensation from fund companies related to MiFID II. Net financial income was unchanged while operating expenses decreased somewhat. Asset quality remained high with a net expected credit loss level of 5 basis points.

### Baltic



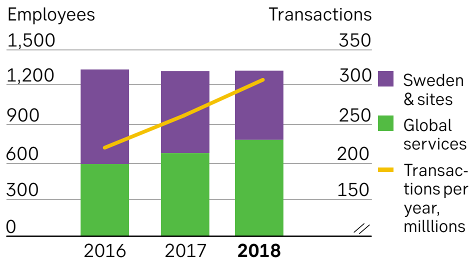

Operating profit, which included positive currency effects, increased to SEK 2,600m. Net interest income increased due both to volume growth and margin expansion. Net fee and commission income was higher mainly from increased customer activity. Operating expenses increased. Asset quality remained strong with a net expected credit loss level of 3 basis points.

### Life & Investment Management




Operating profit decreased to SEK 3,382m. Net fee and commission income increased mainly because of MiFID II restrictions – certain compensation is no longer paid out by the fund companies of the division. Net financial income decreased mainly due to the divestment of SEB Pension Denmark. Operating expenses decreased. Excluding SEB Pension operating profit increased by 15 per cent.

## Automation drives efficiency

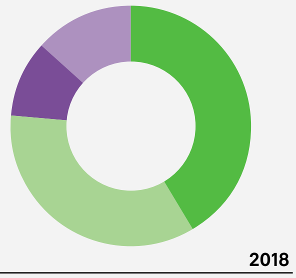



## Comments

In 2018 the Operations unit processed 310 million transactions with an automation grade of 93 per cent. Robotic techniques, used to automate manual tasks, covered more than one million transactions in 2018. By expanding Global Services in Riga and Vilnius the productivity increased.

## Divisions' relative share of:

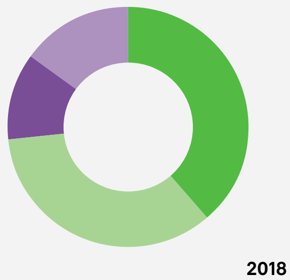
### Operating income [1)]




| | |
|---|---|
| Large Corporates & Financial Institutions | 42% |
| Corporate & Private Customers | 35% |
| Baltic | 10% |
| Life & Investment Management | 13% |

1) Excluding other

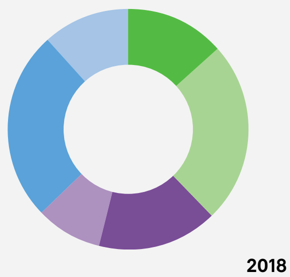
### Operating profit [2)]




| | |
|---|---|
| Large Corporates & Financial Institutions | 39% |
| Corporate & Private Customers | 35% |
| Baltic | 12% |
| Life & Investment Management | 15% |

2) Excluding other

### Employees




| | |
|---|---|
| Large Corporates & Financial Institutions | 13% |
| Corporate & Private Customers | 24% |
| Baltic | 16% |
| Life & Investment Management | 9% |
| Business support | 26% |
| Staff and other | 11% |

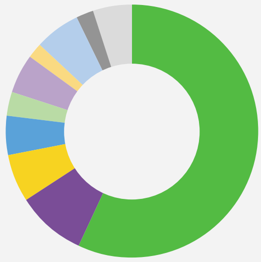
# Geographic markets

| | Market | Comment |
|---|---|---|
|  | **Global with Sweden**<br>Johan Torgeby<br>*President and CEO* | **Retail and corporate banking**<br>Sweden is SEB's main market with a complete banking, pension and insurance offering to a wide range of customers. Despite negative interest rates corporate customers above all were active. |
|  | **Estonia**<br>Allan Parik<br>*Country manager* | **Retail and corporate banking**<br>Estonia was one of the fastest growing economies in the Eurozone which was reflected in a positive development of SEB. Focus lies on further increasing efficiency and introducing a number of digital novelties to customers. SEB is the second biggest bank in Estonia. |
|  | **Latvia**<br>Ieva Tetere<br>*Country manager* | **Retail and corporate banking**<br>Private consumption remained the primary GDP growth driver and the economy developed strongly despite the liquidation of the third largest bank in the country. Latvia was an early adopter of financial technology and SEB was among the first banks in Europe to offer EU instant payments. |
|  | **Lithuania**<br>Raimondas Kvedaras<br>*Country manager* | **Retail and corporate banking**<br>The economic landscape in Lithuania remained sound. SEB further developed modern banking solutions and remote advisory services and opened an Innovation Centre. SEB is the leading bank in Lithuania measured in terms of loan volumes. |
|  | **Denmark**<br>Peter Høltermand<br>*Country manager* | **Corporate banking**<br>The banking activities continued to show positive development in line with the robust macro climate in Denmark. In particular, growing business volumes improved revenues in Corporate Banking, Investment Banking and in Asset Management with inflow from both domestic and international investors. SEB Pension was divested. |
|  | **Norway**<br>John Turesson<br>*Country manager* | **Corporate banking**<br>The Norwegian economy was boosted by increasing oil prices in the beginning of the year. Despite tough competition and pressured margins, SEB was involved in a large number of bond issuance transactions and the demand for financing services was high. |
|  | **Finland**<br>Marcus Nystén<br>*Country manager* | **Corporate banking**<br>The macroeconomic conditions in Finland improved during the year and SEB cemented the position as the leading bank for an increasing number of core customers. Customer activity was solid across all segments with focus on expanding existing customer relationships. |
|  | **Germany**<br>Johan Andersson<br>*Country manager* | **Corporate banking**<br>The German banking market continued to be highly competitive. The trade dispute with the US had a dampening effect on larger corporations but SEB's customers were relatively active. Customers requested debt financing as well as trade financing products. The main business of SEB AG was transferred to the German branch of SEB AB. |
|  | **United Kingdom**<br>Mark Luscombe<br>*Country manager* | **Corporate banking**<br>General market conditions led to a muted start to the year, with Brexit contributing to uncertainty. Thereafter, customer activity picked up across the product spectrum partly since customers took action in implementing contingency measures ahead of Brexit. |
|  | **Other markets**<br>The international network | **Corporate banking**<br>SEB continued to serve customers in its branch offices in Luxembourg, Poland, Russia, Ukraine, China, Hong Kong, Singapore, India, United States and Brazil. |

## Per country

### Share of SEB's operating profit 2018 1)

Per cent

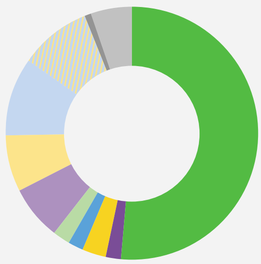


| | 2018 |
|---|---|
| Sweden | 57 |
| Denmark | 9 |
| Norway | 6 |
| Finland | 5 |
| Germany | 3 |
| Estonia | 5 |
| Latvia | 2 |
| Lithuania | 6 |
| United Kingdom | 2 |
| Other markets | 5 |

1) Operating profit before items affecting comparability

### Share of SEB's employees 2018

Per cent



| | 2018 |
|---|---|
| Sweden | 51 |
| Denmark | 2 |
| Norway | 3 |
| Finland | 2 |
| Germany | 2 |
| Estonia | 7 |
| Latvia | 7 |
| Lithuania | 10 |
| Global services in Latvia/ Lithuania | 9 |
| Great Britain | 1 |
| Other | 5 |

# Market shares and customer contacts

## SEB's market shares and market growth

Per cent

| | 2018 | 2017 | Total market, SEK bn 2018 | Market growth |
|---|---|---|---|---|
| **Lending to general public** | | | | |
| Sweden | 14.1 | 14.2 | 6,305 | 6 |
| Lending to households | 12.5 | 12.7 | 3,996 | 5 |
| Lending to companies | 17.0 | 16.8 | 2,309 | 6 |
| Estonia 1) | 25.5 | 24.8 | 195 | 3 |
| Lending to households | 26.5 | 26.0 | 88 | 4 |
| Lending to companies | 24.7 | 23.9 | 107 | 2 |
| Latvia 1) | 20.9 | 18.5 | 140 | –6 |
| Lending to households | 18.3 | 16.9 | 54 | –5 |
| Lending to companies | 22.6 | 19.6 | 86 | –7 |
| Lithuania 1) | 31.4 | 31.0 | 204 | 7 |
| Lending to households | 28.8 | 28.7 | 95 | 6 |
| Lending to companies | 33.6 | 33.1 | 109 | 8 |
| **Deposits from general public** | | | | |
| Sweden | 16.0 | 15.6 | 2,962 | 7 |
| Deposits from households | 11.4 | 11.5 | 1,907 | 7 |
| Deposit from companies | 24.3 | 22.8 | 1,055 | 6 |
| Estonia 1) | 22.8 | 21.9 | 183 | 3 |
| Deposits from households | 22.6 | 22.5 | 79 | 5 |
| Deposit from companies | 23.0 | 21.5 | 105 | 1 |
| Latvia 1) | 16.4 | 11.7 | 160 | –24 |
| Deposits from households | 17.9 | 16.7 | 83 | –3 |
| Deposit from companies | 14.8 | 8.3 | 76 | –38 |
| Lithuania 1) | 28.5 | 27.1 | 214 | 4 |
| Deposits from households | 29.5 | 28.7 | 129 | 4 |
| Deposit from companies | 26.9 | 24.9 | 85 | 4 |
| **Equity trading** | | | | |
| Stockholm | 5.9 | 5.5 | 8,907 | 7 |
| Oslo | 3.1 | 3.1 | 2,742 | 24 |
| Helsinki | 3.9 | 2.7 | 2,810 | 7 |
| Copenhagen | 2.7 | 2.4 | 3,840 | 1 |
| **SEK-denominated corporate bonds** | 18.8 | 16.5 | 156 | 5 |
| **Mutual funds, total volumes 2)** | | | | |
| Sweden | 11.4 | 11.9 | 3,978 | –1 |
| Finland | 2.5 | 2.8 | 1,130 | –1 |
| **Unit-linked insurance, premium income** | | | | |
| Sweden | 16.0 | 16.3 | 66 | 3 |
| **Total life insurance, premium income** | | | | |
| Sweden | 8.6 | 7.8 | 230 | 9 |

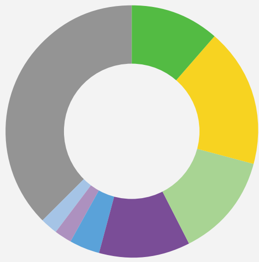
1) Excluding financial institutions & leasing. Estonia, Latvia and Lithuania per September 2018. Market growth in local currency.

2) Excluding third-party funds.

Sources: Statistics Sweden, Estonian Finantsinspektsioon, Finance Latvia Association, Association of Lithuanian Banks, Swedish Insurance Federation, Nasdaq etc.

## Household savings, Sweden

Per cent

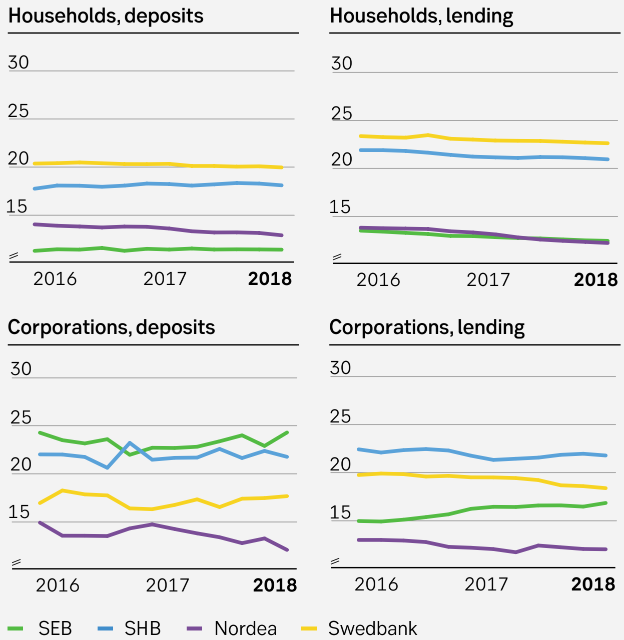


| | 2018 |
|---|---|
| SEB | 11 |
| Swedbank | 18 |
| SHB | 13 |
| Nordea | 12 |
| Länsförsäkringar | 4 |
| Skandia | 2 |
| AMF | 2 |
| Other | 38 |

Household savings in Sweden - bank accounts and mutual funds at a total of SEK 5,886bn as of 31 December 2018.

## Market shares, Sweden

Per cent




## Customer contacts

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Number of syndicated loans in Nordic countries | 69 | 61 | 73 |
| Number of equity capital market transactions in the Nordic countries | 24 | 31 | 24 |
| Number of Nordic mergers and acquisitions | 19 | 16 | 24 |
| International private banking branches | 12 | 12 | 12 |
| Number of Swish payments via SEB's app (million) | 37 | 28 | 18 |
| Number of life insurance intermediaries and brokers | 1,850 | 2,200 | 2,500 |
| Number of branch offices | 189 | 196 | 219 |
| Number of ATMs 1) | 2,504 | 2,649 | 2,757 |

1) of which 1,900 jointly owned by major Nordic banks

# Profit related to business volumes

Customers' financial needs are the source of SEB's business volumes and result. Here, the general relationships between customer-driven business volumes reported on- and off-balance sheet, the income statement and external factors are outlined.

The macroeconomic situation is of great importance for customer behaviour and, together with the bank's own actions, it is a major factor impacting the business and the result.

In times of positive economic development both businesses and private individuals are more likely to invest and consume. This may lead to increased lending, more payments, a higher number of corporate transactions, etcetera, all of which affect net interest and net commission income positively.

In an unfavourable part of the business cycle, customers may be more restrictive and growth in business and transaction volumes may level out while credit losses may increase. On the other hand customers hedge their risks in uncertain and volatile times, which may increase net financial income.

SEB's total result is less volatile over time than each line item in the income statement stand-alone. For instance net fee commission income tends to increase when financial income decreases and vice versa.

## Income statement, simplified

SEK m

| | | 2018 |
|---|---|---|
| A | Net interest income | 21,022 |
| B | Net fee and commission income | 18,364 |
| C | Net financial income | 6,079 |
| D | Net other income | 402 |
| | **Total operating income** | **45,868** |
| | **Total operating expenses** | **–21,940** |
| 2 3 4 5 | Net expected credit losses and other | –1,148 |
| | **Operating profit before IAC** | **22,779** |
| | Items affecting comparability | 4,506 |
| | **Operating profit** | **27,285** |
| | Income tax expense | –4,152 |
| | **NET PROFIT** | **23,134** |

## Business volumes on the balance sheet, 31 Dec. 2018

SEK m

| | ASSETS | 2018 |
|---|---|---|
| 1 | Cash and cash balances with central banks | 209,115 |
| 2 | Loans to central banks | 33,294 |
| 3 | Loans to credit institutions | 44,287 |
| 4 | Loans to the public | 1,644,825 |
| 5 | Debt securities | 156,128 |
| 6 | Equity instruments | 50,434 |
| 7 | Financial assets for which the customers bear the investment risk | 269,613 |
| 8 | Derivatives | 115,463 |
| | Other assets | 44,357 |
| | **TOTAL ASSETS** | **2,567,516** |

| | LIABILITIES AND EQUITY | 2018 |
|---|---|---|
| 9 | Deposits from central banks and credit institutions | 135,719 |
| 10 | Deposits and borrowings from the public | 1, 111,390 |
| 11 | Financial liabilities for which the customers bear the investment risk | 270,556 |
| 12 | Liabilities to policyholders | 21,846 |
| 13 | Debt securities issued | 680,670 |
| 14 | Short positions [1] | 23,144 |
| | *- Of which equity instruments* | *13,498* |
| | *- Of which debt securities* | *9,646* |
| 15 | Derivatives | 96,872 |
| 16 | Other financial liabilities | 3,613 |
| | Other liabilities | 74,916 |
| 17 | *- Of which subordinated debt* | *34,521* |
| | Total equity | 148,789 |
| | **TOTAL LIABILITIES AND EQUITY** | **2,567,516** |

1) Short position – a negative item in the inventory held for customer trades

## Selected business volumes outside the balance sheet (in accordance with accounting principles)

SEK bn

| | | | 2018 |
|---|---|---|---|
| 18 | Assets under management | Customers invest in for instance mutual funds | 1,699 |
| 18 | Assets under custody | The bank safekeeps securities and administrates dividends and interest on customers' behalf | 7,734 |
| 18 | Commitments | Preapproved customer credits | 589 |
| 18 | Guarantees | The bank assists customers with credit risk management | 136 |

| | | |
|---|---|---|
| 18 | Payments and cash management | Customers make payments and manage account balances |
| 18 | Card transactions | Customers make card payments |
| 18 | Securities transactions | Customers use the bank as an intermediary in securities transactions, for instance equity trading. |
| 18 | Corporate transactions | Corporate customers seek advice and assistance for various corporate transactions, such as acquisitions, IPOs, etc. |

## Customers' business volumes and income

| A Net interest income | B Net fee and commission income | C Net financial income | D Net other income | |
|---|---|---|---|---|
| Net interest income is the difference between income from lending and expenses associated with deposits and borrowings. Margins and business volumes have a major bearing. Interest margins differ in various markets, mainly due to varying maturities and risk. | Net fee and commission income increases with growing transaction volumes. Fund-related commissions increase with higher market values. | Net financial income includes both the market value and realised gains and losses on transactions with securities, currencies and derivatives. Trends in the financial markets play a major role. | Items in net other income occur sporadically with no clear link to macroeconomic factors. | |
| Customer loans and cash balances generate interest income over the life of the loan. Up-front fees on new loans are treated as interest income. 1 2 3 4 | SEB participates in, or leads, syndications of loans leading to net fee and commission income or expenses. 4 | | | Loans |
| SEB maintains an inventory of debt securities for customer trades and liquidity management. They accrue interest over life. 5 14 | | SEB holds debt securities for customer trading and liquidity management. The customer trading activity as well as the market value of the inventory affect net financial income. 5 14 1) | Sales from the bank's inventory of debt securities held for liquidity management or investment affect this item. 5 | Debt instruments |
| | Brokerage fees occur in equity trading. 18 | SEB holds equity instruments for customer trading and is a counterpart in equity swaps. The customer trading, changes in the market value, dividends and realised gains/losses affect this item. 6 14 1) | Dividend from the bank's non-customer trading equity holdings affect the item. 6 | Equity Instruments |
| Interest rate derivatives that are used by SEB to reduce volatility in the result (so-called hedging) accrue interest over life. 8 15 | In certain cases, SEB charges and pays fees when trading in derivatives. 8 15 | SEB is a counterparty for customers wishing to manage risk (for instance foreign exchange and interest rate risk) using derivative instruments. Both customer trades and the market value of the holdings affect financial income. 8 15 | The market value of derivatives that SEB uses for hedging. 8 15 | Derivatives |
| Customer deposits generate interest expense. 9 10 | Certain bank accounts generate fee income. 9 10 | | | Deposits and borrowings |
| | SEB provides savings in unit-linked insurance, deposit insurance and similar products where the customer bears the risk. Invested volumes generate fee income. In addition, distribution generates fee expenses. 7 11 18 | SEB provides savings in traditional pension with a certain guaranteed return, sickness and health insurance and related services. SEB invests mainly in equity instruments and debt securities to safeguard the outcome of insurance claims. 5 6 12 | | Insurance and savings |
| SEB's operations are partly funded by long and short-term interest- bearing securities, all of which generate interest expense. 13 17 | Index-linked bonds generating fee income are provided for the purpose of customer investment. 13 18 | The market value including the credit risk in SEB's issued index-linked bonds affects the item. 13 | Early redemption by SEB of its debt instruments affects this item. 13 17 | Issued securities and subordinated debt |
| | Various customer services are provided which generate both fee and commission income and expense. Most fees are fixed and transaction based; some are market value based. 18 | | | Business volumes outside the balance sheet |

1) Short position – a negative item in the inventory held for customer trades.

# Risk, capital and liquidity management

**SEB works to safeguard its strong financial position** in order to meet stakeholders' needs and requirements. Assuming risk is an integral part of banking. In a dynamic world, SEB continuously develops its comprehensive risk, capital and liquidity management, in order to create customer value while maintaining resilience in all possible situations.

## Risk development in 2018

SEB continued to demonstrate resilience with high asset quality, low credit losses, robust capital adequacy and a stable liquidity position.

Following many years of strong development, indications of a slowdown in global economic growth emerged towards the end of the year. Meanwhile central banks' room to use monetary policy is limited.

Technological advances, customers' expectations as well as regulations drive digitalisation in the banking industry. New types of competitors and the movement towards Open Banking and sharing of information are reshaping the playing field for banks. In addition to the strategic opportunities and challenges this entails, cyber and information risks are increasing and evolving as perpetrators become more technically sophisticated and the attack surface expands.

### RISK PROFILE

The Board of Directors decides on the overarching risk tolerance. The President is responsible for managing SEB's risks overall and ensuring that the risk profile lies within the Board's risk tolerance and capital adequacy targets.

**Board's risk tolerance statements in brief**

| Risk type | SEB shall | Comment |
|---|---|---|
| Credit risk and asset quality | **Have a robust credit culture** based on long-term relationships, knowledge about the customers and focus on their repayment ability. This will lead to a high quality credit portfolio. | • SEB has a well-balanced credit portfolio with main exposure to Nordic large corporates and households in Sweden.<br>• Asset quality remains strong with low credit losses. |
| Market risk | **Achieve low earnings volatility by generating revenues** based on customer-driven business. | • Market risk arises in SEB's customer-driven trading activity and in its liquidity portfolio. Generally, SEB's market risk is low.<br>• Interest rate risk arises due to mismatches in rates and maturities in the bank's assets and liabilities, and is managed by the Treasury function. |
| Operational and reputational risk | **Strive to mitigate operational risks** in all business activities and maintain the bank's reputation. | • Low operational losses compared to European peers.<br>• Managing and mitigating cyber and information risks are key priorities to ensure secure and available information, services and products for customers. |
| Liquidity and funding risk | **Have a soundly structured liquidity position**, a balanced wholesale funding dependence and sufficient liquid reserves to meet potential net outflows in a stressed scenario. | • SEB's primary funding sources are customer deposits and wholesale funding.<br>• The funding base is diversified in terms of maturities and currencies to ensure that payment obligations are met as they fall due. |
| Aggregated risk and capital adequacy | **Maintain satisfactory capital strength in order to sustain aggregated risks,** and guarantee the bank's long-term survival and its position as a financial counterparty, while operating within regulatory requirements and meeting rating targets. | • SEB is strongly capitalised in relation to regulatory capital requirements, internal targets and peers.<br>• The aim is to hold a capital adequacy buffer of around 150 basis points above the regulatory requirement. |

*For more information on risk, capital and liquidity management, refer to notes 41 and 42.*

Customers, investors and regulators are increasingly focusing on sustainability, including ESG and climate-related risks, and reporting requirements will increase. 2018 was characterised by an increased, industry-wide focus on responsible banking and on combating financial crime.

## Credit portfolio driven by corporate growth

The strong macroeconomic development in SEB's home markets resulted in healthy growth in the credit portfolio (in which loans, commitments and derivatives are included). Most of the growth came from the corporate segment while growth in the residential mortgage-related portfolios was more subdued as a result of the slowdown of the Swedish housing market. The total credit portfolio amounted to SEK 2,316bn at year-end (2,170).

Over half of SEB's credit portfolio consists of exposure to corporations, amounting to SEK 1,172bn (1,030) at year-end. During the year, growth was strong across geographies and divisions. SEB is unique among peers in that its corporate portfolio consists primarily of large corporations – mainly Nordic and German customers in a wide range of industries, the largest being manufacturing. The exposure to small and medium-sized companies (SME) accounts for 12 per cent (12) of the bank's corporate portfolio, and is mainly in Sweden. The portfolio grew to SEK 141bn (125) during the year.

## Robust Swedish household mortgage portfolio

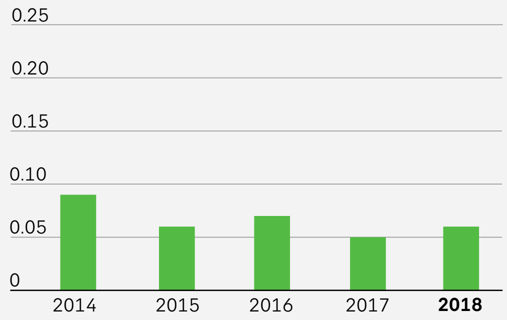
For many years the Swedish residential housing market has been characterised by urbanisation, limited supply of housing and low interest rates. Between 2013 and 2017, housing prices rose quickly, resulting in high household indebtedness in an international comparison. Since the peak in 2017, house prices have fallen by 5–10 per cent depending on location, driven by a larger supply of newly produced homes, and further tightened amortisation requirements in 2018. The price drop resulted in a more

**SEB's key risk development**

| Measurement | Comment | 2018 | 2017 | Peer average, 2018 |
|---|---|---|---|---|
| • Credit portfolio (SEK bn) | • Total loans, commitments and derivatives | 2,316 | 2,170 | |
| • Net expected credit loss (ECL) level [1] (%) | • Expected credit losses in relation to total exposure | 0.06 | 0.05 | 0.02 [2,3] |
| • Stage 3 loans/total loans, gross (%) | • Share of loans that are classified as stage 3 (credit impaired) | 0.5 | | 1.2 [2] |
| • Trading VaR average (SEK m) | • A statistical measure of the largest loss that can be expected in a ten-day period | 90 | 91 | |
| • Operational losses/income (%) | • Operational risk losses in relation to operating income | 0.43 | 0.42 | 0.69 [4] |
| • Liquidity coverage ratio [5] (%) | • Funds should be sufficient to cover short-term payments | 147 | 145 | 143 [2] |
| • Core gap ratio (%) | • The requirement is above 100 per cent | 110 | 108 | |
| • Risk exposure amount (SEK bn) | • Risk-weighted business volumes | 716 | 611 | 990 [2] |
| • Common Equity Tier 1 ratio (%) | • Capital available to cover future losses – in relation to the risk exposure amount | 17.6 [6] | 19.4 | 16.4 [2] |
| • Leverage ratio (%) | • Capital in relation to total assets | 5.1 | 5.2 | 5.3 [2] |

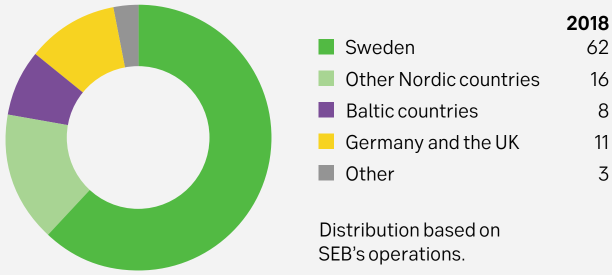
1) 2018: IFRS 9 definition. 2017: IAS 39 definition
2) Peers: Danske Bank, SHB, Nordea, Swedbank and DNB
3) The low peer average is due to net reversals for Danske Bank and DNB
4) ORX: Fourth quarter 2017–third quarter 2018
5) 2018: EU definition. 2017: Swedish FSA definition
6) New rules for 2018. Under the old rules, the outcome would be 20.1. See p. 47.

**Credit loss development**[1] Per cent




1) 2018: Net ECL level based on IFRS 9 expected loss model.
2014–2017: Credit loss level, net, based on IAS 39 incurred loss model.

**Credit portfolio, distribution by geography** Per cent




Distribution based on SEB's operations.

hesitant market, slower credit growth, as well as challenges for housing developers and the construction sector.

SEB's Swedish household mortgage portfolio has grown below the market growth rate for the last few years, and amounted to SEK 487bn as of year-end 2018 (478). The portfolio is of high quality with low historical credit losses, sound loan-to-value (LTV) ratios and with strong repayment ability among customers.

Lending is based on the borrower's repayment capacity, including the ability to manage an interest rate of seven per cent, and new mortgage loans cannot normally exceed five times the household's gross income. In 2018, 98 per cent of all new loans with an LTV above 50 per cent had an amortisation plan. Property values are continuously assessed and monitored.

## Robust real estate portfolio

SEB's credit exposure from residential real estate is mainly Swedish and consists of high quality, private and publicly owned real estate companies as well as institutional investors. The portfolio was stable at SEK 111bn as of year-end (108). SEB also has SEK 63bn (61) in exposure to housing co-operative associations, a common residential housing form in Sweden. SEB has no exposure to the smaller housing developers niched towards the premium segment.

SEB's exposure to commercial real estate companies consists mainly of strong counterparties with sound financing structures in the Nordic region. The portfolio increased slightly to SEK 186bn (179) due to growth in the Nordic markets which was partly offset by a continued reduction in Germany.

For several years, SEB has governed its exposure to the real estate sector by a group-wide risk tolerance level for the commercial real estate portfolio, divisional volume growth limits as well as a firm real estate credit policy set by the Board.

## Stable development in the Baltics

The Baltic economies continued to develop favourably as a result of growing exports, investments and private consumption, although labour shortages and wage inflation present challenges in all three countries. At year-end, SEB's Baltic credit portfolio amounted to SEK 182bn (166). The portfolio consists mainly of corporate and household exposures, while the real estate management portfolio is limited. Lithuania accounts for SEB's largest market in terms of credit exposure in the Baltics, followed by Estonia and Latvia.

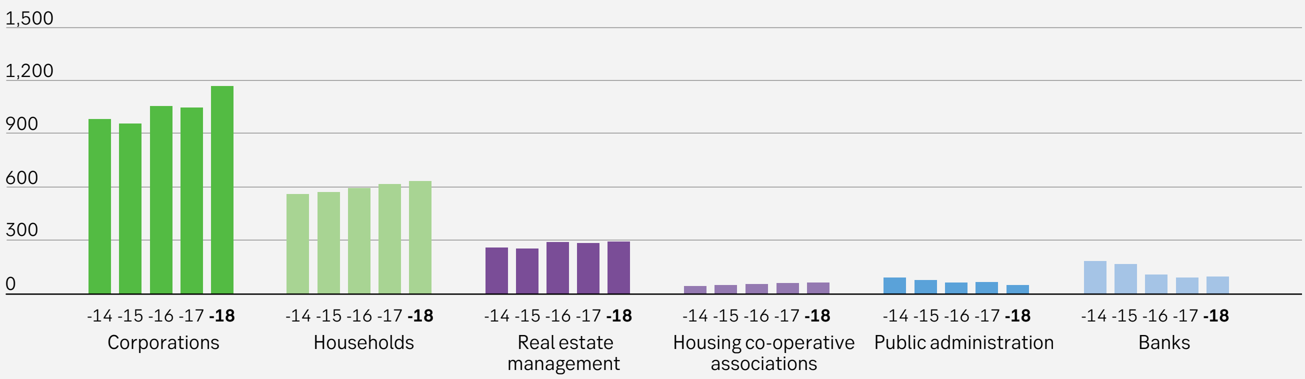
## High asset quality

Asset quality of the credit portfolio remained high. In a historic perspective, credit losses remained at a very low level, supported by the low interest rate environment and favourable economic development. Net expected credit losses according to IFRS 9 amounted to SEK 1,166m, corresponding to a net ECL level of 6 basis points (5). Stage 3 loans (loans which are credit-impaired) amounted to SEK 8.2bn compared with SEK 10.2bn at the beginning of the year, when IFRS 9 was implemented. This corresponds to 0.5 per cent of the gross lending.

## Stable market risk in increasingly volatile financial markets

The risk in the customer-driven trading is measured as Value-at-Risk (VaR), which averaged SEK 90m (91) in 2018. This means that the bank does not expect to lose more than this amount during a period of ten trading days, with 99 per cent probability. The VaR development during the year was driven by higher volatility, especially in foreign exchange and equity markets and higher interest rate exposure.

**Credit portfolio, development by sector** SEK bn



## Low and reduced insurance risks

SEB's life insurance business consists mainly of unit-linked products, where the market risk remains with the customer. In 2018, unit-linked products represented 69 per cent of total premium income (67). SEB also offers traditional insurance, occupational pension and private health insurance in Sweden. In the traditional insurance portfolios, the difference between the value of the assets and guaranteed benefits serves as a buffer against the insurance risk for SEB. The buffer increased throughout the year as a result of asset returns and new business volumes. SEB's Danish life insurance business was divested in 2018 (*see note 13)*, which reduced SEB's aggregate insurance risk.

## Strong capital position

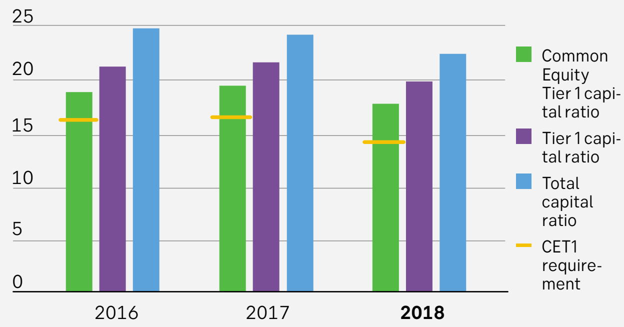
Despite strong risk management and risk culture, unexpected losses can occur in banking. SEB's capital management shall ensure that the bank has sufficient capital to absorb such unexpected losses. The Board of Directors sets SEB's capital target taking into consideration financial stability requirements by the regulators, debt investors, business counterparties, as well as the Board's view of capital need and debt rating ambitions. These requirements need to be balanced with the shareholders' required rate of return.

The Swedish FSA's requirement for the Common Equity Tier 1 (CET1) capital ratio consists of two parts. Pillar 1 is a general minimum requirement for all banks. Pillar 2 is a specific requirement based on an assessment of SEB's risk, liquidity and capital position made in the Supervisory Review and Evaluation Process. As of 31 December 2018, the Swedish FSA has moved the requirement of the mortgage risk weight floor from Pillar 2 to Pillar 1. The change resulted in a decrease of the CET1 ratio of approximately 260 bps. SEB estimates the Swedish FSA's CET1 capital requirement to 14.9 per cent as of year-end 2018.

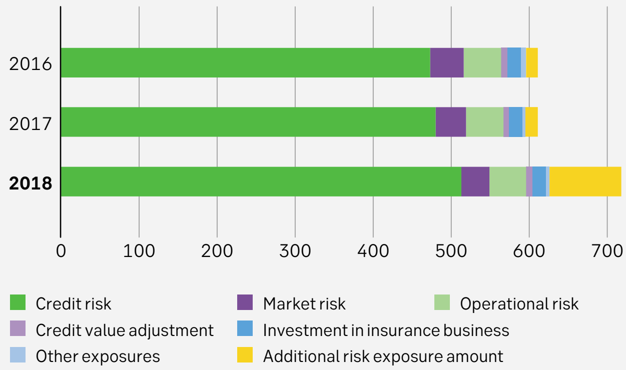
The Board's target is to maintain a CET1 capital ratio of around 150 basis points above the Swedish FSA's requirement. This constitutes a buffer against potential variability in the capital position deriving, in particular, from changes in foreign exchange rates and interest rate risk in the pension obligations. This means that the CET1 capital ratio target currently is around 16.4 per cent.

At year-end, SEB's CET1 capital ratio amounted to 17.6 percent (19.4), implying a buffer of 270bps above the regulatory requirement. The main reason for the change is an increase in the risk exposure amount to SEK 716bn (611) of which the transfer of the mortgage risk weight floor from Pillar 2 to Pillar 1 contributed with an increase of SEK 92bn. The CET1 capital base increased to SEK 126bn (118).

### Capital adequacy




### Development of risk exposure amount (REA)




## Update on regulatory requirements affecting capital adequacy

### The EU Banking Reform Package – further risk reduction measures

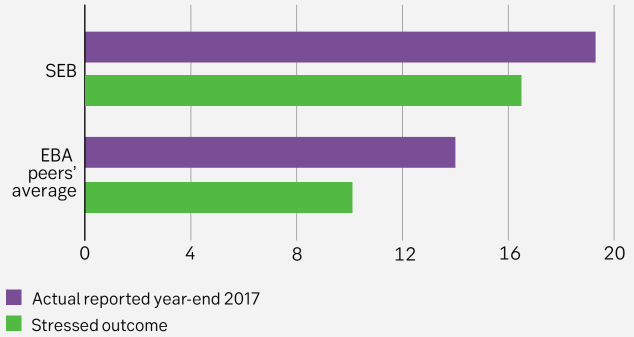
As per end of 2018, the EU finalised the so-called 'banking package', which includes a number of measures aimed at reducing risk in the banking industry. The package includes changes to regulation on bank capital requirements (CRR/CRD IV) and the recovery and resolution of banks (BRRD). The package implements, for example, a binding leverage ratio and a binding net stable funding ratio (NSFR) into EU legislation. It will harmonise the rules for capital requirements and minimum requirements for own funds and eligible liabilities (MREL) in EU legislation. Applicable capital and MREL requirements for large Swedish banks are expected to be aligned with the new EU rules when they are implemented.

### Finalisation of the Basel III framework

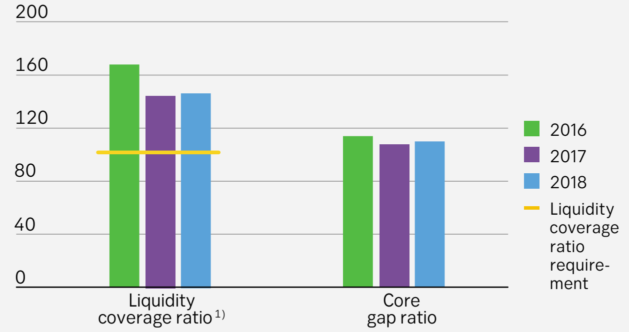
In December 2017, the Basel Committee presented revisions to the Basel III framework, the so-called Basel IV. The revised framework includes restrictions to internal risk measurement models, as well as an output floor based on the standardised method. While SEB has started to assess the capital effects of the revised framework, it is still too early to have a firm opinion about such effects. This is due to the fact that a number of issues are to be finalised and adapted to European and national implementation. According to the Basel Committee, implementation should start in 2022. The EU is expected to present a proposal for the implementation of Basel IV in 2020.

In a parallel initiative, the European Banking Authority (EBA) is, together with national supervisors, attempting to harmonise and reduce variation in internal models for capital adequacy. EBA proposes to introduce requirements on definitions and model parameters, and prescribe more detailed requirements on decision processes. SEB is expected to be fully compliant by December 2020.

**EBA stress test – effect on Common Equity Tier 1 capital ratio** Per cent




**Liquidity coverage ratio and Core gap ratio** Per cent




1) 2018: EU definition, 2016–2017:Swedish FSA definition.

SEB's leverage ratio, a non-risk-based ratio between Tier 1 capital and assets, was 5.1 per cent at year-end (5.2), above the proposed minimum requirement of 3 per cent.

The capital requirements for Swedish banks are currently significantly higher than EU minimum levels and the Swedish banks are well capitalised compared with banks elsewhere in Europe, both from a risk-weighted and non-risk-weighted perspective.

SEB's strong capitalisation was confirmed in EBA's bi-annual EU-wide stress test. In EBA's adverse stress scenario, SEB's CET1 capital ratio would decline from 18.3% to 16.5%, implying a strong resilience in the stressed scenario.

## A sound liquidity and funding strategy

Access to liquidity and funding markets is vital in all circumstances. SEB's liquidity and funding strategy is managed from three perspectives: (1) optimising the liquidity structure of the balance sheet to ensure that less liquid assets are matched with stable funding, (2) monitoring wholesale funding dependence, and (3) ensuring that the bank has sufficient liquidity reserves to withstand a severely stressed scenario.

In 2018, SEB saw continued good market demand for its new issues of short- and long-term funding. A high credit rating is important as it is the basis for the cost for SEB's wholesale funding. *See p. 36 for SEB's credit ratings.* SEB's liquidity reserve, as defined by the Swedish Bankers' Association, amounted to SEK 473bn at year-end (340). The size and composition of the reserve is regularly analysed and assessed against estimated needs.

The Core gap ratio, which is SEB's internal measure of the extent to which long-term lending is matched by long-term funding, was 110 per cent (108), which is well within the board's risk tolerance of a sound liquidity structure. SEB also manages its liquidity position in line with the upcoming regulatory Net Stable Funding Ratio (NSFR) requirement of at least 100 per cent, which is anticipated to be effective as of 2021.

The Liquidity Coverage Ratio (LCR) measures to what extent liquid assets are sufficient to cover short-term cash outflows in a stressed scenario. SEB's LCR amounted to 147 per cent at year-end (145). This is in compliance with the minimum requirement of 100 per cent. The EU's definition of LCR is used starting 1 January 2018. The previous year's number was calculated according to the Swedish FSA's method.

## Focus on operational and other non-financial risks

Operational risks are an inherent part of all businesses. SEB works continuously to mitigate operational risks in the daily business and processes in order to minimise operational losses and, in particular, to avoid larger losses. By developing and improving governance and risk practices, the bank strives to mitigate both existing and emerging risks. In 2018, focus has been on further strengthening the governance and framework for cyber and information security risk management as well as model risk, all stemming from the increased digitalisation of banking services.

Important processes and tools used to manage operational risks include a New Product Approval Process (NPAP), business

### Cyber and information risk management

Cybercrime is a growing threat to companies in general and to financial institutions in particular. Threats include, for example, social engineering, Distributed Denial of Services (DDoS), targeted attacks and ransomware. The behaviour of criminals is constantly changing and digital wallets, with card details, passwords and Bank ID, are attractive to modern digital thieves. Fraud directly aimed at private individuals increased during 2018.

Cybersecurity is the protection of data and IT systems from theft or damage of hardware, software, or information, as well as from disruption or misdirection of services that the system provides. Stability and reliability of the bank's IT platform is crucial and security matters related to how SEB protects and manages its own and customers' data is of utmost importance.

SEB works with a risk-based approach and control environment with the aim to identify, protect against, detect, respond to and recover from security breaches. The bank continuously invests in its security organisation, and regular technical security updates and upgrades of systems are prioritised, everything in order to further strengthen the resilience.

By gathering all security functions into one Group Security & Cyber Defence unit, SEB takes a holistic approach to security and data protection covering traditional security functions but also procurement, financial crime and legal functions. In 2018, several precautionary actions to combat fraudulent crime were taken and the bank is working to raise security awareness among both employees and customers, through training, information and communication. SEB also works closely with national and international networks and alliances in the financial industry, law enforcement authorities and other authorities to fight cybercrime.

continuity management, risk self-assessments, and identity access management. Employees are regularly trained within important areas such as cyber and information security, fraud prevention, anti-money laundering, the Know-Your-Customer (KYC) processes and personal data protection (GDPR).

SEB's reputation is built on long-term customer relationships and a business and risk culture based on high ethical standards, social and environmental responsibility, and professional conduct. SEB's Code of Conduct and core values, mandatory training, and dialogues on ethical and value-related dilemmas strengthen awareness of the importance of conduct among employees. Through an external whistle-blowing procedure, employees and others are encouraged to report unethical and illegal incidents. Net losses from operational incidents amounted to SEK 197m (185) in 2018. Benchmarking against members of the ORX, a global operational risk association in the financial services sector, shows that SEB's operational losses are below international peer average.

## Sustainability and climate-related risk

Climate change and its repercussions, such as extreme weather conditions, are becoming increasingly apparent risk factors. The risk of damage caused by climate change and risks arising from a transition to a low-carbon economy could not only have a negative impact on SEB's credit portfolio, but also on customers' investments in SEB's funds.

Increased transparency on how banks respond to and manage risks arising from climate change is requested by customers and investors, and regulators are extending their supervision to also cover sustainability and climate-related risks. In 2018, SEB committed to support the international, voluntary recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). The task force is an industry-led working group, set up at a request from the G20 Financial Stability Board. *See p. 68–69.*

As a bank, SEB has the ambition to inform its customers about the way money entrusted to the bank is used, both to whom it lends money and where it invests. All transactions shall meet SEB's group-wide policies on corporate sustainability, environment, and human rights as well as position statements on climate change, fresh water and child labour. Lending to companies in certain sectors is guided through SEB's six sector policies, arms and defence, forestry, fossil fuels, mining and metals, renewable energy and shipping.

Acknowledging the climate-related transition risks, SEB has not provided new financing of coal mining and coal power plants since 2015. In 2018, SEB's fund company continued to reduce the fossil fuel exposure in its fund offering. The number of sustainable funds increased and as a consequence, the volume of assets managed under the strictest sustainability criteria increased from 25 per cent to 30 per cent. *See p. 71.* The bank also works with power companies to find other sources of energy than combustion coal. SEB has signed the international climate agreement Montreal Carbon Pledge, where part of the commitment is to report the carbon footprint from equity funds.

Both in its customer onboarding and credit granting process, SEB considers environmental, social and governance risks (ESG risks) and the extent to which such risks can impact a customer's ultimate repayment capacity. Tools for analysing, documenting and monitoring ESG risks are being further developed.

## Violation of human rights

Respecting and promoting human rights is an obligation of all responsible businesses. SEB assesses the risk for violation of human rights in line with SEB's Human Rights Policy and international agreements (*see p. 68*). The bank continuously works to prevent and remedy any negative impact related to human rights. A customer with poor human rights ambitions can quickly become a high credit risk for the bank. There is also a high reputational risk in investing in such companies. Human rights risks are assessed and monitored in the credit and investment processes, as well as in screening of new suppliers.

SEB's fund company has strict criteria for how the actively managed funds relate to holdings that verifiably breach international norms regarding human rights criteria. In 2018, 100 per cent (100) of SEB's fund company's assets under management were managed with human rights criteria. Moreover, SEB engages directly in dialogue with companies' managements and boards of directors regarding how to make improvements.

## Corruption, money laundering and terrorist financing

SEB strives to prevent corruption, in line with rules and regulations, and does not tolerate to be involved in or associated with bribes.

With globalisation and cross-border mobility, money laundering and terrorist financing have become an international problem of significant size. In order to prevent and combat this problem, international agreements as well as common measures and rules are necessary. In 2018, the EU commission announced plans to increase the mandate of the EBA to better tackle cross-border money laundering within EU, partly as a result of a number of money laundering cases during the year.

In order to contribute to financial stability and maintain SEB's good reputation, it is vital to understand the risk that SEB's services are used for money laundering and terrorist financing. A diligent Know-Your-Customer (KYC) process, covering customer identification, regular risk assessment and transaction monitoring, is a prerequisite for understanding the risk factors that need to be considered. An enhanced due diligence is applied for customers, products and countries where the bank is believed to be most exposed.

SEB has a clear governance model for the preventive work around anti-money laundering and combating of terrorist financing. In 2018, steps were taken to further strengthen the governance and coordinate the bank's work in the area by the appointment of an AML Senior Officer in the Group Executive Committee.

SEB continuously works to reinforce its internal controls and procedures in all geographic locations, and conduct employee training to strengthen awareness.

If any suspicious activities are traced, a report is filed with the relevant authorities. In such cases, SEB will always consider to end or limit the business relationship if the emerging risk cannot be managed.

# Regulatory requirements

**Compliance with anti-money laundering requirements** characterised 2018. In addition, the final implementation steps were taken for a number of extensive regulations in areas such as investor protection, financial information, personal data protection and Open Banking. Meanwhile, new regulatory requirements were added and a discussion on new sustainability regulations was initiated.

In 2018, SEB worked with some 15 major regulatory projects at an estimated total cost of SEK 520m. In addition, the bank is continuously working on implementing technical standards and guidelines from the EU's three supervisory authorities for banking, insurance and the securities markets, as well as from national Financial Supervisory Authorities including the Swedish (FSA). In pace with implementation of these rules and regulations both the bank, in its internal processes, and the supervisory authorities step up their controls of compliance.

## Regulations related to sustainability

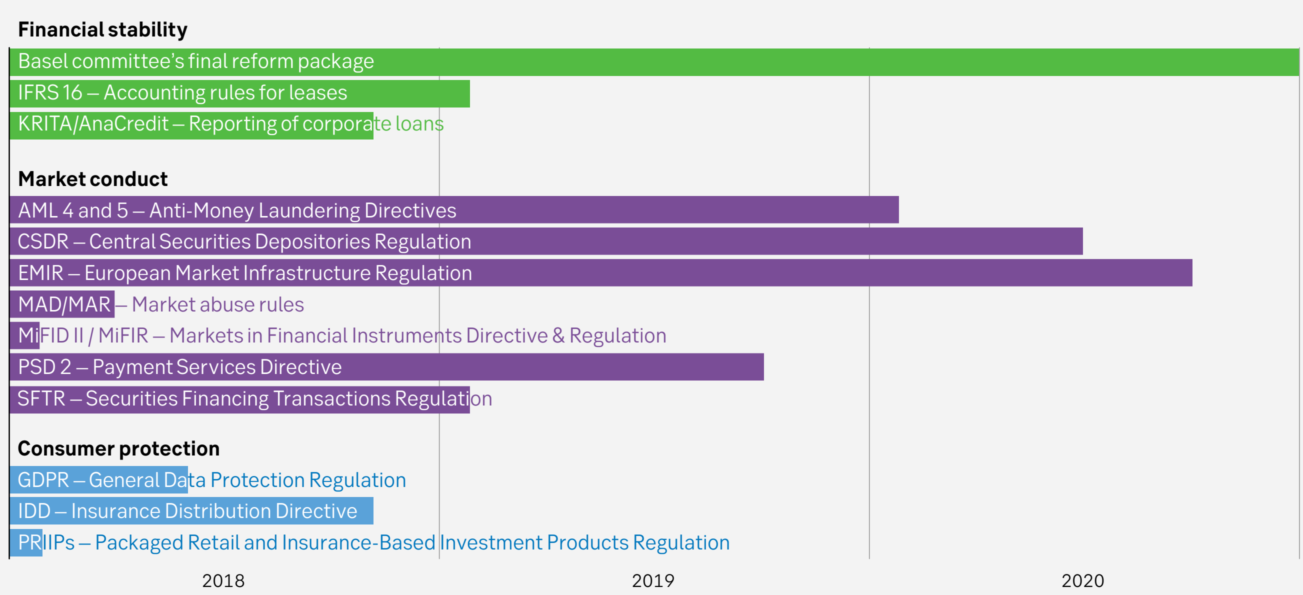
The UN's 17 Sustainable Development Goals balance the three cornerstones of sustainable development: economic growth, social inclusion and environmental protection. Together with the 2015 Paris agreement, the goals form the basis for a number of new frameworks – voluntary and statutory. The aim of these frameworks is to clarify the role and responsibility of companies in the area of sustainability. The financial sector has an important role in the transformation towards a sustainable society, and the Swedish FSA views climate and sustainability issues as a natural extension of its mission to promote financial stability, well-functioning financial markets and strong consumer protection. Climate issues–and sustainability issues in general – may represent risks that must be taken into account in banks' overall risk assessments.

Sustainability aspects have attained an increasingly prominent role in legislative texts in recent years. In 2018, the EU Commission adopted an action plan for sustainable financial markets. The plan sets forth three recommendations:
- establish a common taxonomy for sustainable financial activities
- improve information about how institutional investors are working to integrate environmental, social and governance factors in their risk processes
- create performance measures that help investors compare the carbon footprint of their investments.

The recommendations are currently under discussion by the EU member states and the European Parliament.

In Sweden, the government has specified that the FSA shall integrate sustainability into existing and new regulations, as well as into its financial oversight.

**Implementation of new regulations 2018–2020 1)**




1) Implementation work may continue after a regulation has entered into force.
Regulations automatically apply as law in each EU country whereas directives apply through their implementation into national law.

## High-impact regulations

In 2018, extensive efforts to counter money laundering (AML) continued. A new governance model for AML was also implemented, based on the EU's AML 4 directive. Improving routines and processes related to both AML and Know Your Customer (KYC) continued to have high priority in the bank. In order to improve the quality of the KYC information, an enhanced tool for risk assessment of individual customers was introduced. In addition, a review of customers' due diligence levels was initiated. Transaction monitoring was strengthened with new detection scenarios.

Certain new regulations with a particularly large impact on the bank's organisation and operations are described below.

| Aims of regulations | | High-impact regulations |
|---|---|---|
| **Financial stability** | Ensure that the financial system can withstand economic shocks and disturbances and also prevent that the failure of one financial institution leads to a systemic collapse. | **Reform packages for bank stability**<br>Since the financial crisis in 2008, the regulators have taken many initiatives to increase the resilience and stability of the financial system and improvements are continuously made.<br>In 2017, the Basel Committee agreed on a reform package that includes restrictions in internal risk models, implemented through EU-legislation. In 2018, the EU finalised its Banking Reform Package which will lead to changed regulations for capital requirements and the recovery and resolution of banks in distress. Meanwhile, the European Banking Authority (EBA) was working to harmonise internal capital adequacy models. All of these initiatives, which may affect the level of SEB's capital, will be phased in over a number of years starting in 2022. *See page 47 for more information.* |
| **Market conduct** | Promote efficient price setting and execution in financial markets, and prevent market manipulation through transparency and risk mitigation. | **Open for more competition**<br>The EU's revised Payment Services Directive (PSD 2) aims to make payments within and between EU countries faster and safer and to open the payment market for new players. PSD 2 offers payment providers better access to customer information and access to the established banking infrastructure. This concept is referred to as Open Banking.<br>By opening for more competition, PSD 2 will likely over time affect both the market for payments and banks' role in the payment market. For SEB, PSD 2 opens the possibility to provide its services to a new customer base and to build new business relationships. Large investments in technical solutions will be required in order to facilitate co-operation with third party providers under the new rules – while upholding customer protection. The PSD 2 requirements began to apply in 2018 and implementation will continue in 2019. |
| **Consumer protection** | Ensure fair treatment of customers and support improved financial literacy through relevant and correct information. This entails requirements in terms of marketing and packaging of financial services, and investment advice services. | **Safeguarding personal data**<br>The EU's General Data Protection Regulation (GDPR) came into force in 2018. Since it replaces national laws (in Sweden: the Personal Data Act), it decreases the complexity and the risk of legal uncertainty within the EU. The rules apply to all businesses, but have a greater effect on the financial sector, since financial institutions handle large volumes of personal data. One important requirement is the right to be forgotten – meaning that when a customer wants to be forgotten, his or her data must be deleted as long as other laws permit it. In addition, customers are to be provided easy access to their personal data and information about how their data are processed. It is also easier for customers to transfer personal data to other parties.<br>SEB's large implementation project for GDPR was completed in 2018, and now the bank has a new governance structure with a specially appointed data protection officer. |

# Corporate governance

"During the year, the Board has reviewed the bank's long-term strategy and decided on the new business plan for 2019–2021. It reflects the opportunities and challenges of the growing customer demand for rapid digitalisation and automation of financial services as well as the bank's efforts to provide sustainable products and services. The increasing competition and pace of change – and cyber threats becoming more frequent – reinforce the importance of upholding a solid corporate governance framework to defend our strongest assets: our brand and our credibility."

**Marcus Wallenberg,** *Chair, Board of Directors*

To maintain the important societal function as a bank, it is of paramount importance for SEB that all stakeholders have great confidence and trust in the bank's operations. Professional people who are guided by strong a nd proper business conduct are crucial, as is maintaining a sound risk culture.

## The importance of corporate governance

To maintain trust among customers, employees, shareholders and other stakeholders and prevent conflicts of interest, roles and responsibilities are clearly defined for shareholders, directors, management and other stakeholders.

SEB's work with corporate governance is focused on ensuring smooth and effective operations with high standards, sound risk management and robust internal control.

## Rules and regulations

As a Swedish public limited liability financial institution with securities listed on Nasdaq Stockholm, SEB is subject to numerous rules and regulations. The external framework for SEB's corporate governance includes the following rules and regulations:

- the Companies Act
- the Annual Accounts Act
- the Nasdaq Stockholm Issuer Rules
- the Swedish Corporate Governance Code
- the Banking and Financing Business Act
- the rules and guidelines issued by the Swedish Financial Supervisory Authority and other authorities.

▶▶*See p. 50 for information about new regulatory requirements.*

In addition, SEB applies an internal framework, which among other things includes the Articles of Association, adopted by the general meeting of shareholders. Policies and instructions that define the division of responsibility within the group are tools for the Board of Directors (the Board) and the President and Chief Executive Officer (the President) in their governing and controlling roles. Such policies and instructions include, among others:

- Rules of Procedure for the Board and the Instructions for the Board committees
- Instructions for the President and the SEB Group's Internal Governance
- Group Credit Instruction and Risk Policy
- Instruction for Handling of Conflicts of Interest
- Instruction for procedures against Money Laundering and Terrorist Financing ▶▶*See extract on sebgroup.com*
- Code of Conduct ▶▶*See sebgroup.com*
- Remuneration Policy
- Information Security Policy
- Corporate Sustainability Policy ▶▶*See sebgroup.com*
- Inclusion & Diversity Policy ▶▶*See sebgroup.com*
- Policies on Suitability, Diversity and Composition of the Board, the Group Executive Committee (GEC) and other key function holders.

SEB's ethical and sustainability endeavours are an integral part of the business, and the Board continuously discusses these issues. SEB's Code of Conduct describes SEB's values, ethics and standards of business conduct and provides guidance on how to live by these values. Policies and instructions for sustainability and various group-wide position statements and industry sector policies addressing environmental, social and governance issues are also of vital importance.

The Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code (the Code). SEB strives to follow the Code where appropriate and has no deviations to report for 2018.

▶▶*More information about corporate governance is available on sebgroup.com*

## Shareholders and general meetings of shareholders

The shareholders' influence is exercised at general meetings of shareholders through, among other things, election of directors of the Board and the external auditor.

SEB has approximately 261,000 shareholders. Around 168,000 of them own less than 500 shares, while 111 hold more than 1,000,000 shares, accounting for 82 per cent of the capital and votes. SEB's share capital consists of two classes of shares – A shares and C shares. Each Class A share carries one vote and each Class C share carries one-tenth of a vote. *SEB's largest shareholders and the shareholder structure are shown on p. 29–30.*

The Annual General Meeting (AGM) of shareholders is held in Swedish in Stockholm. All shareholders listed in the shareholder register who have duly notified their attendance have the right to participate at the AGM and to vote for the full number of their shares. Shareholders who cannot attend may appoint a representative. The 2018 AGM was held on 26 March. A total of 1,114 persons, representing 1,832 shareholders, were in attendance at the AGM. An electronic system for televoters was used at the AGM.

The main resolutions made at the AGM were:
- approval of the dividend of SEK 5.75 per share
- decision on the number of directors of the Board to be eleven
- re-election of eleven directors
- re-election of Marcus Wallenberg as Chair of the Board
- re-election of PricewaterhouseCoopers as external auditor
- adoption of guidelines for remuneration of the President and the other members of the GEC
- approval of three long-term equity programmes
- issuance of a mandate to the Board concerning the acquisition and sale of own shares for SEB's securities business, for the long-term equity programmes and for capital management purposes
- issuance of a mandate to the Board to resolve on the issuance of convertibles.

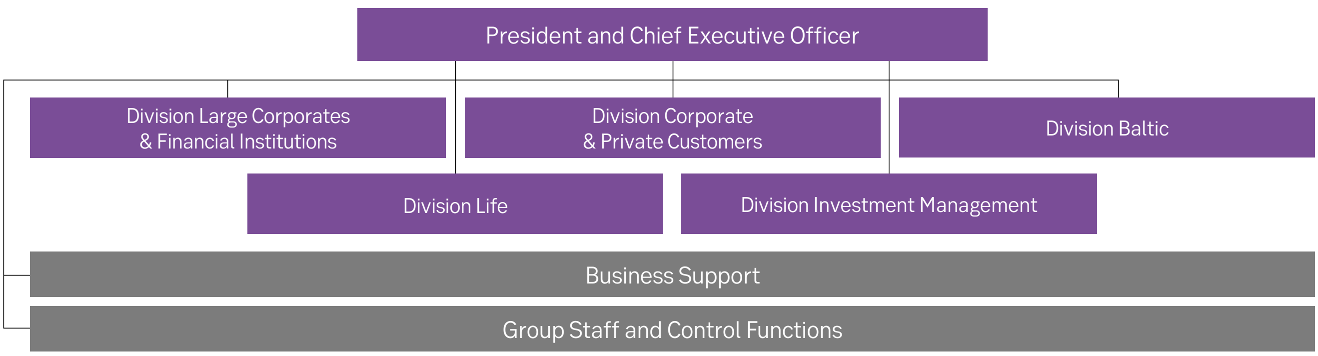
*The minutes from the AGM are available on sebgroup.com*

### Corporate governance structure

SEB's business operations are managed, controlled and followed up in accordance with policies and instructions established by the Board and the President.


### SEB's organisation

As of 1 January 2019



## Nomination Committee

The primary task of the Nomination Committee is to submit proposals to the AGM regarding the Chair and directors of the Board as well as the external auditor.

The Nomination Committee nominates the Chair, the directors of the Board and the external auditor as well as makes recommendations regarding directors' fees and fees for committee work.

Pursuant to a decision by the AGM, the Nomination Committee is to be composed of the Chair of the Board along with representatives of the bank's four largest shareholders that are interested in appointing a member. One of the independent directors shall be appointed as an additional member of the Nomination Committee.

The composition of the Nomination Committee meets the requirements laid out in the Code. The Nomination Committee has access to relevant information about the bank's operations and financial and strategic position provided by the Chair of the Board and the additional member.

An important principle is that the size and composition of the Board shall be such as to serve the bank in the best possible way. Therefore, as the starting point for its work, the Nomination Committee is tasked with assessing the degree to which the Board meets the demands that will be placed on the Board as a result of the bank's operations, organisation and future direction.

The Board's size and composition is discussed and reviewed in terms of whether they have adequate knowledge, skills and experience, both in the financial and other sectors. The directors should also have sufficient time to perform their duties and understand the business and the main risks of the bank. The Nomination Committee also reviews the evaluations of the Board and the Chair of the Board. (▸▸*See page 55*).

The composition of the Board shall adhere to applicable laws and regulations and to the Policy on Suitability, Diversity and Composition of the Board of Directors, adopted by the Board. The Nomination Committee shall ensure diversity within the Board in terms of educational and professional background, gender, age and geographical provenance of the directors.

Furthermore, the Nomination Committee discusses succession matters with particular emphasis on continuity and long-term perspective in ensuring the Board's competence and composition.

The Nomination Committee for the 2019 AGM was appointed in the autumn of 2018. No special fee has been paid to the members of the Nomination Committee.

### Nomination Committee for the 2019 AGM

| Member | Representing | Votes (%) 31 Aug. 2018 |
|---|---|---|
| Petra Hedengran, chair | Investor | 20.8 |
| Magnus Billing | Alecta | 6.9 |
| Lars Heikensten | Trygg-Stiftelsen | 5.3 |
| Javiera Ragnartz | AMF Försäkring och Fonder | 4.2 |
| Marcus Wallenberg | SEB, Chair of the Board | |
| | | **37.2** |

Tomas Nicolin, additional member, appointed by the Board.

Javiera Ragnartz represented AMF in the Nomination Committee until 4 February 2019, when she was replaced by Anders Oscarsson. Javiera Ragnartz left the Nomination Committee to assume a position at SEB.

Swedbank Robur Fonder, which was the bank's fourth largest shareholder, declined to appoint a member of the Nomination Committee.

▸▸*The Nomination Committee's proposals for decisions, including motivated account as regards directors, are available on sebgroup.com*

## Board of Directors

The Board has overall responsibility for the organisation, management and operations of the SEB group.

The Board has adopted Rules of Procedure that regulate the Board's role and ways of working as well as special instructions for the Board's committees.

The Board has the following duties, among others:

- deciding on the objective, strategy and framework for the business activities as well as the business plan
- regularly following up and evaluating the operations in relation to the objectives and guidelines established by the Board
- ensuring that the business is organised in such a way that the accounting, treasury management and the risks inherent in the business as well as financial conditions in all other respects are controlled in a satisfactory manner in accordance with external and internal rules
- adopting policies and instructions for the business operations
- deciding on major acquisitions and divestments as well as other major investments
- appointing or dismissing of the President, the members of the GEC, the Chief Risk Officer (CRO), and the Head of Group Internal Audit, as well as setting the remuneration of these individuals.

The Chair of the Board organises and directs the work of the Board and ensures among other things that the directors on a regular basis receive information and education on changes in rules concerning the activities of SEB and on responsibilities of directors of a listed financial company. Educational and specialisation seminars are held each year, and new directors are offered seminars with information on, and discussions about, the group's various operations, including information about the control functions.

The directors are elected by the shareholders at the AGM for a one-year term. Since the 2018 AGM the Board shall consist of eleven AGM-elected directors, without deputies, and of two directors with two deputies who serve as employee representatives and are appointed by the trade unions. In order for a quorum to exist at a Board meeting, more than half of the directors must be present. The President is the only AGM-elected director employed by the bank. The Nomination Committee has assessed the directors' independence in relation to the bank and the bank's management as well as in relation to shareholders controlling 10 per cent or more of the shares or votes and has found that the composition of the Board meets the requirements of the Code.

The work of the Board follows a yearly plan. In 2018, the Board held 17 meetings. The President attends all board meetings except those dealing with matters in which the President has an interest that may be in conflict with the interests of the bank, such as when the President's work is evaluated. Other members of the GEC participate whenever required.

### Directors' fees

SEB's AGM in 2018 set total fees for the directors of the Board and decided how these fees should be distributed among the Board and its committees.

The AGM in 2018 resolved that the total fees to the Board should amount to SEK 9,700,000. Directors' fees are paid on a running basis during the mandate period. Following a recommendation by the Nomination Committee, the Board has adopted a policy that recommends that directors use 25 per cent of their fee to purchase and hold SEB shares up to an amount corresponding to one year's fee. Neither the President nor the directors appointed by the employees receive any Director fee.

### Board committees

The Board's overall responsibility cannot be delegated. However, the Board has established committees to handle certain defined issues and to prepare such issues for decision by the Board.

At present, there are three committees: the Risk and Capital Committee (RCC), the Audit and Compliance Committee (ACC), and the Remuneration and Human Resources Committee (RemCo). These committees report to the Board on a regular basis. An important principle is that as many directors as possible shall participate in committee work. The Chair of the Board serves as vice chair of the three committees. Neither the President nor any other officer of the bank is a member of the committees.

### Evaluation of the Board of Directors, the President and the Group Executive Committee

The Board uses an annual self-assessment method, which among other things includes a questionnaire, followed by discussions within the Board. Through this process the activities and work methods of the Board, the Chair of the Board and the respective committees are evaluated. Among the issues examined are:
- the extent to which the individual directors take an active part in Board and committee discussions
- whether directors contribute with independent opinions
- whether the meeting atmosphere facilitates open discussions.

The outcome of the evaluation is presented to and discussed by the Board and the Nomination Committee. The evaluation process and its outcome contribute to further improvement of the Board's work and help the Nomination Committee to determine the appropriate size and composition of the Board.

The Chair of the Board formally evaluates each individual director's work once a year. Marcus Wallenberg does not participate in the evaluation of the Chair's work, which in 2018 was directed by vice chair Jesper Ovesen. The Board evaluates the work of the President and the GEC on a continuous basis, without participation by the President or any other member of the GEC.

### On the Board's agenda in 2018

**Q1**
- AGM notification and AGM proposals
- Macroeconomic review
- Balance sheet, capital and dividend matters
- Annual report 2017
- Internal and external audit reports as well as Group Compliance report
- Financial governance model and financial targets
- Remuneration of the President, the GEC and control functions
- Statutory meeting
- Group talent review and succession planning
- IT plan 2018
- Appointment of GEC members

**Q2**
- Review of the business area Markets within the division Large Corporates & Financial Institutions
- Monitoring of business environment, focused on niche banks
- Macroeconomic review
- Internal Capital and Liquidity Assessment (ICAAP and ILAAP)
- Remuneration policy
- Follow-up of compliance with new regulations
- SEB long-term strategy
- Business plan 2019–2021

**Q3**
- SEB's long-term strategy
- Business plan 2019–2021
- Review of operations in SEB Germany
- Employee survey

**Q4**
- Annual meeting with the Director General of the Financial Supervisory Authority
- Recovery and Resolution plan
- Business plan 2019–2021, financial plans and forecasts
- Risk strategy
- Annual review of policies and instructions
- SEB's Code of Conduct
- Board evaluation
- Risk seminar
- Media focus on SEB's role in money laundering and tax evasion
- Adoption of new Inclusion and Diversity Policy

SEB's quarterly report, a report from the Board committees and a summary of SEB's risk position, asset quality, credit portfolio and liquidity position are on the Board's agenda each quarter.


## Board of Directors

| | 1 Marcus Wallenberg | 2 Sven Nyman | 3 Jesper Ovesen | 4 Johan H. Andresen | 5 Signhild Arnegård Hansen |
|---|---|---|---|---|---|
| Position | Chair since 2005 | Vice Chair since 2017 | Vice Chair since 2014 | Director | Director |
| Committee | ● RCC ● ACC ● RemCo | | ● RCC ● ACC | | ● RemCo |
| Year elected | 2002 | 2013 | 2004 | 2011 | 2010 |
| Born | 1956 | 1959 | 1957 | 1961 | 1960 |
| Education | B.Sc. (Foreign Service) | B.Sc. (Business and Econ.) | B.Sc. (Econ.) and MBA | B.A. (Government and Policy Studies) and MBA | B.Sc. (Human Resources) and journalism studies |
| Other assignments | Chairman of Saab and FAM. Vice Chairman of Investor. Director of AstraZeneca Plc., Temasek Holdings Ltd and the Knut and Alice Wallenberg Foundation. | Chairman of RAM Rational Asset Management. Director of RAM ONE, Ferd AS (Norway), Nobel Foundation's Investment Committee, Stockholm School of Economics, Stockholm School of Economics Association and of Axel and Margaret Ax:son Johnson's Foundation. | Director of Sunrise Communications Group AG (Switzerland) and Conva Tec Group Plc. (UK). | Owner and Chairman of Ferd AS (Norway). Chairman of Council on Ethics for the Government Pension Fund Global (Norway). Director of SWIX Sport AS (Norway), NMI-Nordic Microfinance Initiative and Junior Achievement Europe. | Chairman of SnackCo of America Corp (USA). Vice Chairman of the Swedish-American Chamber of Commerce (SACC) (USA). Director of Business Sweden and Entrepreneurship and Small Business Research Institute (ESBRI), SOS Children Villages Sweden and SACC New York. |
| Background | Citibank in New York, Deutsche Bank, S G Warburg Co, Citicorp Hong Kong and Stora Feldmühle. Executive Vice President of Investor and CEO of Investor. Several assignments as chairman and director of large public companies. | Broad experience from the financial business field. Managerial positions within Investor. CEO and founder of Lancelot Asset Management and Arbitech. Several directorships. | Price Waterhouse. Vice President and later CEO of Baltica Bank A/S. Vice President and Head of Finance of Novo Nordisk A/S. CEO of Kirkbi Group. CFO of Den Danske Bank A/S, LEGO Holding A/S and TDC A/S. Several directorships. | International Paper Co. Partner of Ferd AS. CEO of Ferd AS. | President of the family-owned company Svenska LantChips. Chairman of the Confederation of Swedish Enterprise. Vice Chairman of Business Europe. Director of Innventia, IFL at Stockholm School of Economics, Research Institute of Industrial Economics, Loomis, University of Lund, Magnora, King Carl XVI Gustaf's Foundation for Young Leadership and Transatlantic Business Dialog. |
| Nationality | Swedish | Swedish | Danish | Norwegian | Swedish |
| Own and closely related persons' shareholdings | 753,584 Class A shares and 720 Class C shares | 10,440 Class A shares and 10,200 Class C shares | 25,000 Class A shares | 100,000 Class A shares | 5,387 Class A shares |
| Independent in relation to bank/major share holders | Yes/No | Yes/Yes | Yes/Yes | Yes/Yes | Yes/Yes |
| Attendance at Board/ Committee meetings[1)] | 16 of 16 / 29 of 31 | 16 of 17 | 17 of 17 / 23 of 23 | 14 of 17 | 17 of 17 / 8 of 8 |
| Remuneration, Board meetings, SEK | 2,940,000 | 930,000 | 930,000 | 700,000 | 700,000 |
| Remuneration, Committee meetings, SEK | 805,000 | – | 815,000 | – | 387,500 |

● Chair ● Vice Chair ● Member

1) Includes only the meetings that the Director could attend without conflict of interest.


11 12 13 14
See information p. 58

| 6 Samir Brikho | 7 Winnie Fok | 8 Tomas Nicolin | 9 Helena Saxon | 10 Johan Torgeby |
|---|---|---|---|---|
| Director | Director | Director | Director | Director (President and CEO) |
| ● RCC | ● ACC | ● RCC ● RemCo | ● ACC | |
| 2013 | 2013 | 2009 | 2016 | 2017 |
| 1958 | 1956 | 1954 | 1970 | 1974 |
| M.Sc. (Engineering, Thermal Technology), Hon. Dr. (Cranfield University). | Bachelor of Commerce | B.Sc. (Econ.) and M.Sc. (Management) | M.Sc. (Business and Econ.) | B.Sc. (Econ.) |
| UK Business Ambassador. Co-Chairman of the UK-UAE Business Council and the UK-ROK CEO Forum. Director of Euro-Chem Group AG. Member of Advisory Board of Stena. Chairman of the Step Change Charity. | Director of Volvo Car Corporation, G4S plc (UK). Member of the Investment Committee of HOPU Investments Co, Ltd. (Asia), senior advisor to FAM and WFAB. | Chairman of Centre for Justice. Director of Nordstjernan, Nobel Foundation and Axel and Margaret Ax:son Johnson's Foundation. Member of the Investment Committee of Niam Property Fund. | CFO at Investor. Director of Swedish Orphan Biovitrum. | Director of the Swedish Bankers' Association and of the Institute of International Finance and Mentor Sweden. |
| Broad international experience from management and leadership, especially within the industrial sector. Leading positions within ABB, e.g. as Division Head and CEO of significant subsidiaries. Member of the GEC of ABB Ltd. CEO of Amec Foster Wheeler plc. | Broad experience from the financial business field. Certified Public Accountant in Australia and in Hong Kong. Member of the Institute of Chartered Accountants in England and Wales. Industrial advisor and senior advisor to Investor and Husqvarna. CEO and Senior Partner of EQT Partners Asia Ltd and CEO of New Asia Partners Ltd. | Broad experience in the financial sector as CEO of Alecta, Third National Swedish Pension Fund and E. Öhman J:or Fondkommission as well as a leading position in Handelsbanken. Several directorships. | Financial analyst at Goldman Sachs and Investor, CFO at Syncron International and Hallvarsson & Halvarsson. Investment Manager at Investor. | Portfolio Manager & Macro Economist (Swedbank), Head of Nordic & Dutch Corporate Debt Capital Markets & Risk Management, Executive Director, Financial Sponsors Group Private Equity at Morgan Stanley in London, Head of Client Coverage, Merchant Banking. Co-head of division Large Corporates & Financial Institutions. |
| Swedish, Swiss | British | Swedish | Swedish | Swedish |
| 0 shares | 3,000 Class A shares | 66,000 Class A shares | 12,500 Class A shares | 5,567 Class A shares, 84,809 share rights and 138,037 conditional share rights. |
| Yes/Yes | Yes/Yes | Yes/Yes | Yes/No | No/Yes |
| 17 of 17/ 15 of 16 | 16 of 17 / 7 of 7 | 17 of 17 / 20 of 20 | 16 of 16 / 7 of 7 | 17 of 17 |
| 700,000 | 700,000 | 700,000 | 700,000 | – |
| 345,000 | 265,000 | 540,000 | 425,000 | – |

Sara Öhrvall was a director of the Board until 30 June 2018, when she left at her own request and joined the bank as Chief Digital, Customer Experience and Communications Officer.

## *Directors appointed by the employees* (*See group photo on p. 56–57.*)

| | 11 Anna-Karin Glimström | 12 Håkan Westerberg | 13 Annika Isenborg | 14 Charlotta Lindholm |
|---|---|---|---|---|
| Position | Director | Director | Deputy Director | Deputy Director |
| Year elected | 2016 | 2015 1) | 2016 2) | 2015 |
| Born | 1962 | 1968 | 1967 | 1959 |
| Education | University studies in mathematics, statistics and law. | Engineering logistics. | University studies in working environment. | LLB |
| Other assignments | Chairman of Financial Sector Union of SEB group and Financial Sector Union Western section in SEB, Director EB-SB Fastigheter and EB-SB Holding. | Chairman of the Association of University Graduates at SEB. | First deputy Chairman of Financial Sector Union of SEB and Financial sector union regional club Group Operations of SEB. | Vice Chairman of the Association of University Graduates at SEB. Director of the Foundation of Alma Detthows. |
| Background | Office manager and various other positions in SEB. Various specialist and leader roles within Trygg-Hansa. Director of SEB's Profit Sharing Foundation. | Sales manager at Trygg-Hansa in the property insurance business. SEB in various positions in systems management and IT development, currently Systems Management Advisor. | Employed at Fixed Income, Group Operations. Director of SEB's Profit Sharing Foundation and Result Premium Foundation. | Various client responsibility positions in several divisions and subsidiaries in the SEB. Presently client executive at Private Banking Foundations. |
| Nationality | Swedish | Swedish | Swedish | Swedish |
| Own and closely related persons' shareholdings | 0 shares<br>809 conditional share rights | 4,005 Class A shares and<br>809 conditional share rights | 257 Class A shares and<br>1,618 conditional share rights | 221 Class A shares and<br>809 conditional share rights |
| Attendance at Board meetings | 16 of 17 | 17 of 17 | 16 of 17 | 15 of 17 |

1) Deputy director 2011–2014
2) Deputy director 2014

### *Audit and Compliance Committee*

The ACC supports the Board with quality assurance of, and internal control over, the financial reporting and the reporting to supervisory authorities. The ACC also monitors the effectiveness of internal controls in relation to compliance and audit matters.

When required, the ACC prepares, for decision by the Board, a recommendation for the appointment or dismissal of the Head of Group Internal Audit. The Committee maintains regular contact with the bank's external and internal auditors and discusses the co-ordination of their activities. The Committee also ensures that any remarks and observations from the auditors are addressed, and evaluates the external auditor's work and independence. When required, a proposal from the President on appointment or dismissal of the Head of Group Compliance is subject to the Committee's approval.

The ACC held seven meetings in 2018. The Head of Group Finance, the external auditors, the Head of Group Internal Audit and the Head of Group Compliance submit reports for the Committee's consideration. In addition, the President, the Finance Director and the CRO regularly participate in the meetings. *See p. 66 for the Report on Internal Control over Financial Reporting.*

"The 2008 financial crisis led to increasingly demanding regulations, which in turn led to a significant increase in the need for internal control of regulatory compliance and financial reporting. 2018 was therefore characterised by continued intensive work on the implementation of measures to ensure compliance with regulations such as GDPR, PSD 2 and IFRS . Another area that called for extra attention of the Committee in 2018 was the preparation for election of new external auditor in accordance with the EU Auditing Regulation. The committee recommended that EY be proposed by the Nomination Committee as the bank's new external auditor at the 2019 AGM."

**Helena Saxon**
*Chair of the ACC*

#### *ACC members*

Helena Saxon (Chair), Marcus Wallenberg (Vice Chair), Jesper Ovesen and Winnie Fok.

### Three lines of defence in risk management

**1**

**Each business unit is responsible for the risks it takes – the first line of defence**. Long-term customer relationships and a sound risk culture provide a solid foundation for SEB's risk-taking decisions. Initial risk assessments are made of both the customer and the proposed transaction. The business units ensure that transactions are correctly priced and that the assumed risks are managed throughout the life of the transaction. Larger transactions are reviewed by a credit committee. The business units are responsible for ensuring that the activities comply with applicable group-wide policies and instructions and are supported by a clear decision-making hierarchy.

**2**

**The risk and compliance functions constitute the second line of defence.** These units are independent from the business. The risk function is responsible for identifying, measuring, monitoring and reporting risks. Risks are measured both on detailed and aggregated levels. Internal measurement models have been developed for the majority of the credit

### *Remuneration and Human Resources Committee (RemCo)*

The RemCo prepares, for decision by the Board, appointments of the President and the members of the GEC. The Committee develops, monitors and evaluates SEB's remuneration system and remuneration practice, incentive programmes and risk adjustment of deferred variable pay.

RemCo monitors and evaluates how the guidelines established by the AGM for remuneration of the President and the members of the GEC are applied. An independent auditor's review report on the adherence of SEB's remuneration system to the Remuneration Policy is presented to the Committee annually.

The RemCo reviews, in consultation with the RCC, SEB's Remuneration Policy and ensures that the bank's remuneration structure takes into account the risks and the cost of capital and liquidity. The analysis is among other things based on the risk analysis performed jointly by Group Risk, Group Compliance and Group HR.

In addition, the Committee oversees the group's pension obligations and, together with the RCC, the measures taken to secure the pension obligations of the group, including developments in the bank's pension foundations. The RemCo held eight meetings in 2018.

Executive management succession, talent and competence planning as well as SEB's remuneration models were in focus in 2018. In times of rapid change and shortage of key competencies, it is vital that the bank can attract employees of, among other things, various gender, age, background and mindset. By adopting an Inclusion & Diversity policy as well as strengthening the whistleblowing process, SEB clarified its position regarding inclusion and diversity."

**Signhild Arnegård Hansen**
*Chair of the RemCo*

The President, together with the Head of Group HR, makes presentations to the Committee on matters in which there are no conflicts of interest. *See the Remuneration Report on p. 64.*

**_RemCo members_**
Signhild Arnegård Hansen (Chair), Marcus Wallenberg (Vice Chair) and Tomas Nicolin.

### *Risk and Capital Committee (RCC)*

The RCC supports the Board in ensuring that SEB is organised and managed in such a way that all risks inherent in the group's business are monitored and managed in accordance with the Board's risk tolerance statement as well as with external and internal rules. The RCC also monitors the group's capital situation on a continuous basis.

The RCC sets the principles and parameters for measuring and allocating risk and capital within the group and oversees risk management systems and the risk tolerance and strategy for the short and long term. The RCC prepares a recommendation for the appointment and dismissal of the CRO. It also decides on individual credit matters of major importance or of importance as to principles and assists the RemCo in providing a risk- and capital-based view on the remuneration system. The RCC held 16 meetings in 2018.

The group's Finance Director has the overall responsibility for informing and submitting proposals to the RCC on matters related to capital and funding. The CRO has the same overall responsibility regarding risk and credit matters. The President, the Finance Director, the Head of Group Finance and the CRO regularly participate in the meetings. *The CRO function is described on p. 62. Information on risk, capital and liquidity management is provided on p. 44.*

SEB's capital position and the development of capital requirements including in particular the proposed EU Bank Package reform and "Basel IV" continued to be focus areas for RCC in 2018. Other important areas addressed include monitoring of the credit portfolio, the Swedish household mortgage market, impact from growing e-commerce and sustainability risk management aspects. RCC also followed up on the actual effects of new regulatory requirements that came into force during the year."

**Jesper Ovesen**
*Chair of the RCC*

**_RCC members_**
Jesper Ovesen (Chair), Marcus Wallenberg (Vice Chair), Tomas Nicolin and Samir Brikho.

portfolio as well as for market and operational risk and are approved by the Swedish FSA for calculating capital adequacy. Risks are controlled through limits at transactional, desk and portfolio levels. Asset quality and the risk profile are monitored continuously, for example through stress testing.

The compliance function works proactively to ensure the quality of compliance at SEB, and focuses on issues such as customer protection, conduct in the financial market, prevention of money laundering and financing of terrorism as well as regulatory requirements and controls.

3

**Internal Audit is the third line of defence.** SEB's risk management is regularly reviewed and evaluated by Internal Audit to ensure that it is adequate and effective. The internal auditors are in turn evaluated by the external auditor. Based on the evaluations of the third line of defence, the processes in the first and second lines of defence are continuously strengthened. SEB's governance framework, sound risk culture and business acumen constitute the cornerstones of effective risk management.

## Group Executive Committee *(as per 1 January 2019)*

| | Johan Torgeby | Magnus Carlsson | Magnus Agustsson | Jeanette Almberg | Joachim Alpen | Martin Johansson |
|---|---|---|---|---|---|---|
| Position | President and CEO since 2017 | Deputy President & CEO since 2014 | Chief Risk Officer since 2017 | Head of Group Human Resources since 2016 | Executive Vice President. Co-Head of the Large Corporates & Financial Institutions division since 2018 | Head of Business Support since 2011 and Chief of Staff since 2018 |
| GEC member since | 2014 | 2005 | 2017 | 2016 | 2014 | 2009 |
| SEB employee since | 2009 | 1993 | 2009 | 2008 | 2001 | 2005 |
| Born | 1974 | 1956 | 1973 | 1965 | 1967 | 1962 |
| Education | B.Sc. (Econ.) | B.Sc. (Econ.) | C.Sc and M.Sc | B.Sc. (Econ.) | MBA, M.A. (International relations) | B.Sc. (Econ.) |
| Nationality | Swedish | Swedish | Icelandic and Finnish | Swedish | Swedish | Swedish |
| Own and closely related persons' shareholdings | 5,567 Class A shares, 84,809 share rights and 138,037 conditional share rights. | 54,998 Class A shares, 55,933 share rights and 113,440 conditional share rights. | 8,744 Class A shares, 4,970 share rights and 34,461 conditional share rights. | 10,600 Class A shares, 33,055 share rights and 58,049 conditional share rights. | 6,112 Class A shares, 98,783 share rights and 118,948 conditional share rights. | 236 Class A shares, 41,079 share rights and 156,104 conditional share rights. |

## The President

The President, who is also the Chief Executive Officer, is responsible for the day-to-day management of the activities of SEB in accordance with the directives of the Board. The President shall ensure that the organisation and administration of SEB is appropriate. The President is overall responsible for managing all risks of SEB in accordance with the policies and instructions of the Board and the intentions as stated in the risk tolerance statements.

The Board has adopted an instruction for the President's duties and role. The President reports to the Board and submits at each board meeting a report on, among other things, the performance of the business in relation to decisions made by the Board. The President appoints the Heads of Divisions and Heads of the various staff and support functions that report directly to the President.

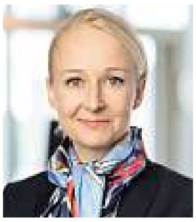
### The President's committees

The President has three main committees at his disposal for the purpose of managing the operations.

***The Group Executive Committee (GEC)***
To safeguard the interests of the group as a whole, the President consults with the GEC on matters of major importance or of importance as to principles. The GEC addresses, among other things, matters of common concern to several divisions, strategic issues, sustainability, business plans as well as financial forecasts and reports. The GEC held 39 meetings in 2018. The President has appointed seven managers as additional members of the GEC. They participate in GEC meetings from time to time to provide expertise and insight within primarily their area of responsibility.

***The Asset and Liability Committee (ALCO)***
The ALCO, chaired by the President and with the Finance Director as vice chair, is a group-wide decision-making, monitoring and consultative body. The ALCO, which held nine meetings in 2018, handles the following matters, among others:
- financial stability, particularly in the new regulatory framework
- strategic capital and liquidity issues, including internal capital allocation and principles for internal pricing
- structural issues and issues related to the bank's balance sheet and business volumes
- financing of wholly-owned subsidiaries
- the balance sheet and funding strategy for the group.

***The Group Risk Committee (GRC)***
The GRC, chaired by the President and with the CRO as vice chair, is a group-wide, decision-making committee that addresses all types of risk, including sustainability and reputational risks, at group level in order to evaluate portfolios, products and customers from a comprehensive risk perspective. The GRC held 66 meetings in 2018. The GRC is tasked with:
- making important credit decisions
- ensuring that all risks inherent in the group's activities are identified, measured, monitored and controlled in accordance with internal and external rules
- supporting the President in ensuring that decisions regarding the group's long-term risk tolerance are followed in the business organisation
- ensuring that the Board's guidelines for risk management and risk control are implemented and that the necessary rules and policies for risk-taking in the group are maintained and enforced.

|  |  |  |  |  |  |
|---|---|---|---|---|---|
| William Paus | Nina Korfu-Pedersen | Mats Torstendahl | Riho Unt | Masih Yazdi | Sara Öhrvall |
| Executive Vice President. Co-Head of the Large Corporates & Financial Institutions division since 2018 | Head of Group Finance since 2016 | Executive Vice President. Head of the Corporate & Private Customers division since 2018 | Head of the Baltic division since 2016, Group AML Senior Officer since 2018 | Finance Director since 2018 | Chief Digital, Customer Experience and Communications Officer since 2018 |
| 2018 | 2018 | 2009 | 2016 | 2018 | 2018 |
| 1992 | 2010 | 2009 | 2001 | 2013 | 2018 |
| 1967 | 1973 | 1961 | 1978 | 1980 | 1971 |
| M.Sc. (Econ.) | M Sc. (Econ) | M.Sc. (Engineering Physics) | MBA, MA (Public Administration) | B.Sc. (Econ) | M Sc. (Econ) |
| Norwegian | Norwegian | Swedish | Estonian | Swedish | Swedish |
| 52,900 Class A shares, 75,962 conditional share rights, 6,481 phantom share rights and 27,386 conditional phantom share rights. | 436 Class A shares, 11,477 share rights and 22,014 conditional share rights. | 104,218 Class A shares, 50,494 share rights and 184,391 conditional share rights. | 1,063 Class A shares, 7,773 share rights and 56,574 conditional share rights. | 10,257 Class A shares, 11,587 share rights and 46,189 conditional share rights. | 1,150 Class A shares. |

### On the GEC agenda in 2018

- Macroeconomic development
- Discussion on regulations, such as MiFID II, GDPR, AML4 and PSD 2
- Annual accounts and quarterly reports
- AGM preparations
- Review of the bank's various businesses and home markets
- Follow up of current Business Plan 2016–2018
- SEB long-term strategy and new Business Plan 2019–2021
- Discussion on capital requirements, asset quality and risk
- Quarterly reports from Group Compliance, Internal Audit and Group Risk.
- Review of, and discussion on, the digitalisation work including development and launch of enhanced customer functionality as well as internal automation initiatives
- Review and discussion on IT, including investments, security, agile steering and cloud services
- Discussion on strategic investments and co-operation with fintech and digitalisation companies
- Discussion on customer satisfaction, branding and image position as well as customer insight work
- Employee Insight survey 2018 – discussion of survey result and actions
- Development of corporate sustainability
- Review of outsourced activities
- Investor World update
- Review process for handling of customer complaints
- Know-Your-Customer and Anti-Money-Laundering training
- Annual review of policies and instructions, including SEB's Code of Conduct
- Discussion on inclusion and diversity
- Review of competence and leadership development
- Workshop on risks

## Divisions and business areas

SEB's business is organised in divisions. Each division is responsible for the subsidiaries designated to the division.

The Board regulates the activities of the group through an instruction for internal governance which establishes how the group's divisions, including the international activities conducted through branches and subsidiaries, are to be governed and organised. The head or co-heads of a Division have overall responsibility for the activities in the business areas and appoint, after consultation with the President, heads of the business areas within the division.

A Country Manager is appointed in a country outside Sweden where SEB maintains business operations. The Country Manager co-ordinates the group's business locally and reports to a specially designated member of the GEC.

## Additional members of the Group Executive Committee *(as per 1 January 2019)*







| | Johan Andersson | Peter Høltermand | Ausra Matuseviciene | Nicolas Moch | Marcus Nystén | David Teare [1)] | John Turesson |
|---|---|---|---|---|---|---|---|
| Position | Country Manager SEB Germany since 2016 | Country Manager SEB Denmark since 2002 | Head of Operations since 2015 | Chief Information Officer since 2018 | Country Manager SEB Finland since 2010 | Head of the Life division since 2019 | Country Manager SEB Norway since 2018 |
| Additional member since | 2009 | 2011 | 2018 | 2018 | 2014 | 2019 | 2018 |
| SEB employee since | 1980 | 1997 | 2002 | 2008 | 1998 | 2006 | 2006 |
| Born | 1957 | 1963 | 1973 | 1972 | 1960 | 1963 | 1978 |
| Education | B.Sc. (Econ.) | B.Sc. (Econ.) | MBA | M.Sc. | M.Sc. (Econ.) | B. Comm. | MBA |
| Nationality | Swedish | Danish | Lithuanian | Swedish and French | Finnish | Canadian and Brittish | Swedish |
| Own and closely related persons' share-holdings | 51,056 Class A shares, 22 Class C shares and 747 conditional share rights. | 436 Class A shares, 18,658 share rights, 83,157 conditional share rights, 7,616 phantom share rights, 49,470 conditional phantom share rights. | 9,890 Class A shares, 12,558 share rights and 28,798 conditional share rights. | 3,689 Class A shares, 5,457 share rights and 28,525 conditional share rights. | 119,847 Class A shares, 53,493 conditional share rights, 7,027 phantom share rights and 32,786 conditional phantom share rights. | 54,932 Class A shares, 50,071 share rights and 74,600 conditional share rights. | 0 Class A shares, 24,524 conditional share rights, 5,186 phantom share rights and 19,506 conditional phantom share rights. |

1) As Head of Division Life & Investment Management in 2018, David Teare was an ordinary member of the GEC in 2018

## Business support and Group staff functions

Business Support and Group staff functions are cross-divisional functions established to leverage economies of scale and support to the business.

Business Support covers such areas as transaction processing, development, maintenance and operation of IT systems, and management of SEB's IT portfolio.

SEB's Group staff functions have global responsibility and support the organisation with services in the areas of Financial Control, Human Resources, Legal Affairs, Digital experience & Innovation, Communication, Marketing and Corporate Sustainability.

### The CRO function

The CRO function is responsible for identifying, measuring, analysing and controlling SEB's risks and is independent from the business.

**Magnus Agustsson**
*Chief Risk Officer*

The Chief Risk Officer (CRO) is appointed by the Board and reports to the President. The CRO keeps the Board, the RCC, the ACC, the GEC, the ALCO and the GRC regularly informed about risk matters. The CRO has global functional responsibility, and the activities of the CRO are governed by and set out in an instruction adopted by the Board. The CRO function is organised in three units: Group Risk, Group Credits and CRO Office.

The main objective for Group Risk is to ensure that all risks in SEB's activities are identified, measured, monitored, controlled and reported in accordance with external and internal rules. They also manage models for risk measurement. CRO Office aggregates and analyses data across risk types and the group's credit portfolios and handles general matters surrounding risk governance and risk disclosure. Group Credits is responsible for managing the credit approval process, for certain individual credit decisions and for monitoring compliance with policies set by the RCC and the Board. Its activities are regulated by the group's Credit Instruction, adopted by the Board. The chairs of the respective divisional credit committees have the right to veto credit decisions. Material exceptions to the group's Credit Policy must be escalated to a higher level in the decision-making hierarchy.

Head of Group Risk and Head of Group Credits are appointed by the President, upon recommendation by the CRO, and report to the CRO. *For information about risk, capital and liquidity management see p. 44.*

**Björn Rosenkvist**
*Head of Group Internal Audit*

### Group Internal Audit

Group Internal Audit is a group-wide control function commissioned by the Board to independently evaluate the group's activities. The Head of Group Internal Audit is appointed by the Board.

The main task of Group Internal Audit is to evaluate and give assurance to the Board and the President that governance, risk management and internal controls are adequate and effective. The work is done with a risk-based approach in accordance with the methodology developed by the Institute of Internal Auditors. Each year the ACC adopts a plan for the work of Internal Audit. The Head of Internal Audit reports the findings of completed audits, actions taken and the status of previously reported findings to the ACC and also provides reports to the RCC and the Board.

The President and GEC are regularly informed about internal audit matters. Group Internal Audit's work is evaluated in a quality assessment, at least every fifth year, by an independent party. Group Internal Audit co-ordinates its work covering the bank's financial reporting with the bank's external auditor. The bank's external auditor relies to some extent on the work of Group Internal Audit in its assignment to review the group's financial reporting. This requires that the external auditor evaluates Group Internal Audit's work. The conclusion of this evaluation is reported to the ACC and Group Internal Audit.

### Group Compliance

The Group Compliance function has the responsibility to inform, control and follow up on compliance matters. Group Compliance is independent from the business organisation.

**Gent Jansson**
*Head of Group Compliance*

The Group Compliance function advises the business and management, in order to secure that SEB's business is carried out in compliance with regulatory requirements, and thereby promoting trust from customers, shareholders and the financial markets.

Special areas of responsibility are:
- customer protection
- conduct on the financial market
- prevention of money laundering and financing of terrorism
- regulatory systems and controls.

The Head of Group Compliance, who is appointed by the President after approval by the ACC, reports regularly on compliance matters to the President, the GEC and the ACC, and annually to the RCC and the Board. Based on an analysis of the group's risks in this area, the President adopts, after approval by the ACC, an annual compliance plan. The Instruction for Group Compliance is adopted by the Board.

**Peter Nyllinge**
*Auditor, PricewaterhouseCoopers*

Born 1966; Auditor of SEB, Partner in charge as of 2012. Authorised Public Accountant, President of PwC Sweden.

**Other major assignments:**
Sandvik and Fagerhult.

**Previous major assignments:**
Ericsson, Securitas, Assa Abloy and Electrolux.

## Information about the auditor

According to SEB's Articles of Association, the bank shall have at least one and not more than two auditors with at most an equal number of deputies. A registered auditing firm may be appointed auditor.

PricewaterhouseCoopers AB has been the bank's auditor since 2000 and was re-elected in 2018 for the period up to and including the 2019 AGM.

The fees charged by the auditor for the auditing of 2017 and 2018 financial years and for other assignments invoiced during these periods are shown in the table below .

### Fees to the auditor

SEK m

| | **2018** | 2017 |
|---|---|---|
| Audit assignment | 27 | 30 |
| Audit-related services | 12 | 21 |
| Tax advisory | 15 | 12 |
| Other | 21 | 5 |
| **Total** [1] | **75** | **69** |

1) Of which PricewaterhouseCoopers SEK 58m (65).

### Sustainability governance

The Board of Directors is responsible for deciding on SEB's strategy and sustainability approach, and for adopting the Corporate Sustainability Policy. The President takes decisions in the Group Executive Committee (GEC) on the development of the sustainability work, in line with the strategy set by the Board. An operational steering committee has been assigned by the President to take responsibility for and monitor the bank's sustainability work.

Clear and effective structures for distribution of responsibility ensure that SEB's sustainability efforts address relevant issues and that these are implemented across the entire group.

*For a full description of SEB's sustainability governance, see sebgroup.com*

# Remuneration report

SEB aims to attract and retain committed and competent employees who are eager to continuously develop, embrace new ways of working and contribute to the bank's long-term success. Employee remuneration shall build upon value creation, encourage high performance and risk-taking that is aligned with the level of risk tolerance set by the Board of Directors, and sound and responsible behaviour based on SEB's values. The ambition is to promote long-term commitment to creating sustainable value for customers and shareholders.

An employee's remuneration shall reflect the complexity, responsibility and leadership qualities required of the role as well as his or her individual performance. SEB regularly monitors employee performance and development, among other things on the basis of transparent, individual financial and non-financial goals.

## Remuneration Policy

SEB's remuneration principles are laid out in the Remuneration Policy, which is revised and adopted yearly by the Board of Directors following a drafting process by Remuneration and Human Resources Committee (RemCo). The policy stipulates that remuneration shall be aligned with the bank's strategy, goals, values and long-term interests. It reflects Swedish and international rules and regulations and shall ensure that conflicts of interest are avoided. *For information on RemCo, see p. 59.*

The Board's Risk and Capital Committee (RCC) reviews the policy and remuneration structure to verify that SEB's risks, long-term earnings capacity, and cost of liquidity and capital are taken into account. The review is based on a risk analysis performed by Group Risk.

The policy lays out the principles for identification and remuneration of employees in positions with a material impact on the group's risk profile (Identified Staff). This also applies for employees who can impact the risk profiles of mutual funds, who provide investment advice, or who have a material impact on what services and products are offered. In 2018 a total of 974 employees (989) were categorised as Identified Staff.

Employees in control functions shall be remunerated in a manner that is independent from the business areas they oversee, that is commensurate with their key roles in the organisation, and that is based on goals that are compatible with their functions.

## Remuneration structure

The bank's remuneration structure consists mainly of base salary, variable remuneration as well as pensions and other benefits.

### Base salary

The base salary, which makes up most of an employee's remuneration, shall be competitive and commensurate with the employee's experience, responsibility and long-term performance. It shall also be in line with industry peers in the respective geographical markets in which SEB operates.

### Variable remuneration

All variable remuneration is based on SEB's risk-adjusted performance and is adapted to applicable rules governing the maximum share of an employee's base salary, the deferred portion of remuneration, shares and fund units, and the right to withhold and reduce remuneration that has not yet been paid out. For Identified Staff, variable remuneration may not exceed 100 per cent of their base salary.

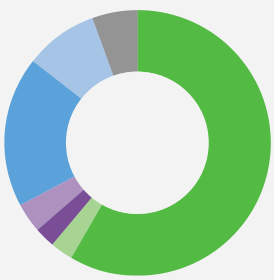
The models for variable remuneration are based on financial and non-financial key ratios at group level. Individual variable remuneration is also based on the performance of the employee's unit and includes an annual evaluation of performance and behaviours at the individual level. Non-financial goals take into account such factors as the development of customer satisfaction, compliance and sustainability matters, for instance the bank's own environmental impact and integration of sustainability in the business model. At the individual level, key parameters include compliance with rules and policies for risk-taking in the group, SEB's Code of Conduct, and demands on internal controls of the business areas.

#### *Collective profit-sharing*

The largest variable remuneration programme is the SEB All Employee Programme 2018 (AEP), which is the bank's collective profit-sharing programme that was adopted by the 2018 Annual General Meeting. It covers essentially all of the bank's employees. The purpose is to reward both short- and long-term value creation that is aligned with the customers' and shareholders' interests. Half of the yearly outcome is deferred for three years and is paid in shares. The programme's targets are coupled to SEB's business plan and consist of the financial targets for return on equity and the bank's cost development, which are also communicated externally, and the non-financial target for customer satisfaction. The outcome for 2018 was determined to be 60 per cent (56) of the maximum amount, which in Sweden was SEK 75,000.

### Staff costs, 2018

SEK m



| | SEK m |
|---|---|
| Base salary | 8,200 |
| Equity-based programmes | 393 |
| Cash-based variable remuneration | 350 |
| All Employee Programme | 487 |
| Social charges | 2,553 |
| Pensions | 1,263 |
| Other staff costs | 756 |
| **Total** | **14,004** |

All Employee Programme consists of equity and cash.

### All Employee Programmes (AEP)

| | **2018** [1)] | 2017 [2)] |
|---|---|---|
| Number of participants | 14,950 | 14,800 |
| Outcome in relation to maximum amount [3)], % | 60 | 56 |
| Shares allotted, thousands | 3,200 | 2,538 |
| Market value per 31 December, SEKm | 270 | 244 |
| Total outcome per participant [4)] | 45,000 | 42,000 |

Payout year: 1) 2022, 2) 2021, 3) SEK 75,000 in Sweden, 4) in Sweden

## Remuneration in SEB in 2018

SEK thousands

| | Base salary | Cash-based variable remuneration | Expensed amount long-term equity based programmes | Benefits | Total | Pensions |
|---|---|---|---|---|---|---|
| President and CEO Johan Torgeby [1)] | 11,000 | | 1,250 | 346 | **12,596** | 3,834 |
| Other members of the GEC [2)] | 57,644 | | 8,259 | 2,165 | **68,068** | 16,964 |
| **Total** | **68,644** | **0** | **9,509** | **2,511** | **80,664** | **20,798** |
| SEB excluding GEC | 8,131,827 | 635,308 | 586,280 | 78,484 | **9,431,899** | 1,241,953 |
| **SEB Total** | **8,200,471** | **635,308** | **595,789** | **80,995** | **9,512,563** | **1,262,751** |

1) During 2018, J. Torgeby did not exercise any share rights.

2) The number and composition differ somewhat during the year but on average twelve members are included. At the end of the year the number of members were twelve. During the year Other members of GEC have exercised rights to a value of SEK 25,128,614.

### *Individual variable remuneration*

The bank's senior managers, other key employees and employees in certain business units in which it is standard market practice, are offered individual, variable remuneration. The main ambition is that this remuneration shall be deferred and paid out in SEB shares. Equity-based remuneration is a means of attracting and retaining employees with key competence. It also provides an incentive for employees to be shareholders of SEB, which promotes a long-term commitment that is aligned with the shareholders' interests. In addition, the rules require that variable remuneration be largely paid out in the form of shares or fund units.

The 2018 Annual General Meeting (AGM) resolved on two separate individual share programmes – the SEB Share Deferral Programme 2018 (SDP) for members of the Group Executive Committee, certain other senior managers and a number of other key employees, and the SEB Restricted Share Programme 2018 (RSP), for employees in certain business units. For regulatory reasons, the latter programme also exists in a form in which the remuneration is deferred and paid out in fund units. Both programmes include scope for risk adjustment for current and future risks. The final outcome may therefore subsequently be reduced or cancelled entirely in accordance with applicable rules, such as taking into account the bank's result and the capital and liquidity required for the bank's operations. Approximately 10 per cent of employees are eligible for individual variable remuneration.

For a limited group of employees variable remuneration consists partly or entirely of cash that is paid out yearly or deferred for a number of years in accordance with applicable rules. Approximately 7 per cent of employees– such as those in investment banking – receive variable remuneration with a cash component, but only in cases where it entails a low or no residual risk for SEB. For employees who receive variable remuneration above a certain level, a portion of it must always be deferred and is revocable. In 2018, cash-based variable remuneration accounted for 3 per cent (2) of SEB's total staff costs.

## Remuneration of the President and members of the Group Executive Committee

SEB's Board of Directors decides on the remuneration of the President and other members of the Group Executive Committee (GEC) based on an evaluation and recommendation by RemCo. Their remuneration shall be in line with the guidelines set by the AGM and consists of base salary, equity-based remuneration (the SEB Share Deferral Programme), and pensions and other benefits.

No cash-based variable remuneration is paid to members of the GEC, nor are they eligible for the SEB All Employee Programme (AEP). The pension plans are defined-contribution solutions, with the exception of a defined-benefit component provided under collective agreements, and are in line with the SEB Group's Pension Policy. A maximum of five days of vacation may be saved per year.

For termination of employment initiated by the bank, a maximum of 12 months' severance pay is payable, after the notice period. SEB has the right to deduct income earned from other employment from any severance pay.

The AGM guidelines are evaluated on a continuous basis throughout the year. To perform this evaluation, RemCo obtains information from the Head of Group Human Resources, the Head of Group Internal Audit and the external auditor, and with respect to the GEC members, also from the President. In addition, external remuneration analyses are performed yearly of relevant sectors and markets. This internal and external information makes up a vital component for ensuring that remuneration is aligned with the market and is competitive.

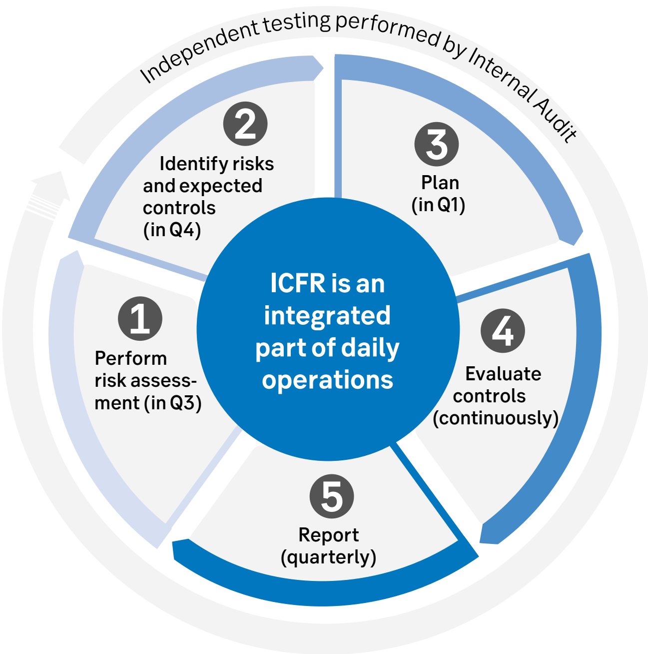
Prior to the 2018 AGM the bank's external auditor issued a statement to the Board assuring that SEB has adhered to the guidelines for salary and other remuneration for the President and other GEC members set by the 2017 AGM.

▸▸ *For information about SEB's remuneration structure, see note 8 and the AGM information on sebgroup.com.*

## Share Deferral and Restricted Share Programmes

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Restricted Share Programme | Share Deferral Programme | Total | Restricted Share Programme | Share Deferral Programme | Total |
| Number of participants | 439 | 802 | **1,241** | – | 1,448 | **1,448** |
| Shares allotted, thousands | 1,450 | 3,385 | **4,835** | – | 4,646 | **4,646** |
| Market value, 31 December, SEK m | 125 | 335 | **460** | – | 447 | **447** |

# Internal control over financial reporting




Internal Control over Financial Reporting (ICFR) is a well-established process designed to provide reasonable assurance regarding the reliability of financial reporting and reduce the risk for misstatements. ICFR is based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and is applied by SEB in a yearly cycle.

1

## Perform risk assessment

In order to identify and understand which risks exist, financial results and balance sheets are analysed at SEB group and unit levels. The outcome is used to determine which units, processes and systems are to be covered by the ICFR process in the coming year according to the materiality principle.

2

## Identify risks and expected controls

People with expertise in the business divisions and finance department evaluate if the controls are effective, if new risks have been identified and if new controls need to be in place to mitigate the risks more effectively. The controls are communicated to involved parties within the bank in order to clarify expectations and responsibilities. The framework consists of group-wide controls as well as controls covering business processes and IT – for example analysis of the balance sheet and income statement, account reconciliations and controls of system access rights.

3

## Plan

Every year a plan is prepared based on the risk assessments and expected controls. The plan clarifies who is responsible for evaluating the respective controls within each unit, what type of evaluation should be conducted and how the results are to be reported. At this stage the plan is coordinated with the plans of internal and external audit.

4

## Evaluate controls

The controls are evaluated on a continuous basis throughout the year by the control owners through self-assessments. In this way the bank's weaknesses can be identified, compensating controls implemented and improvements made. Furthermore, reporting is done quarterly by financial managers to give an assurance of the reported figures from each unit. The evaluation describes material financial reporting risks (if any) and comments on material deviations compared with previous quarters.

5

## Report

The result of the evaluations of controls are analysed to assess the risk for misstatements in the financial reporting. Monitoring reports are submitted on a quarterly basis to the Finance Director and Head of Group Finance in connection with the quarterly external financial reporting. Reporting is also done to the Audit and Compliance Committee (ACC) once a year.

The group-level ICFR report includes a description of the residual risk, an assessment of identified control gaps and whether they are compensated by other controls, and how the work with remediation activities is progressing. The report contributes to transparency in the SEB organisation and enables prioritisation of improvement activities based on the residual risk.

## Independent testing

In addition to this process, Internal Audit performs independent testing of the ICFR framework.

### Focus areas 2018

In addition to the ongoing work during 2018, the following main areas were in focus within the framework of internal controls:

- Design and implementation of internal controls over supervisory reporting (ICSR) to provide reasonable assurance regarding its reliability. Reports to local supervisor are quality assured prior to submission through a regular assessment process.
- Further development of controls for compliance with the reporting standard IFRS 9 Financial Instruments (*See note 53*). The main improvement was the reconciliation routines between the balance sheet and granular portfolio information.

# Sustainability Report

## This report constitutes SEB's statutory sustainability report 2018.

The report covers the SEB group, that is the parent company Skandinaviska Enskilda Banken AB (publ) and its subsidiaries.

The report describes SEB's sustainability work, the indirect and direct impact of the business, and is based on the most material aspects of SEB's sustainability framework. Descriptions cover procedures in relation to human rights, labour rights and social relations, anti-corruption and the environment among other things. Risks related to these areas are described in the Risk, capital and liquidity management chapter. *See p.48–49.*

Other key aspects of SEB's sustainability work, such as corporate governance (including sustainability governance) and staff composition, remuneration and benefits, are included in applicable parts of the Report of the Directors. The diversity policy applied for the Board is described in the Corporate Governance Report. *See p. 52 and 54.*

SEB reports in accordance with the Swedish Annual Accounts Act, chapter 6, and the Global Reporting Initiative, GRI Standards, core option. A description of SEB's materiality analysis, stakeholder dialogues, a wide range of KPIs and the GRI Index are presented in SEB's Sustainability Fact Book & GRI Index on sebgroup.com.

PwC has performed limited assurance procedures for both SEB's Sustainability Report and SEB's Sustainability Fact Book & GRI Index.

### About SEB's business

SEB is a leading Nordic financial services group. In Sweden and the Baltic countries, SEB offers financial advice and a wide range of financial services to companies, financial institutions and private individuals. In Denmark, Finland, Norway, Germany and in the United Kingdom focus is on a full-service offering to corporate and institutional customers. The bank strives to provide customers with services that meet their needs and preferences including long-term sustainability aspects. *Read more about SEB's business model on p. 16–17.*

### Approach to sustainability

As a bank SEB is an integrated part of society. SEB aims to be a role model in sustainability and has a strong ambition to contribute to sustainable growth and to help customers and other stakeholders prosper. Through financing and investment activities the bank strives to facilitate the transition towards sustainable solutions. The world has common challenges and SEB can be a driving force and thereby part of the solution.

SEB aims to contribute to short-, medium- and long-term value creation from economic, social, governance and environmental perspectives. In the course of its business, SEB impacts, both directly and indirectly, markets and communities and at the same time recognises the importance of responding and adapting to trends that impact the bank.

SEB aims to avoid or minimise negative impact of its products and services and strives to identify business opportunities to create positive impact in line with the bank's purpose, vision and strategy.

Sustainability is integrated in SEB's business activities through the sustainability framework, consisting of success factors and fundamental enablers. To get the greatest possible effect, SEB has chosen to focus on four success factors:

- **Innovation and entrepreneurship** – SEB is guided by a strong belief that entrepreneurial minds and innovative companies are the key to creating a better world. SEB supports innovation and entrepreneurship to drive sustainable economic development and contribute to creating new jobs and growth in society.
- **Sustainable financing** – SEB strives to contribute to reorienting capital flows to low-carbon and sustainable activities, to increase the share of positive impact financing and positively impact customers' sustainability focus.
- **Sustainable investments** – SEB aims to have a comprehensive and competitive offering with environmental, social and governance factors fully integrated into all investment processes.
- **Responsible and proactive advice** – SEB engages in understanding its customers' needs and preferences in the transition to a more sustainable society. This is enabled by engaged and knowledgeable employees.

The fundamental enablers (blue boxes below) are at the core of

**SEB's sustainability framework**

SEB's long-term success. As a company in the business of trust, short-comings in any of these areas would limit the bank from being able to create long-term value for stakeholders.

During 2018, sustainability aspects were further integrated into several core processes such as SEB's business planning process where sustainability has been defined as one strategic component of SEB's business plan 2019–2021. *See p. 10–12.*

## Guidelines and policies

SEB's sustainability work is based on applicable laws, regulations, international agreements and initiatives. These include:

- The UN Global Compact
- The UN Universal Declaration of Human Rights
- The ILO Core Conventions on Labour Standards
- The UN Guiding Principles on Business and Human Rights
- Children's Rights and Business Principles
- The OECD Guidelines for Multinational Enterprises
- UN-supported Principles for Responsible Investments (PRI)
- The UN Environment Programme Finance Initiative (UNEP FI)
- The Equator Principles.

Over the years, SEB has developed various steering documents in the area of sustainability. SEB abides by the Corporate Sustainability Policy, the Environmental Policy, the Human Rights Policy, the Code of Conduct, the Code of Conduct for suppliers and the Tax Policy. SEB has three position statements (Child Labour, Climate Change and Fresh Water) and six sector policies (Arms and Defence, Forestry, Fossil Fuel, Mining and Metals, Renewable Energy and Shipping). These provide guidelines on best practice as well as on the international conventions and standards that the bank encourages companies to follow. SEB aims to work with customers and portfolio companies towards improved business practices. Furthermore, SEB is committed to international agreements such as the Paris Agreement and the UN Sustainable Development Goals and actively supports the EU Commission Action Plan for Financing Sustainable Growth and the Task Force for Climate-related Financial Disclosures (TCFD).

## UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) have set the global agenda for nations, businesses and societies on how to approach the major challenges of our time, how to achieve sustainable economic growth, social inclusion and environmental protection.

As SEB's customers are represented in all segments and in a wide range of sectors, the bank can add value and contribute to all of UN's SDGs, directly and indirectly. However, the bank has identified and prioritises four of the goals that are clearly linked to the business strategy and sustainability approach, and where the operations have a fundamental impact:

- Decent work and economic growth
- Industry, innovation and infrastructure
- Climate action
- Peace, justice and strong institutions

In 2018, SEB continued to integrate the above SDGs into the business, and this report also visualises the connection to several other SDGs. *Read more on SEB and the SDGs on sebgroup.com.*

## The climate change challenge and TCFD recommendations

SEB believes that climate change is one of the most serious global challenges the world is facing. It will have significant impact across many sectors and the bank has an important role to ensure transparency around climate-related risks and opportunities. The 2018 report from United Nation's Intergovernmental Panel on Climate Change (IPCC) pointed to the growing importance of nations, organisations and the business community strengthening their efforts to limit the global temperature rise to well below the 2°C target.

### Climate change governance at SEB

In 2018, SEB endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, a global initiative aiming to increase and harmonise companies' climate-related financial disclosure to stakeholders. Since then, the bank has initiated work to implement the TCFD recommendations, under the sponsorship of the Chief Risk Officer, targeting four cornerstones – governance, strategy, risk management, as well as metrics and targets. SEB's ambition is to further integrate the climate challenge into its processes.

The Board of Directors has adopted the Corporate Sustainability Policy, which includes SEB's environmental commitment. The president has approved the bank's position statement on climate change. The Board of Directors also oversees SEB's risk management framework. SEB's governance around sustainability starts with the oversight by the Board of Directors to operational committees in the divisions. *See p. 63 for more information about sustainability governance.*

Since 2018, the Group Risk Committee is the formal escalation forum for reputational and sustainability risk matters.

One priority of the Group Sustainability function in 2018 was to further develop the key performance indicators in order to measure progress within sustainability.

### Climate change strategy

To date, a number of strategic decisions have been taken as a result of the climate challenge. Examples include SEB's decision to lower its exposure to coal producers in both its credit portfolio and fund holdings. The ambition is also to grow the green loan portfolio consisting of assets contributing to lower carbon emissions, as well as new products such as green mortgages supporting energy efficient housing. Integrating sustainability in the business model, aiming to develop new sustainable products and services, and enhancing corporate advisory capacity to capture opportunities in a transforming energy sector are some of the initiatives in the bank's business plan 2019–2021.

# Innovation and entrepreneurship

SEB was founded over 160 years ago in the service of enterprise and has since then been committed to supporting companies to develop and create value for society. Thriving businesses lead to growth and new jobs, as well as opportunities to solve environmental and societal challenges.

Through partnerships with Sweden's leading entrepreneurship organisations at all levels, SEB strives to strengthen the business climate in Sweden. *Read more on p. 25.*

SEB regularly hosts events that connect entrepreneurs and innovators with investors, both in Sweden and the Baltic countries. One example is the Innovation Forum in Stockholm where newly started companies have the opportunity to pitch their ideas to potential investors among SEB's customers. Since the start in 2014, close to 50 per cent of them have secured funding. In 2018, more than 15,000 new start-ups were financed.

# Sustainable financing

Responsible financing and lending are cornerstones of SEB's business, creating long-term sustainable value for customers and shareholders. SEB is committed to supporting its customers in their work on transitioning to sustainable solutions. The bank integrates risks and opportunities related to environmental, social and governance (ESG) aspects into customer dialogues, policies and processes. According to SEB's Credit Policy on Corporate Sustainability, sustainability risks shall be considered in all credit decisions, with focus on the repayment capacity of the customer, the underlying value of collateral, as well as reputational consequences for SEB. The aim is to identify, analyse and manage these issues, including in the areas of human rights, anti-corruption, labour rights, social relations and environment.

SEB continuously strives to further integrate sustainability into its business as well as into risk management and due diligence processes. The bank is convinced that increased knowledge and understanding among employees is crucial for success. In 2018, the bank therefore intensified this work. As an example training and education in sustainability-related issues were held for approximately 120 employees in group functions including Group Risk, Compliance and Internal Audit. External speakers have also conducted training for SEB employees on special matters. One example is Science Based Targets, a methodology to set climate transition targets, presented by World Wildlife Fund (WWF). Through increased knowledge and understanding, the aim is to further integrate sustainability in due diligence processes, such as the Know-Your Customer process.

## Supporting customers

SEB supports its customers in their efforts to reduce negative environmental impact on biodiversity and the environment. At the same time, SEB strives to identify opportunities associated with customers' ambitions to choose sustainable solutions.

The bank does for example not provide financing for new coal-fired power plants, other than to customers committed to the use of technologies such as "carbon capture", which substantially reduce greenhouse gas emissions. SEB aims to support legacy customers in making environmentally beneficial improvements in their shift away from coal.

## Managing climate-related risk

Climate change can have an impact on SEB's credit portfolio and fund holdings, and it is important that this is considered in the risk analysis and management. The bank has developed a methodology to capture the more long-term effects of material sustainability and disruption issues in the credit analysis.
Qualitative sector analyses are being performed on the most affected industries in the transition to a low-carbon environment, including energy, transport and the manufacturing industries. With regards to physical risk, industries such as real estate, forestry and insurance are deemed to be more impacted.

The implementation of the TCFD recommendation is a journey. It is SEB's ambition to better understand the impact of different climate scenarios, in terms of a transition to a low-carbon environment and physical consequences of climate change, as well as opportunities and risks implied. This will be important for future strategic decisions and risk management.

SEB is also investigating ways to measure the climate impact of the credit portfolio and assets under management in terms of carbon emissions. One initiative is the Impact Metric Tool, which SEB developed for customer use. *See* p. 71. SEB will also be liaising with the domestic and international financial community in the development of definitions and standards.

## SEB's climate disclosure based on TCFD recommendations

| | |
|---|---|
| **Governance** | • Climate change governance *See p. 68*<br>• Sustainability governance *See p. 63*<br>• Environmental Policy and Climate Change position statement *See sebgroup.com* |
| **Strategy** | • Climate change strategy *See p. 68*<br>• Sustainability in the business plan *See p. 12*<br>• Sustainability and climate-related products and initiatives *See p. 10–11, 20–23* |
| **Risk management** | • Sustainability and climate-related risk *See p. 49*<br>• Managing climate-related risks *See p. 68* |
| **Targets and metrics** | • SEB's targets are set in relation to its indirect and direct impact. *See p. 73 and SEB Sustainability Fact Book and GRI Index.* |

## Green financing

For more than a decade, SEB has supported large corporations and financial institutions in finding sustainable financing solutions, such as green bonds. 2018 was the 10th anniversary of the world's first green bond for institutional investors, issued by the World Bank and initiated by SEB. Over the years, SEB has gradually developed its role as a global thought leader and has proactively contributed to setting the standard for this financing vehicle.

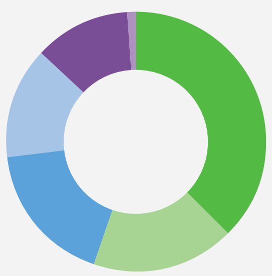
SEB recognises the need for further harmonising the green bond market and thus supports the EU Commission's action plan for sustainable finance and the ambition to create a green bond standard among other things. In 2018, SEB was the fifth largest underwriter and SEB's global share of underwriting was 3.7 per cent, corresponding to a volume of USD 5bn (source: Bloomberg).

## SEB's own green bond

SEB's first own green bond in the amount of EUR 500m was issued in 2017. The proceeds are used to finance SEB's green loan portfolio, which consists of assets and projects that contribute to lower carbon emissions and support the UN's SDGs. SEB's Green Bond Framework provides a clear definition of what is required for assets to be eligible for green financing. The Green Bond Framework and strategy, together with SEB's Environmental Policy and the accompanying sector policies, provide a robust basis for ensuring that SEB's green bond activities promote low-carbon and climate change resilient investments. In 2018, SEB's green loan portfolio increased by SEK 3bn to SEK 16bn. SEB intends to further develop and expand sustainable financing over the next few years. ▸▸*See the SEB Green Bond Investor Reports at sebgroup.com*

### SEB's green loan portfolio by sector

Per cent



| | | |
|---|---|---|
| Renewable energy | 38 |
| Sustainable forestry | 18 |
| Green buildings | 18 |
| Clean transportation | 14 |
| Energy efficiency | 12 |
| Water and wastewater management | 1 |

## Contributing to green and social impact

SEB has for several years focused on financing solutions for social impact. In 2018, Fannie Mae (FNMA), the US government-sponsored enterprise and leading provider of financing for the US housing market, engaged SEB to help introduce FNMA's green bond programme to socially responsible investors in Europe. Two green bond transactions with SEB as a lead manager followed.

SEB was also joint lead manager in the European Investment Bank's (EIB) inaugural Sustainable Awareness Bond (SAB), a bond that demonstrates EIB's commitment to supporting the UN Sustainable Development Goals. While the proceeds of the inaugural bond are used for investment in water supply, sanitation and flood protection, the SAB programme is expected to expand to other sectors such as health and education once detailed reporting frameworks are in place.

## Green mortgages

SEB offers sustainable financing solutions also for private individuals. In 2018, SEB was the first large bank in Sweden to launch green mortgages. This initiative meets increasing customer demand for sustainable products, which is in line with SEB's business strategy. The loans are available to anyone with housing that fulfils specific requirements, for example Sweden's National Board of Housing, Building and Planning has assigned an A or B rating for energy efficiency. Going forward, SEB has the ambition to issue a green covered bond, based on mortgages loans.

## Partnering with academia

During the year, SEB further strengthened its ties to the research community. SEB's co-head of the Large Corporates & Financial Institutions division joined the board of the newly founded Stockholm Sustainable Finance Centre. The centre will support financial actors in shifting capital to implement the global sustainability agenda. It is an initiative by the Swedish Government, Stockholm Environmental Institute and Stockholm School of Economics.

## Equator Principles

SEB adheres to the Equator Principles (EP) since 2007, a voluntary set of guidelines used by financial institutions to assess the social and environmental impact of large projects and to help their customers to manage them. A review of EP is ongoing. During 2018 SEB took part in the work related to the update to EP IV, which is planned to be finalised in 2019.

In 2018, SEB had two project financing transactions under the Equator Principles, one category A (projects with potential significant adverse environmental and social risks and/or severe impact), one category B (projects with potential limited adverse environmental and social risks and/or impact that are less severe.)


# Sustainable investments

SEB is one of the largest institutional investors in the Nordic region with SEK 1,699bn in assets under management for private, corporate and institutional customers. In 2018, the assets under management for funds within SEB amounted to SEK 622bn, of which 100 per cent were managed according to the UN-supported Principles for Responsible Investments, PRI (one index fund excluded). SEB is a signatory of the PRI since 2008 and has since then reported yearly on how SEB complies with the six PRI principles. In PRI's grading of sustainable investments 2018, SEB received an A rating, which is an important confirmation of SEB's work within sustainable investments.

SEB aims to integrate sustainability aspects into all types of investments and in all asset classes, to meet customers' expectations and to contribute to the development of a sustainable society. The investment strategies are based on continuous engagement with the companies that SEB invests in on behalf of its customers, and on including companies that perform well in sustainability or have well defined plans for a transition. In addition, companies that do not abide by SEB's sustainability criteria are excluded.

During 2018 SEB further raised the level of sustainability in its own funds. At year-end, 30 (25) per cent, SEK 188bn, were managed according to SEB's most stringent sustainability criteria. In SEB's Strategy Funds about two thirds of the funds' assets adhere to its most stringent sustainability criteria. Of SEB's total assets under management, 11 (8.6) per cent were managed according to the same criteria.

### Inclusion of sustainable companies
On the customers' behalf, SEB increasingly invests in businesses that actively manage the environmental, social and governance aspects of their operations and believes that these will be more successful over time, adding value for customers, companies and society. As an example, fund managers strive to identify companies that have a reduced impact on the climate, within areas such as carbon emissions, water use and handling of toxic waste. One of these funds is SEB Sustainability Fund Global. SEB offers more than 20 funds with a clear sustainability profile, and the customer demand for this category of products is increasing. During 2018, SEB further transitioned funds to become sustainable, meaning they adhere to the strictest sustainability criteria. Going forward, SEB will continue to develop products with positive impact.

### Exclusion criteria
All SEB's mutual funds exclude companies involved in the production or marketing of controversial weapons and the development or production of nuclear weapons programmes. Furthermore, SEB's funds do not invest in companies that fail to respect international conventions and guidelines, such as the UN Universal Declaration of Human Rights and the UN Global Compact, the ILO Core Conventions on Labour Standards and the OECD Guidelines for Multinational Enterprises. SEB does not invest in companies involved in thermal coal extraction, that is, mining activities in which thermal coal accounts for more than 20 per cent of the company's or group's turnover. SEB's sustainability funds do not invest in companies that extract coal, gas or oil. SEB reviews the fund holdings with its adviser ISS-Ethix semi-annually. *See the results on sebgroup.com.*

### Evaluation of external funds
Mutual funds from suppliers other than SEB (external funds) are evaluated by a special fund analysis team. The sustainability analysis process was implemented in 2017 with a focus on analysing how fund companies integrate sustainability into their investment processes.

During 2018, the sustainability analysis of all the funds in the offering continued. At year-end 2018, 46 funds out of a total of about 65 had been analysed and assigned a sustainability rating of A to C, where A is the highest rating. Furthermore, a number of A-rated external funds with strong sustainability integration have been added to the offering. SEB's ambition is to increase the level of sustainability in the external fund offering over time.

All new external fund management companies are required to sign the Principles for Responsible Investments (PRI) and to exclude controversial weapons. At year-end 2018, 100 per cent (97) of these companies had signed the PRI.

### Engagement for reducing carbon emissions
SEB has for several years been actively supported power generation companies, where coal as an energy source exceeds 10 per cent, in finding sources of energy other than coal. The focus of the work is primarily on European power companies. Since 2017 SEB is also engaged, together with Institutional Investors Group on Climate Change (IIGCC), in targeting the world's 100 largest carbon emitters in order to reduce emissions globally. In 2018, 18 per cent of these 100 companies reported their official support for, or had undertaken to implement, the recommendations of TCFD. 22 per cent of the companies had set or committed to set a science-based target for reducing their greenhouse gas emissions or equivalent long-term target beyond 2030.

SEB has signed the Montreal Carbon Pledge and thereby commits to annually report on its funds' carbon footprint. In 2018, all of SEB's equity funds were measured and reported on SEB's website from all three central emission areas (scope 1–3) according to the Greenhouse Gas Protocol. The calculations are based on the Swedish Investment Funds Association's guidelines for fund companies operating in the Swedish market.

SEB engages directly in a dialogue with companies' management and boards of directors regarding how to make improvements in issues related to human rights, labour rights and social relations, anti-corruption and environment. As regards international companies, SEB collaborates with other investors as well as with partners like Hermes EOS, IIGCC, the Carbon Disclosure Project (CDP) and PRI Clearinghouse.

### Impact Metric Tool
In line with SEB's business strategy, the bank continuously develops sustainable products and services. In 2018, SEB launched the Impact Metric Tool, a quantitative framework for assessing the sustainability of any customer portfolio of listed equities or securities. The aim is to increase the industry transparency regarding responsible investment and provide investors with additional information in the fund selection process, introduce new dimensions when constructing portfolios and evaluate investment policies. The tool can be used to define global challenges through the UN's SDGs. In 2018 more than 20 customer portfolios were analysed and the responses from customers were positive. In 2019 SEB will analyse all SEB-branded funds by this tool.

### Impact investing
SEB is one of the largest microfinance fund managers in Europe. By investing in microfinance institutions, investors can earn a return while making a social impact. Through some 60 microfinance institutions, SEB's microfinance funds offer loans to people with lower income in developing countries, people who are often excluded from the financial market. SEB manages 6 microfinance funds with a total value of around SEK 7bn, reaching more than 23 million entrepreneurs in about 50 developing countries.

In 2018, SEB broadened the impact investing offering with the SEB Impact Opportunity Fund. This fund has a broad investment universe of which many areas, such as energy, financial inclusion, education and agricultural development, are directly linked to the UN's SDGs. The fund has been developed in close collaboration with a few institutional investors and has no set maturity date which allows the fund to work more long-term with selected projects.

### Investments for sustainable cities
In 2018, SEB's fund company and traditional insurance invested SEK 650m in a sustainability bond from the World Bank with a particular focus on sustainable cities. The bond was designed by SEB and other investors within the framework of the SIDA network Swedish Investors for Sustainable Development. The bond finances projects aimed at supporting sustainable cities in different parts of the world through clean water and renewable energy, among other things. Of the UN's 17 Sustainable Development Goals, the investments will specifically support goal number 11, Sustainable Cities and Communities.

SEB's intention, included in the three year business plan, is to further develop impact investment products in line with customers' needs and expectations. This is also part of SEB's ambition to reorient capital flows to low-carbon and sustainable activities. *Read more on p. 12.*

# Responsible and proactive advice

For SEB, it is important to know its customers and their preferences. The bank aims to have constructive dialogues and provide responsible and proactive advice to customers about sustainability aspects as well as about the consequences of their activities. SEB is guided by global initiatives, international standards, and the bank's internal policies and position statements form a valuable base in the customer dialogues and help incorporate sustainability aspects into decision-making.

In 2018, SEB's Life & Pension insurance business began developing tools to integrate sustainability into the advisory process. The aim is to explore customers' sustainability preferences and to provide suitable solutions. In addition, this will help SEB understand the need for support among advisers in the organisation and help them to be proactive as national and international regulations evolve in this area.

### 250,000 customers in survey on the SDGs

To explore the preferences among private customers, in 2018 SEB asked for the second consecutive year which sustainability areas they believe SEB should focus on. More than 250,000 customers with savings in equity funds were asked to prioritise the UN's 17 Sustainable Development Goals. The answer showed that, just like in 2017, customers assigned top priority to three of the goals, 13, Climate action, 6, Clean water and sanitation and 4, Quality education. As a result of the customer survey, SEB will expand its focus to include goal number 6. The fund company has joined the Carbon Disclosure Project (CDP) and will thus intensify its focus on water management and encourage companies to report their water usage and climate impact.

### Identifying potential negative impact

SEB strives to identify and assess areas within human rights, labour rights and social relations where the bank can potentially have negative impact through its business relations. Based on prioritisation, proportionality and/or leverage, findings are acted upon to prevent, mitigate and remediate potential impact. SEB is willing to work with customers with sustainability risk, provided that there is a willingness and financial capacity to implement the required corrective measures.

SEB expects its customers to respect all Human Rights and the ILO Core Conventions on Labour Standards through appropriate due diligence systems. Moreover, SEB is committed to identifying and managing corruption risks in transactions. The bank continuously works to strengthen key processes from a sustainability perspective such as in the know-your-customer, credit granting and risk management processes. *Read more in Risk, capital and liquidity management on p.47–48.*

### SEB's approach to tax

SEB pays taxes in accordance with applicable laws and regulations in all countries where the bank operates. SEB undertakes all dealings with tax authorities in a professional, transparent and timely manner, both when it comes to its own tax matters and in reporting obligations regarding customers. SEB does not use nor facilitate tax evasion schemes. SEB works actively with risk assessments, frameworks and controls in order to ensure compliance by all SEB units. The bank does not use structures lacking business rationale in order to avoid taxes. Neither does SEB provide products or promote structures where the sole purpose is tax advantages. The bank does not co-operate with external parties to facilitate tax evasion, nor to facilitate transactions which SEB is unwilling to provide itself, where the sole purpose is tax advantages. During 2019 SEB is conducting a review of its tax policy.

### Customer privacy

The trust of SEB's customers is based on respect for and protection of customers' privacy. SEB has worked actively to be compliant with the General Data Protection Regulation (GDPR), the EU reformed data protection legislation that came into force in 2018 and which has strengthened individuals' rights in terms of how their data are handled by companies. *Read more on p. 50–51.*

### SEB actively contributes to sustainable development in the EU

SEB welcomes the European Commission's Action plan on Financing Sustainable Growth. The plan sets out the necessary steps for the financial system to contribute to sustainable development and has three main objectives:

- reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth
- manage financial risks stemming from climate change, environmental degradation and social issues and
- to foster transparency and long-termism in financial and economic activity.

Since 2018, SEB is represented in the Technical Expert Group and is one of 35 members that, in collaboration, develop an EU classification system, a taxonomy, create an EU green bond standard, improve the disclosure of climate-related information and develop a category of low-carbon indices. SEB believes that this work will be crucial for enhancing the financing of sustainable growth in EU.

# Suppliers

SEB has established, and maintains, procedures to evaluate and select suppliers and contractors, based on financial, environmental and social aspects. These aspects include human rights, labour rights and social relations, anti-corruption and are taken into account in procurement decisions along with commercial aspects. SEB monitors suppliers' processes and performance where appropriate. During 2019 SEB will update its sustainability requirements included in the supplier agreements and review the process of supplier screening, which is linked to SEB's purchasing process. *Read more about SEB's process at sebgroup.com.*

# People

As an employer, SEB has a responsibility to ensure that all employees are treated equally and with respect. Everyone should be given the same opportunities for professional and personal development. SEB rejects all forms of discrimination and harassment, whether this is based on an individual's ethnic or national origin, gender, skin colour, faith, citizenship, age, disability, civil status or sexual orientation. This is equally important in relation to customers and other stakeholders as in relation to colleagues. In 2018 SEB increased its focus on inclusion and diversity in the organisation. SEB's first Inclusion and Diversity Policy was adopted by the Board in 2018. A governance structure was established, which includes a steering group with members from the Group Executive Committee and divisional management, as well as an appointed Chief Inclusion & Diversity Officer. Moreover, an Inclusion and Diversity Index was created and integrated into SEB's employee survey. In addition to emphasis on gender, age, professional background and geographical provenance, special attention has been put on issues concerning sexual harassments where processes for raising concerns are established. Unethical or unlawful behaviours can be reported via both external and internal whistleblowing channels.

A safe and sound work environment combined with good health and work/life balance form the foundation for SEB's employees' performance and job satisfaction. All of SEB's employees are covered by collective or local agreements or labour law. A continuous dialogue is carried on with employees, employee representatives and with trade unions. SEB has had a European Works Council (EWC) since 2003.

# Environment, direct impact

SEB works to reduce its direct environmental impact, while its greatest environmental impact is indirect. SEB has set a goal to reduce its total carbon emissions by 20 per cent from 2016 to 2020. In 2018, SEB reduced carbon emissions by approx. 2.5 per cent, where, among other things, reduced office space contributed to lower energy consumption. Emissions from business travel increased by about 5 percent. Going forward, SEB will further focus on reducing emissions related to travel. In 2018, SEB updated the emission factors for the calculation of conversion from MWh to tonne. This resulted in the figures for carbon emissions being recalculated, and the target has been adjusted, from 17,000 tonnes to 18,500 tonnes. ▸▸ *For a description of SEB's direct carbon footprint, see sebgroup.com.*

# Targets and key performance indicators related to sustainability

SEB's business plan 2019–2021 includes strengthened focus on sustainability. SEB will start to classify and gradually transform its credit and investment portfolios. This will be underpinned by increased transparency and disclosures of progress. Metrics and targets will continuously be developed and aligned with future national and international requirements and expectations.

| Area | Description | Result 2018 | Result 2017 | Target 2019–2021 |
|---|---|---|---|---|
| **Innovation** | • Create sustainable finance innovation centre to develop and launch new sustainable products and services | Decided | | Establish (2019) |
| **Sustainable finance** | • Green loan portfolio | SEK 16bn | SEK 13.2bn | Increase |
| | • Green mortgages | Launched | | Establish baseline (2019), increase |
| | • Green bond issuance, ranking in the Nordic countries[1)] | 1 | 1 | Keep |
| | • Gradually shift credit portfolio towards increased sustainable financing | | | Classify and set targets (2019) |
| **Sustainable investment** | • Total Assets under Management (AuM) managed with sustainability criteria | 11%[2)] | 8%[2)] | Increase |
| | • SEB funds managed with sustainability criteria, share of AuM | 30% | 25% | Increase |
| | • SEB funds managed with human rights criteria, share of AuM | 100% | 100% | Keep |
| | • SEB impact and thematic funds[3)], total AuM | SEK 8bn | | Increase |
| **People** | • Integrate sustainability KPIs into incentive programmes for senior managers | Decided | | Define and launch (2019) |
| | • Gender by management type, (m/f): | | | |
| | - Group Executive Committee (GEC) | 77/23% | 83/17% | Increase balance in |
| | - Senior management | 66/34% | 69/31% | senior management |
| **Business ethics and conduct** | • Employees that have completed training in Code of Conduct[4)] | 90% | 85% | 100% |
| **Environment, direct impact** | • Reduce total carbon emissions with 20% 2016–2020 | 23,198 tonnes | 23,797 tonnes | 18,500 tonnes [5)] (2020) |

1) Bloomberg
2) Includes only SEB funds assessed with sustainability criteria
3) Includes among others Micro Finance Funds, Impact Opportunity Fund, Green Bond Fund
4) Includes consultants, excludes employees on leave of absence
5) See comment about re-calculation above (Environment, direct impact)

# Financial statements – Contents

# Income Statement

## SEB Group

| SEK m | Note | 2018 | 2017[1] |
|---|---|---|---|
| *Interest income[2]* | | *39,299* | *36,472* |
| *Interest expense[3]* | | *–18,277* | *–16,580* |
| Net interest income | 4 | 21,022 | 19,893 |
| *Fee and commission income* | | *24,018* | *23,196* |
| *Fee and commission expense* | | *–5,654* | *–5,519* |
| Net fee and commission income | 5 | 18,364 | 17,677 |
| Net financial income | 6 | 6,079 | 6,880 |
| *Dividends* | | *73* | *77* |
| *Profit and loss from investments in associates* | | *152* | *–38* |
| *Gains less losses from investment securities* | | *–244* | *203* |
| *Other operating income* | | *421* | *870* |
| Net other income | 7 | 402 | 1,112 |
| **Total operating income** | | **45,868** | **45,561** |
| Staff costs | 8 | –14,004 | –14,025 |
| Other expenses | 9 | –7,201 | –6,947 |
| Depreciation, amortisation and impairment of tangible and intangible assets | 10 | –735 | –964 |
| **Total operating expenses** | | **–21,940** | **–21,936** |
| **Profit before credit losses** | | **23,928** | **23,625** |
| Gains less losses from tangible and intangible assets | 11 | 18 | –162 |
| Net expected credit losses[4] | 12 | –1,166 | |
| Net credit losses[5] | 12 | | –808 |
| **Operating profit before items affecting comparability** | | **22,779** | **22,655** |
| Items affecting comparability | 13 | 4,506 | –1,896 |
| **Operating profit** | | **27,285** | **20,759** |
| Income tax expense | 15 | –4,152 | –4,562 |
| **NET PROFIT** | | **23,134** | **16,197** |

1) The 2017 income statement and earnings per share have been restated for the transition to IFRS 15. For transition disclosures, see note 53.
2) Of which interest income calculated using the effective interest method SEK 32,907m (29,167).
3) Of which interest expense calculated using the effective interest method SEK 18,602m (16,620).
4) IFRS 9 expected loss model.
5) IAS 39 incurred loss model.

| | | | |
|---|---|---|---|
| Attributable to shareholders | | 23,134 | 16,197 |

| | | | |
|---|---|---|---|
| Basic earnings per share, SEK | 16 | 10.69 | 7.47 |
| Diluted earnings per share, SEK | 16 | 10.63 | 7.44 |

# Statement of comprehensive income

## SEB Group

| SEK m | 2018 | 2017 |
|---|---|---|
| **NET PROFIT** | **23,134** | **16,197** |
| ***Items that may be reclassified subsequently to profit or loss:*** | | |
| Valuation gains (losses) during the year | | –2,166 |
| Income tax on valuation gains (losses) during the year | | 397 |
| Transferred to profit or loss for the year[1] | | 1,122 |
| Income tax on transfers to profit or loss for the year | | –261 |
| **Available-for-sale financial assets** | | **–909** |
| Valuation gains (losses) during the year | –1,118 | –1,536 |
| Income tax on valuation gains (losses) during the year | 249 | 338 |
| Transferred to profit or loss for the year[2] | –13 | –11 |
| Income tax on transfers to profit or loss for the year | 3 | 2 |
| **Cash flow hedges** | **–880** | **–1,207** |
| Translation of foreign operations | 232 | –17 |
| Taxes on translation effects | 350 | 313 |
| **Translation of foreign operations** | **582** | **296** |
| ***Items that will not be reclassified to profit or loss:*** | | |
| **Own credit risk adjustment OCA[3]** | **221** | |
| Remeasurement of pension obligations, including special salary tax | –981 | –528 |
| Valuation gains (losses) on plan assets during the year | –59 | 2,556 |
| Deferred tax on pensions | 194 | –1,244 |
| **Defined benefit plans** | **–846** | **784** |
| **OTHER COMPREHENSIVE INCOME** | **–923** | **–1,036** |
| **TOTAL COMPREHENSIVE INCOME** | **22,211** | **15,160** |

1) Other income.
2) Net interest income.
3) Own credit risk adjustment from financial liabilities FVTPL.

| | | |
|---|---|---|
| Attributable to shareholders | 22,211 | 15,160 |

The method used to hedge currency risks related to investments in foreign subsidiaries creates a tax expense (tax income) in the parent company. Fair value changes on the hedging instruments impact the taxable result contrary to the currency revaluation of the foreign operations. In the group this tax effect is reported in Other comprehensive income.

# Balance sheet

## SEB Group

| SEK m | Note | 31 Dec 2018 | 1 Jan 2018[1)] | 31 Dec 2017 | 1 Jan 2017[2)] |
|---|---|---|---|---|---|
| Cash and cash balances at central banks | 17 | 209,115 | 177,222 | 177,222 | 151,078 |
| Loans to central banks | 18 | 33,294 | 12,778 | 12,778 | 66,730 |
| Loans to credit institutions | 18 | 44,287 | 38,715 | 38,717 | 50,145 |
| Loans to the public | 18 | 1,644,825 | 1,485,808 | 1,486,765 | 1,467,472 |
| Debt securities | 19 | 156,128 | 168,928 | 169,269 | 253,443 |
| Equity instruments | 20 | 50,434 | 60,087 | 59,204 | 74,172 |
| Financial assets for which the customers bear the investment risk | | 269,613 | 283,420 | 283,420 | 295,908 |
| Derivatives | 21 | 115,463 | 104,868 | 104,868 | 212,356 |
| *Fair value changes of hedged items in a portfolio hedge of interest rate risk* | | *67* | *93* | *93* | *111* |
| *Investments in subsidiaries and associates* | 22 | *1,195* | *1,314* | *1,314* | *1,238* |
| *Intangible assets* | 23 | *8,157* | *8,030* | *8,030* | *8,765* |
| *Properties and equipment* | 24 | *1,300* | *1,130* | *1,130* | *908* |
| *Investment properties* | 25 | *11* | *203* | *203* | *7,845* |
| *Current tax assets* | 15 | *6,404* | *5,255* | *5,255* | *5,978* |
| *Deferred tax assets* | 15 | *251* | *260* | *260* | *1,329* |
| *Retirement benefit assets* | 8b | *4,104* | *5,280* | *5,280* | *3,914* |
| *Other assets* | 26 | *20,398* | *16,854* | *16,856* | *13,676* |
| *Prepaid expenses and accrued income* | 27 | *2,471* | *2,232* | *2,232* | *2,350* |
| *Non-current assets and disposal groups classified as held for sale* | 52 | | *184,011* | *184,011* | *587* |
| Other assets | | 44,357 | 224,662 | 224,664 | 46,701 |
| **TOTAL ASSETS** | | **2,567,516** | **2,556,489** | **2,556,908** | **2,618,006** |
| Deposits from central banks and credit institutions | 28 | 135,719 | 95,504 | 95,489 | 119,864 |
| Deposits and borrowing from the public | 28 | 1,111,390 | 1,034,704 | 1,032,048 | 991,950 |
| Financial liabilities for which the customers bear the investment risk | 29 | 270,556 | 284,291 | 284,291 | 296,618 |
| Liabilities to policyholders | 29 | 21,846 | 18,911 | 18,911 | 107,213 |
| Debt securities issued | 30 | 680,670 | 614,087 | 614,033 | 668,880 |
| Short positions | 31 | 23,144 | 24,985 | 24,985 | 19,598 |
| Derivatives | 21 | 96,872 | 85,434 | 85,434 | 174,652 |
| Other financial liabilities | | 3,613 | 3,894 | 3,894 | 19,247 |
| *Fair value changes of hedged items in a portfolio hedge* | | *22* | *178* | *1,046* | *1,537* |
| *Current tax liabilities* | 15 | *1,734* | *978* | *1,463* | *2,184* |
| *Deferred tax liabilities* | 15 | *7,141* | *8,082* | *8,079* | *8,474* |
| *Other liabilities* | 32 | *23,995* | *26,572* | *26,572* | *21,039* |
| *Accrued expenses and prepaid income* | 33 | *5,260* | *5,316* | *5,316* | *5,464* |
| *Provisions* | 34 | *1,817* | *2,285* | *1,684* | *1,515* |
| *Retirement benefit liabilites* | 8b | *427* | *1,325* | *1,325* | *718* |
| *Subordinated liabilities* | 35 | *34,521* | *32,390* | *32,390* | *40,719* |
| *Liabilities of disposal groups classified as held for sale* | 52 | | *178,710* | *178,710* | |
| Other liabilities | | 74,916 | 255,836 | 256,585 | 81,649 |
| **Total liabilities** | | **2,418,727** | **2,417,647** | **2,415,671** | **2,479,670** |
| *Share capital* | | *21,942* | *21,942* | *21,942* | *21,942* |
| *Other reserves* | | *2,244* | *3,167* | *4,403* | *5,439* |
| *Retained earnings* | | *124,604* | *113,732* | *114,893* | *110,955* |
| Shareholders' equity | | 148,789 | 138,841 | 141,237 | 138,336 |
| **Total equity** | | **148,789** | **138,841** | **141,237** | **138,336** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,567,516** | **2,556,489** | **2,556,908** | **2,618,006** |

1) IFRS 9 Financial Instruments is applied from 1 January 2018. For transition disclosures, see note 53.
2) IFRS 15 Revenue from Contracts with Customers is applied retrospectively from 1 January 2018. For transition disclosures, see note 53.

# Statement of changes in equity

## SEB Group

| SEK m | | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | Share capital[3] | Available-for-sale financial assets | OCA[7] | Cash flow hedges | Translation of foreign operations | Defined benefit plans | Retained earnings | Total equity[4] |
| Opening balance | 21,942 | 729 | | 1,192 | –897 | 3,379 | 114,893 | **141,237** |
| Effect of applying IFRS 9[5] | | –729 | –507 | | | | –1,160 | **–2,396** |
| **Restated balance at 1 January 2018** | **21,942** | | **–507** | **1,192** | **–897** | **3,379** | **113,732** | **138,841** |
| Net profit | | | | | | | 23,134 | **23,134** |
| Other comprehensive income (net of tax) | | | 221 | –880 | 582 | –846 | | **–923** |
| **Total comprehensive income** | | | **221** | **–880** | **582** | **–846** | **23,134** | **22,211** |
| Dividend to shareholders[1] | | | | | | | –12,459 | **–12,459** |
| Equity-based programmes[2] | | | | | | | –111 | **–111** |
| Change in holding of own shares | | | | | | | 307 | **307** |
| **CLOSING BALANCE** | **21,942** | | **–286** | **313** | **–315** | **2,533** | **124,604** | **148,789** |

| 2017 | Share capital | Available-for-sale financial assets | OCA | Cash flow hedges | Translation of foreign operations | Defined benefit plans | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| Opening balance | 21,942 | 1,638 | | 2,399 | –1,193 | 2,595 | 113,595 | **140,976** |
| Effect of applying IFRS 15[6] | | | | | | | –2,640 | **–2,640** |
| **Restated balance at 1 January 2017** | **21,942** | **1,638** | | **2,399** | **–1,193** | **2,595** | **110,955** | **138,336** |
| Net profit | | | | | | | 16,197 | **16,197** |
| Other comprehensive income (net of tax) | | –909 | | –1,207 | 296 | 784 | | **–1,036** |
| **Total comprehensive income** | | **–909** | | **–1,207** | **296** | **784** | **16,197** | **15,160** |
| Dividend to shareholders[1] | | | | | | | –11,935 | **–11,935** |
| Equity-based programmes[2] | | | | | | | –246 | **–246** |
| Change in holding of own shares | | | | | | | –78 | **–78** |
| **CLOSING BALANCE** | **21,942** | **729** | | **1,192** | **–897** | **3,379** | **114,893** | **141,237** |

1) Dividend paid in 2018 for 2017 was SEK 5.75 (5.50) per Class A share and SEK 5.75 (5.50) per Class C share. Proposed ordinary dividend for 2018 is SEK 6.00 and extra dividend SEK 0.50. Further information can be found in the chapter Shareholders and the SEB share on page 29–31 and on page 37. Dividend to shareholders is reported excluding dividend on own shares.
2) As of 31 December 2016 SEB owned 25.2 million Class A shares for the long-term incentive programmes. In 2017 5.0 million Class A shares were sold as stock options were exercised. During 2017, SEB also repurchased 7.0 million Class A shares. As of 31 December 2017 SEB owned 27.1 million Class A shares with a market value of SEK 2,612m. Another 3.8 million Class A shares have been sold during 2018 as stock options were exercised. During 2018, SEB repurchased 6.9 million Class A shares. As of 31 December 2018 SEB owned 30.3 million Class A shares with a market value of SEK 2,607m.
3) 2,170,019,294 Class A shares (2,170,019,294); 24,152,508 Class C shares (24,152,508).
4) Information about capital requirements can be found in note 42 Capital adequacy.
5) IFRS 9 Financial Instruments applied from 1 January 2018. For transition disclosures, see note 53.
6) IFRS 15 Revenue from Contracts with Customers applied retrospectively from 1 January 2018. For transition disclosures, see note 53.
7) Own credit risk adjustment from financial liabilities FVTPL.

# Cash flow statement

## SEB Group

| SEK m | 2018 | 2017 |
|---|---|---|
| Interest received | 38,648 | 37,724 |
| Interest paid | –19,113 | –17,690 |
| Commission received | 24,018 | 23,196 |
| Commission paid | –5,654 | –5,472 |
| Net received from financial transactions | 3,997 | 14,748 |
| Other income | –231 | 197 |
| Paid expenses | –16,868 | –21,200 |
| Taxes paid | –5,029 | –4,560 |
| Cash flow from the income statement | 19,768 | 26,943 |
| Increase (–)/decrease (+) in portfolios | 5,795 | –8,683 |
| Increase (+)/decrease (–) in issued short-term securities | 69,447 | –55,228 |
| Increase (–)/decrease (+) in lending to credit institutions and central banks | –23,059 | 69,280 |
| Increase (–)/decrease (+) in lending to the public | –155,341 | –34,853 |
| Increase (+)/decrease (–) in liabilities to credit institutions | 40,391 | –30,773 |
| Increase (+)/decrease (–) in deposits and borrowings from the public | 79,507 | 43,010 |
| Increase (–)/decrease (+) in insurance portfolios | 72 | –180 |
| Change in other assets | –11,916 | 17,343 |
| Change in other liabilities | 3,597 | 21,141 |
| **Cash flow from operating activities** | **28,259** | **48,000** |
| Sales of shares and bonds | 115 | 761 |
| Sales of intangible and tangible fixed assets | 6 | 70 |
| Dividends received | 73 | 77 |
| Investments/divestments in subsidiaries | 7,717 | |
| Investments/divestments in shares and bonds | 119 | –86 |
| Investments in intangible and tangible assets | –1,016 | –259 |
| **Cash flow from investing activities** | **7,014** | **564** |
| Repayment of subordinated loans | | –7,169 |
| Dividend paid | –12,459 | –11,935 |
| **Cash flow from financing activities** | **–12,459** | **–19,104** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **22,814** | **29,460** |
| Cash and cash equivalents at beginning of year | 184,429 | 158,315 |
| Exchange rate differences on cash and cash equivalents | 12,336 | –3,346 |
| Net increase in cash and cash equivalents | 22,814 | 29,460 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD[1)]** | **219,579** | **184,429** |

1) Cash and cash equivalents include cash, cash equivalents and demand deposits.

### Reconciliation of liabilities from financing activities

| | | |
|---|---|---|
| Opening balance | 32,390 | 40,719 |
| Cash flows | | –7,169 |
| Non-cash flow, currency exchange | 2,145 | –327 |
| Non-cash flow, fair value changes | –32 | –600 |
| Non-cash flow, interest accruals | 18 | –233 |
| **TOTAL LIABILITIES FROM FINANCING ACTIVITIES** | **34,521** | **32,390** |

# Income Statement

In accordance with the Swedish Financial Supervisory Authority regulations

## Skandinaviska Enskilda Banken

| SEK m | Note | 2018 | 2017 |
|---|---|---|---|
| *Interest income* | | *38,071* | *32,285* |
| *Leasing income* | | *5,656* | *5,481* |
| *Interest expense* | | *–21,867* | *–17,750* |
| Net interest income | 4 | 21,860 | 20,017 |
| Dividends received | | 9,130 | 6,981 |
| *Fee and commission income* | | *13,281* | *12,153* |
| *Fee and commission expense* | | *–3,218* | *–2,596* |
| Net fee and commission income | 5 | 10,064 | 9,557 |
| Net financial income | 6 | 4,574 | 4,493 |
| Other income | 7 | 1,770 | 1,342 |
| **Total operating income** | | **47,398** | **42,390** |
| *Staff costs* | 8 | *–9,902* | *–9,335* |
| *Other expenses* | 9 | *–5,361* | *–4,918* |
| Administrative expenses | | –15,263 | –14,252 |
| Depreciation, amortisation and impairment of tangible and intangible assets | 10 | –5,512 | –6,377 |
| **Total operating expenses** | | **–20,775** | **–20,629** |
| **Profit before credit losses** | | **26,623** | **21,761** |
| Net expected credit losses[1)] | 12 | –1,020 | |
| Net credit losses[2)] | 12 | | –749 |
| Impairment of financial assets | | –2,928 | –1,497 |
| **Operating profit** | | **22,675** | **19,515** |
| Appropriations | 14 | 2,716 | 1,885 |
| Income tax expense | 15 | –3,789 | –3,633 |
| Other taxes | 15 | 118 | 43 |
| **NET PROFIT** | | **21,720** | **17,811** |

1) IFRS 9 expected loss model.
2) IAS 39 incurred loss model.

# Statement of comprehensive income

## Skandinaviska Enskilda Banken

| SEK m | 2018 | 2017 |
|---|---|---|
| **NET PROFIT** | **21,720** | **17,811** |
| ***Items that may be reclassified subsequently to profit or loss:*** | | |
| Valuation gains (losses) during the year | | –1,920 |
| Income tax on valuation gains (losses) during the year | | 314 |
| Transferred to profit or loss for the year[1)] | | 933 |
| Income tax on transfers to profit or loss for the year | | –205 |
| **Available-for-sale financial assets** | | **–878** |
| Valuation gains (losses) during the year | –1,118 | –1,536 |
| Income tax on valuation gains (losses) during the year | 249 | 338 |
| Transferred to profit or loss for the year[2)] | –13 | –11 |
| Income tax on transfers to profit or loss for the year | 2 | 2 |
| **Cash flow hedges** | **–880** | **–1,207** |
| Translation of foreign operations | –11 | –8 |
| **Translation of foreign operations** | **–11** | **–8** |
| **OTHER COMPREHENSIVE INCOME** | **–891** | **–2,093** |
| **TOTAL COMPREHENSIVE INCOME** | **20,829** | **15,718** |

1) Other income.
2) Net interest income.

The method used to hedge currency risks related to investments in foreign subsidiaries creates a tax expense (tax income) in the parent company. Fair value changes on the hedging instruments impact the taxable result contrary to the currency revaluation of the foreign operations. In the group this tax effect is reported in Other comprehensive income.

# Balance sheet

## Skandinaviska Enskilda Banken

| SEK m | Note | 31 Dec 2018 | 1 Jan 2018[1] | 31 Dec 2017 |
|---|---|---|---|---|
| Cash and cash balances at central banks | 17 | 164,081 | 97,741 | 97,741 |
| Loans to central banks | 18 | 29,665 | 8,832 | 8,832 |
| Loans to credit institutions | 18 | 90,668 | 189,949 | 189,949 |
| Loans to the public | 18 | 1,410,687 | 1,204,761 | 1,205,906 |
| Debt securities | 19 | 119,227 | 124,732 | 125,070 |
| Equity instruments | 20 | 36,993 | 50,981 | 50,098 |
| Derivatives | 21 | 113,282 | 104,220 | 104,220 |
| *Fair value changes of hedged items in a portfolio hedge of interest rate risk* | | *38* | *32* | *32* |
| *Investments in subsidiaries and associates* | 22 | *51,600* | *51,599* | *51,599* |
| *Intangible assets* | 23 | *1,776* | *1,597* | *1,597* |
| *Properties and equipment* | 24 | *34,009* | *34,487* | *34,487* |
| *Current tax assets* | 15 | *2,813* | *1,999* | *1,999* |
| *Other assets* | 26 | *21,065* | *18,149* | *18,151* |
| *Prepaid expenses and accrued income* | 27 | *2,371* | *2,481* | *2,481* |
| Other assets | | 113,672 | 110,345 | 110,347 |
| **TOTAL ASSETS** | | **2,078,275** | **1,891,561** | **1,892,163** |
| Deposits from central banks and credit institutions | 28 | 160,022 | 134,562 | 134,561 |
| Deposits and borrowing from the public | 28 | 927,224 | 849,488 | 849,479 |
| Debt securities issued | 30 | 680,396 | 610,292 | 610,292 |
| Short positions | 31 | 23,144 | 24,985 | 24,985 |
| Derivatives | 21 | 95,269 | 86,990 | 86,990 |
| Other financial liabilities | | 3,613 | 3,894 | 3,894 |
| *Current tax liabilities* | 15 | *655* | *278* | *684* |
| *Deferred tax liabilities* | 15 | *85* | *336* | *336* |
| *Other liabilities* | 32 | *16,543* | *19,467* | *19,467* |
| *Accrued expenses and prepaid income* | 33 | *2,871* | *2,781* | *2,781* |
| *Provisions* | 34 | *385* | *466* | *113* |
| *Subordinated liabilities* | 35 | *34,521* | *32,390* | *32,390* |
| Other liabilities | | 55,059 | 55,717 | 55,772 |
| **Total liabilities** | | **1,944,725** | **1,765,929** | **1,765,973** |
| **Untaxed reserves** | 36 | **20,855** | **21,429** | **21,429** |
| *Share capital* | | *21,942* | *21,942* | *21,942* |
| *Statutory reserve* | | *12,260* | *12,260* | *12,260* |
| *Development cost reserve* | | *1,039* | *1,166* | *1,166* |
| *Fair value reserve* | | *5* | *896* | *1,476* |
| *Retained earnings* | | *55,729* | *50,130* | *50,108* |
| *Net profit* | | *21,720* | *17,811* | *17,811* |
| **Total equity** | | **112,695** | **104,204** | **104,762** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,078,275** | **1,891,561** | **1,892,163** |

1) IFRS 9 Financial Instruments is applied from 1 January 2018. For transition disclosures, see note 53.

# Statement of changes in equity

## Skandinaviska Enskilda Banken

| SEK m | Restricted equity | | | Non-restricted equity[4] | | | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | Share capital[3] | Statutory reserve | Develop-ment cost reserve | Available-for-sale financial assets[5] | Cash flow hedges[5] | Translation of foreign operations[5] | Retained earnings | Total Equity |
| **Opening balance** | 21,942 | 12,260 | 1,166 | 580 | 1,193 | −295 | 67,917 | **104,762** |
| Effect of applying IFRS 9[6] | | | | −580 | | | 22 | **−558** |
| **Restated balance at 1 January 2018** | **21,942** | **12,260** | **1,166** | | **1,193** | **−295** | **67,939** | **104,204** |
| Net profit | | | | | | | 21,720 | **21,720** |
| Other comprehensive income (net of tax) | | | | | −880 | −11 | | **−891** |
| **Total comprehensive income** | | | | | **−880** | **−11** | **21,720** | **20,829** |
| Dividend to shareholders[1] | | | | | | | −12,459 | **−12,459** |
| Equity-based programmes[2] | | | | | | | −185 | **−185** |
| Change in holding of own shares | | | | | | | 307 | **307** |
| Other changes | | | −127 | | | | 125 | **−2** |
| **CLOSING BALANCE** | **21,942** | **12,260** | **1,039** | | **313** | **−308** | **77,449** | **112,695** |
| 2017 | | | | | | | | |
| **Opening balance** | 21,942 | 12,260 | 441 | 1,458 | 2,400 | −287 | 63,160 | **101,374** |
| Net profit | | | | | | | 17,811 | **17,811** |
| Other comprehensive income (net of tax) | | | | −878 | −1,207 | −8 | | **−2,093** |
| **Total comprehensive income** | | | | **−878** | **−1,207** | **−8** | **17,811** | **15,718** |
| Dividend to shareholders[1] | | | | | | | −11,935 | **−11,935** |
| Equity-based programmes[2] | | | | | | | −333 | **−333** |
| Change in holding of own shares | | | | | | | −62 | **−62** |
| Other changes | | | 724 | | | | −724 | |
| **CLOSING BALANCE** | **21,942** | **12,260** | **1,166** | **580** | **1,193** | **−295** | **67,917** | **104,762** |

1) Dividend paid in 2018 for 2017 was SEK 5.75 (5.50) per Class A share and SEK 5.75 (5.50) per Class C share. Proposed ordinary dividend for 2018 is SEK 6.00 and extra dividend SEK 0.50. Further information can be found in the chapter Shareholders and the SEB share on page 29–31 and on page 37. Dividend to shareholders is reported excluding dividend on own shares.
2) As of 31 December 2016 SEB owned 25.2 million Class A shares for the long-term incentive programmes. In 2017 5.0 million Class A shares were sold as stock options were exercised. During 2017, SEB also repurchased 7.0 million Class A shares. As of 31 December 2017 SEB owned 27.1 million Class A shares with a market value of SEK 2,612m. Another 3.8 million Class A shares have been sold during 2018 as stock options were exercised. During 2018, SEB repurchased 6.9 million Class A shares. As of 31 December 2018 SEB owned 30.3 million Class A shares with a market value of SEK 2,607m.
3) 2,170,019,294 Class A shares (2,170,019,294); 24,152,508 Class C shares (24,152,508).
4) The closing balance is equivalent to Distributable items according to Regulation (EU) No 575/2013 (CRR).
5) Fair value fund.
6) IFRS 9 Financial instruments applied from 1 January 2018. For transition disclosures, see note 53.

# Cash flow statement

## Skandinaviska Enskilda Banken

| SEK m | 2018 | 2017 |
|---|---|---|
| Interest received | 38,795 | 30,730 |
| Interest paid | −18,154 | −11,230 |
| Commission received | 13,033 | 12,516 |
| Commission paid | −2,979 | −2,965 |
| Net received from financial transactions | 8,221 | 14,222 |
| Other income | −3,221 | −1,423 |
| Paid expenses | −14,519 | −13,399 |
| Taxes paid | −3,619 | −2,355 |
| Cash flow from the profit and loss statement | 17,556 | 26,096 |
| Increase (−)/decrease (+) in trading portfolios | −2,720 | −3,871 |
| Increase (+)/decrease (−) in issued short-term securities | 72,913 | −54,279 |
| Increase (−)/decrease (+) in lending to credit institutions | 71,941 | 102,644 |
| Increase (−)/decrease (+) in lending to the public | −195,121 | −27,417 |
| Increase (+)/decrease (−) in liabilities to credit institutions | 25,444 | −41,358 |
| Increase (+)/decrease (−) in deposits and borrowings from the public | 77,719 | 39,847 |
| Change in other assets | −5,876 | 2,144 |
| Change in other liabilities | −2,997 | 8,733 |
| **Cash flow from operating activities** | **58,859** | **52,540** |
| Dividends received | 9,127 | 6,981 |
| Investments/divestments in shares and bonds | 1,030 | 594 |
| Investments in intangible and tangible assets | −855 | −1,482 |
| **Cash flow from investment activities** | **9,302** | **6,094** |
| Repayment of subordinated loans | | −7,169 |
| Dividend paid | −12,459 | −11,935 |
| **Cash flow from financing activities** | **−12,459** | **−19,104** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **55,701** | **39,530** |
| Cash and cash equivalents at beginning of year | 126,287 | 91,932 |
| Exchange rate differences on cash and cash equivalents | 5,713 | −5,174 |
| Net increase in cash and cash equivalents | 55,701 | 39,530 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** [1] | **187,701** | **126,287** |

1) Cash and cash equivalents are disclosed in note 17.

### Reconciliation of liabilities from financing activities

| | | |
|---|---|---|
| Opening balance | 32,390 | 40,719 |
| Cash flows | | −7,169 |
| Non-cash flow, currency exchange | 2,145 | −327 |
| Non-cash flow, fair value changes | −32 | −600 |
| Non-cash flow, interest accruals | 18 | −233 |
| **TOTAL LIABILITIES FROM FINANCING ACTIVITIES** | **34,521** | **32,390** |

# Notes to the financial statements

SEK m, unless otherwise stated.

## Corporate information

The SEB Group provides corporate, retail, investment and private banking services. The group also provides asset management and life insurance services.

Skandinaviska Enskilda Banken AB (publ) is the parent company of the group. The parent company is a Swedish limited liability company with its registered office in Stockholm, Sweden.

The parent company is included in the Large Cap segment of the Nasdaq Stockholm stock exchange.

The consolidated accounts for the financial year 2018 were approved for publication by the Board of Directors on 19 February and will be presented for adoption at the 2019 Annual General Meeting.

**Exchange rates used for converting main currencies in the group Consolidation**

| | Profit and loss account | | | Balance sheet | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change, % | 2018 | 2017 | Change, % |
| DKK | 1.376 | 1.295 | 6 | 1.374 | 1.319 | 4 |
| EUR | 10.257 | 9.633 | 6 | 10.263 | 9.822 | 4 |
| NOK | 1.069 | 1.033 | 3 | 1.029 | 1.000 | 3 |
| USD | 8.692 | 8.538 | 2 | 8.971 | 8.190 | 10 |

## 1 Accounting policies

### Significant accounting policies for the group

**STATEMENT OF COMPLIANCE**

The group's consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations of these standards as adopted by the EU. The accounting also follows the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the regulation and general guidelines issued by the Swedish Financial Supervisory Authority, Annual Reports in Credit Institutions and Securities Companies (FFFS 2008:25). In addition to this the Supplementary Accounting Rules for Groups RFR 1 and the additional UFR statements issued by the Swedish Financial Reporting Board have been applied.

**BASIS OF PREPARATION**

The consolidated accounts are based on amortised cost, except for the fair value measurement of financial assets at fair value through other comprehensive income, financial assets and liabilities measured at fair value through profit or loss including derivatives and investment properties measured at fair value. The carrying amount of financial assets and liabilities subject to hedge accounting at fair value has been adjusted for changes in fair value attributable to the hedged risk. The financial statements are presented in million Swedish kronor (SEK m) unless indicated otherwise.

**CONSOLIDATION**

**Subsidiaries**

The consolidated accounts combine the financial statements of the parent company and its subsidiaries. Subsidiaries are companies, over which the group has control. The group controls an entity when it has power over an investee, is exposed to, or has rights to, variable returns from its involvement and has the ability to use its power to affect the amount of the returns. Control is deemed to exist when the parent company holds, directly or indirectly, more than 50 per cent of the voting rights, unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities of the entity. Companies in which the parent company or its subsidiaries hold more than 50 per cent of the votes, but are unable to exercise control due to contractual or legal reasons, are not included in the consolidated accounts. The group also assesses if control exists when it holds less than 50 per cent of the voting rights. This may arise if the group has contractual arrangements with other vote holders. The size and dispersion of holdings of other vote holders may also indicate that the group has the practical ability to direct the relevant activities of the investee.

When voting rights are not relevant in deciding who has power over an entity, such as interests in some funds or special purpose entities (SPE), all facts and circumstances are considered in determining if the group controls the entity. In the assessment whether to consolidate SPEs and any entities where there is not immediately clear where control rests, an analysis is made to identify which party has power over the activities which most affects the returns of the entity and if that party is significantly exposed or have significant rights to the returns from that entity.

The financial statements of the parent company and the consolidated subsidiaries refer to the same period and have been drawn up according to the accounting policies applicable to the group. A subsidiary is included in the consolidated accounts from the time of acquisition, being the date when the parent company gains control over the subsidiary. The subsidiary is included in the consolidated accounts until the date when control over the company ceases to exist.

The consolidated accounts are prepared in accordance with the acquisition method. The acquisition value is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed.

The identifiable assets acquired, the liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on acquisition date, irrespective of any minority interest. The excess of the consideration transferred for the acquisition over the fair value of the group's share of the identifiable acquired net assets is recorded as goodwill. If the consideration transferred is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly against profit or loss.

Goodwill is allocated between the cash-generating units or groups of units which are expected to generate cash flows. The cash-generating units to which goodwill is allocated correspond to the lowest level within the group in which goodwill is monitored for internal management purposes.

Intra-group transactions, balance sheet items and unrealised gains and losses on transactions between group companies are eliminated. The minority interest of the profit or loss in subsidiaries is included in the reported net profit in the consolidated income statement, while the minority share of net assets is included in equity in the consolidated balance sheet.

**Associated companies**

The consolidated accounts also include associated companies that are companies in which the group has significant influence, but not control. Significant influence means that the group can participate in the financial and operating policy decisions of the company, whilst not determining or controlling such financial and operating policies. A significant influence is generally deemed to exist if the group, directly or indirectly, holds between 20 and 50 per cent of the voting rights of an entity.

According to the main principle, associated companies are consolidated in accordance with the equity method. This means that the holding is initially reported at its acquisition cost. Associated companies are subsequently carried at a value that corresponds to the group's share of the net assets. However, the group has chosen to designate investments in associates held by the group's venture capital organisation at fair value through profit or loss on the basis that these are managed and evaluated based on fair value.

**ASSETS HELD FOR SALE**
Assets (or disposal groups) are classified as held for sale at the time when a non-current asset or group of assets (disposal group) are available for immediate sale in its present condition and its sale is deemed to be highly probable. At the time of the classification, a valuation of the asset or disposal group is made at the lower of its carrying amount and fair value, less costs to sell. Any subsequent impairment losses or revaluations are recognised directly in profit or loss. No gains are recognised in excess of accumulated impairment losses of the asset recognised previously. From the time of classification, no depreciation is made for property and equipment or intangible assets originating from assets held for sale. Assets and liabilities held for sale are reported separately in the balance sheet until they are sold.

**SEGMENT REPORTING**
An operating segment is identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The business divisions are identified as separate operating segments. Business Support, Group Staff, Group Treasury and group wide items are included in the segment Other. In the context of defining the segments the President and Chief Executive Officer (CEO) is the group's chief operating decision maker.

**FOREIGN CURRENCY TRANSLATION**
Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. On subsequent balance sheet dates monetary items in foreign currency are translated using the closing rate. Non-monetary items, which are measured in terms of historical cost in foreign currency, are translated using the exchange rate on the date of the transaction. Non-monetary items, which are measured at fair value in a foreign currency, are translated applying the exchange rate on the date on which the fair value is determined.

Gains and losses arising as a result of exchange rate differences on settlement or translation of monetary items are recognised in profit or loss. Translation differences on non-monetary items, classified as financial assets or financial liabilities at fair value through profit or loss, are included in the change in fair value of those items. Translation differences from non-monetary items, e.g. financial assets at fair value through other comprehensive income, are recognised in other comprehensive income. Exchange rate differences referring to monetary items comprising part of a net investment in a foreign operation are reported in other comprehensive income.

The income statements and balance sheets of group entities, with a functional currency other than the group's presentation currency, are translated to SEK in the consolidated accounts. Assets and liabilities in foreign group entities are translated at the closing rate and income and expenses in the income statement are translated at the average exchange rate for the year. The exchange rate differences are recognised as a separate component of other comprehensive income.

Goodwill arising in conjunction with acquisitions of foreign group entities, as well as adjustments to the fair value of assets and liabilities made in conjunction with acquisitions are included in the assets and liabilities of the foreign entity in question and are translated at the closing rate.

**FINANCIAL ASSETS AND LIABILITIES**
Financial assets are recognised on the balance sheet when the group becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition. Transaction costs are included in the fair value on initial recognition except for financial assets at fair value through profit or loss where transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows have expired, the group has transferred substantially all risks and rewards and upon substantial modification. Transfers of financial assets with retention of all or substantially all risks and rewards include for example repurchase transactions and securities lending transactions. Financial assets at fair value are recognised on the balance sheet on trade date, with exception of loans and reversed repos which are recognised on settlement date. Financial assets measured at amortised cost are recognised on settlement date.

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

**Classification of financial assets and liabilities under IFRS 9 as of 1 January 2018**
The group classifies and subsequently measures its financial assets in the following categories: financial instruments at fair value through profit or loss; fair value through other comprehensive income and amortised cost. The classification will depend on if the financial asset is a debt instrument, an equity instrument or a derivative.

*Debt instruments (Loans and debt securities)*
The classification is based on a combination of assessing the business model for managing the financial assets and whether the contractual cash flow characteristics consist of solely payments of principal and interest ('SPPI'). The business model assessment is performed for homogenous portfolios identified based on how the business is managed in the divisions of the group. The assessment is based on reasonable scenarios taking into consideration how the portfolio is evaluated and reported to management; the risks affecting the performance of the portfolio and how these risks are managed; how managers are compensated; and the frequency, value and timing of sales including the reasons for the sales. In determining if the cash flows consist solely of principal and interest, the principal is defined as the fair value of the debt instrument at initial recognition, which can change over the life if there are repayments or capitalisation of interest. Interest cash flows are consistent with components per a basic lending arrangement including consideration for time value of money, credit risk, liquidity risk as well as administrative costs and profit margin. If there are contractual features introducing an exposure to other risks or volatility, it is not considered to consist of solely payments of principal and interest. Debt instruments are presented in the balance sheet items; Cash and cash balances at central banks, Loans to credit institutions, Loans to the public and Debt securities, and include instruments in the following measurement categories.

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

*Fair value through other comprehensive income:* Debt instruments are classified in this category if both of the following criteria are met (a) the business model objective is to both hold assets to collect contractual cash flows and to sell the assets (b) the contractual cash flow characteristics consist of solely payments of principal and interest. The assets are measured at fair value and gains and losses arising from changes in fair value are reported in other comprehensive income and accumulated in equity. The cumulative gain or loss is reclassified from equity to profit or loss upon derecognition of the debt instrument. Interest calculated by applying the effective interest method on interest-bearing financial assets and expected credit losses are recognised in profit or loss.

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

*Equity instruments*
Equity instruments are per default classified as financial assets at fair value through profit or loss. An irrevocable election can be made on initial recognition to classify equity instruments (not held for trading) at fair value through other comprehensive income. This election has not been applied in the group.

*Derivatives*
Derivatives are classified as fair value through profit or loss (held for trading) unless designated as hedging instruments. If designated as hedging instruments, the principles for hedge accounting are applied.

*Reclassification*
In rare circumstances debt instruments (financial assets) excluding those designated at fair value through profit or loss on initial recognition, can be reclassified if there has been a change in the business model for managing the financial asset.

*Financial liabilities*
*Financial liabilities at fair value through profit or loss:* Financial liabilities at fair value through profit or loss are either classified as held for trading or designated as fair value through profit or loss on initial recognition (fair value option).

The fair value option can be applied for classification of financial liabilities if meeting either of the following criteria; the contracts include one or more embedded derivatives, the instruments are managed and evaluated on a fair value basis or in situations where such designation reduces measurement inconsistencies. Liabilities to policyholders and some debt securities are included in this category. Financial liabilities held for trading are primarily short positions in interest-bearing securities, equity instruments and derivatives not designated as hedging instruments.

*Other financial liabilities:* The category other financial liabilities primarily include the group's short-term and long-term borrowings. After initial recognition other financial liabilities are measured at amortised cost, using the effective interest method. The balance sheet items Deposits from central banks and credit institutions, Deposits and borrowings from the public and Debt securities issued are included in this category.

*Embedded derivatives*

Some combined contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. If the host contract is a financial asset in scope of IFRS 9 the contract is assessed for classification in its entirety and the embedded derivative is not separated. For other hybrid instruments (i.e. the host contract is not a financial asset in scope of IFRS 9) where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement. This does not apply if the host contract is carried at fair value through profit or loss.

Certain combined instruments are classified as financial liabilities at fair value through profit or loss according to the fair value option. The designation implies that the entire combined instrument is measured at fair value through profit and loss.

**Classification of financial assets and liabilities under IAS 39 until 31 December 2017**

*Financial assets at fair value through profit and loss*

Financial assets at fair value through profit or loss consist of financial assets classified as held for trading and financial assets which, upon initial recognition, have been designated at fair value through profit or loss (fair value option). Financial assets are classified as held for trading if they are held with the intention to be sold in the short-term and for the purpose of generating profits. Derivatives are classified as held for trading unless designated as hedging instruments.

The fair value option can be applied to contracts including one or more embedded derivatives, investments that are managed and evaluated on a fair value basis and situations in which such designation reduces measurement inconsistencies. The nature of the financial assets which have been designated at fair value through profit or loss and the criteria for such designation are described in the relevant notes to the financial statements.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method. The balance sheet items Cash and cash balances at central banks, Loans to central banks, Loans to credit institutions and Loans to the public are included in this category.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified into any of the other categories described above. Available-for-sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are reported in other comprehensive income and accumulated in equity. In the case of sale or impairment of an available-for-sale financial asset, the accumulated gains or losses previously reported in equity are recognised in profit or loss. Interest on interest-bearing available-for-sale financial assets is recognised in profit or loss, applying the effective interest method. Dividends on equity instruments, classified as available-for-sale, are also recognised in profit or loss.

Investments in equity instruments without a quoted market price in an active market are measured, if possible, at fair value on the basis of a recognised valuation method. Investments in equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are either classified as held for trading or designated as fair value through profit or loss on initial recognition (fair value option). The criteria for classification of financial liabilities under the fair value option are the same as for financial assets. Liabilities to policyholders and some Debt securities are included in this category. Financial liabilities held for trading are primarily short positions in interest-bearing securities, equities and derivatives not designated as hedging instruments.

*Other financial liabilities*

The category other financial liabilities primarily include the group's short-term and long-term borrowings. After initial recognition other financial liabilities are measured at amortised cost, using the effective interest method. The balance sheet items Deposits from central banks and credit institutions, Deposits and borrowings from the public and Debt securities issued are included in this category.

*Embedded derivatives*

Some combined contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement.

Certain combined instruments are classified as financial assets or financial liabilities at fair value through profit or loss according to the fair value option. The designation implies that the entire combined instrument is measured at fair value through profit and loss.

**Offsetting financial transactions**

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

**Repurchase agreements**

Securities may be lent or sold subject to a commitment to repurchase them (a 'repo') at a fixed price and at a predetermined date. Such securities are retained on the balance sheet and in addition included separately as collateral pledged for own liabilities when cash consideration is received. Depending on the counterparty, payment received is recognised under Deposits by credit institutions or as Deposits and borrowing from the public.

Similarly, where the group borrows or purchases securities subject to a commitment to resell them (a 'reverse repo'), the securities are not included in the balance sheet. Payments made are recognised as Loans to credit institutions or as Loans to the public.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method.

**Securities borrowing and lending**

Securities borrowing and lending transactions are entered into on a collateralised basis. Fair values of securities received or delivered are monitored on a daily basis to require or provide additional collateral. Cash collateral delivered is derecognised from the balance sheet and a corresponding receivable is recognised. Cash collateral received is recognised in the balance sheet and a corresponding obligation to return it, is recognised. Securities lent remain on the balance sheet and are in addition reported as pledged assets. Borrowed securities are not recognised as assets. When borrowed securities are sold (short position), an amount corresponding to the fair value of the securities is booked as a liability. Securities received in a borrowing or lending transaction are disclosed as obligations.

**Modification**

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

**Fair value measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly market between market participants at the measurement date.

The fair value of financial instruments quoted in an active market is based on quoted market prices. If the asset or liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used.

The fair value of financial instruments that are not quoted in an active market is determined by applying various valuation techniques with maximum use of observable inputs. The valuation techniques used are for example discounted cash flows, option pricing models, valuations with reference to recent transactions in the same instrument and valuations with reference to other financial instruments that are substantially the same. When valuing financial liabilities at fair value the group's own credit standing is reflected.

Any differences between the transaction price and the fair value calculated using a valuation technique with unobservable inputs, the Day 1 profit, is amortised over the life of the transaction. Day 1 profit is then recognised in profit or loss either when realised through settlement or when inputs used to calculate fair value are based on observable prices or rates.

Fair value is generally measured for individual financial instruments. In addition, portfolio adjustments are made to cover market risks and the credit risk of each of the counterparties on groups of financial assets and liabilities on the basis of the net exposure to these risks. When assets and liabilities have offsetting market risks mid-market prices are used for establishing fair value of the risk positions that offset each other. To reflect counterparty risk and own credit risk in OTC derivatives, adjustments are made based on the net exposure towards each counterpart.

**Impairment of financial assets under IFRS 9 as of 1 January 2018**

*Measurement*

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

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

The assessment of credit risk, and the estimation of ECL, shall be unbiased and probability-weighted, and shall incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. SEB uses both models and expert credit judgement (ECJ) for calculating ECLs. ▶▶ *For further information please see pages 119 and 120.*

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

*Significant increase in credit risk*

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

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

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

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

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

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

*Definition of default*

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

*Modelling*

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

PD represents the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The expected PD for each individual instrument incorporates a consideration of past events, current market conditions and reasonable and supportable information about future economic conditions. SEB uses IFRS 9 specific PD models. The models are calibrated based on a combination of geography, assets class and product type. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. For IFRS 9, EAD models are adjusted for a 12-month or lifetime horizon. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held as well as the probability of cure, whereby the borrower repays all his past due obligations on the defaulted loan and recommences contractual repayments. SEB uses existing LGD models adjusted to meet IFRS 9 requirements.

When measuring ECL, SEB uses the maximum contractual period during which SEB is exposed to risk. All contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For revolving facilities, such as credit cards, and retail mortgage facilities the expected life is modelled based on historical behaviour. The residual behavioural expected life for such facilities is based on historically observed survival curve and it is affected by the time since origination of the arrangement.

*Forward-looking information*

The group uses internally developed macroeconomic forecasts as the basis for the forward-looking information incorporated in the ECL measurement. In order to ensure an unbiased estimation of credit losses under IFRS 9, at least three scenarios are used. One of the scenarios is the base case scenario, representing the most likely outcome, which is also applied in the financial planning and budgeting process, while other case scenarios represent more positive or negative outcomes.

The forward-looking scenarios are prepared by SEB's Economic Research Department. The scenarios are approved by the Group Risk Committee. A scenario consists of a qualitative description of the macroeconomic development and a quantitative part, with forecasts of key macroeconomic variables for three subsequent years, as well as the likelihood of occurrence (scenario-weight). The scenarios are reviewed and updated on a quarterly basis. In case of significant changes in the macroeconomic environment and outlook, the scenarios will be updated more frequently. The base scenario variables are benchmarked to various external sources of similar forward-looking scenarios, e.g. from OECD, IMF, EU and National Statistics Offices.

*Expert Credit Judgement (ECJ)*

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

**Impairment of financial assets under IAS 39 until 31 December 2017**

All financial assets, except those classified at fair value through profit or loss, are tested for impairment.

At each balance sheet date the group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset, and if that loss event will have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably measured.

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; and
– a significant or prolonged decline in the fair value of an equity instrument below its cost.

An impairment loss is reported as a write off, if it is deemed impossible to collect the contractual amounts that have not been paid and/or are expected to remain unpaid, or if it is deemed impossible to recover the acquisition cost by selling any collateral provided. In other cases, a specific provision is recorded in an allowance account. As soon as the non-collectible amount can be determined and the asset is written off, the amount reported in the allowance account is dissolved. Similarly, the provision in the allowance account is reversed if the estimated recovery value exceeds the carrying amount.

*Individual assessment of impairment*
Loss events indicating objective evidence of impairment of individually assessed assets are when scheduled payments are past due by more than 90 days, or if the counterparty is expected to be in default or any other combination of events that are deemed so negative that there will be a probable payment default in the foreseeable future. The debt instrument is impaired if the cash flows including the value of the collateral does not cover outstanding exposure.

*Collective assessment of impairment when assets are not individually impaired*
Assets assessed for impairment on an individual basis and found not impaired are included in a collective assessed, of incurred but not identified, impairment. The collective assessment of incurred but not identified credit losses is based on the SEB counterpart rating scale.

*Loans assessed on a portfolio basis*
Loans with limited value and similar risk, homogenous groups, are assessed for impairment on a portfolio basis. In assessing collective impairment the group uses statistical models based on the probability of default and the amount of loss incurred, considering collaterals and recovery rates. The outcome is adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the models. Default rates and loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

*Recognition of impairment loss on financial assets carried at amortised cost*
An impairment of an individually assessed financial asset in the category loans and receivables carried at amortised cost is calculated on the basis of the original effective interest rate of the financial instrument. The amount of the impairment is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (recoverable amount). If the terms of an asset are restructured or otherwise modified due to financial difficulties on behalf of the borrower or issuer, impairment is measured using the original effective interest rate before modification of the terms and conditions. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial. The entire outstanding amount of each loan for which a specific provision has been established is included in impaired loans, i.e. including the portion covered by collateral.

*Recognition of impairment loss on Available-for-sale financial assets*
When there is a decline in the fair value and there is objective evidence of impairment in an available-for-sale financial instrument, the accumulated loss shall be reclassified from equity to profit or loss. Equity instruments are considered impaired when a significant or prolonged decline in the fair value has occurred. The amount of the accumulated loss that is transferred from equity and recognised in profit or loss is equal to the difference between the acquisition cost and the current fair value, with a deduction of any impairment losses on that financial asset which had been previously recognised in profit or loss.

The incurred impairment of unquoted equities, measured at acquisition cost, is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar equities.

Impairment losses on bonds or other interest-bearing instruments classified as available-for-sale are reversed via profit or loss if the increase in fair value can be objectively attributed to an event taking place subsequent to the write-down. Impairment losses for equity instruments classified as available-for-sale are not reversed through profit or loss following an increase in fair value but are recognised in other comprehensive income.

*Restructured loans*
Portfolio assessed loans that would have been considered past due more than 60 days if they were not restructured.

**Hedge accounting**
Derivatives are used to hedge interest rate, exchange rate and equity exposures. Where derivatives are held for risk management purposes and when transactions meet the required criteria, the group applies fair value hedge accounting, cash flow hedge accounting or hedging of a net investment in a foreign operation as appropriate to the risks being hedged. The group documents and designates, at inception, the relationship between the hedged item and the hedging instrument as well as the risk objective and hedge strategy. The group also documents its assessment, both at inception and on an ongoing basis, whether the derivatives used are both prospectively, and retrospectively highly effective in offsetting the hedged risk. As part of the prospective test the group also assesses and documents that the likelihood of forecasted transactions to take place is highly probable. ▶▶ *More information regarding hedge accounting can be found in note 21 Derivatives and hedge accounting.*

Hedge accounting is applied when derivatives are used to reduce risks such as interest rate risks and currency risks in financial instruments. Furthermore, hedge accounting can be applied to liabilities hedging currency risk in net investments in subsidiaries. The group applies different hedge accounting models depending on the purpose of the hedge:
– Hedges of fair value of recognised assets or liabilities (fair value hedge);
– Hedges of the fair value of the interest rate risk of a portfolio (portfolio hedge);
– Hedges of highly probable future cash flows attributable to recognised assets or liabilities (cash flow hedge);
– Hedges of a net investment in a foreign operation (net investment hedge).

The group discontinues hedge accounting when:
– The derivative has ceased to be highly effective as a hedging instrument;
– The derivative expires, is sold, terminated, or exercised;
– The hedged item matures, is sold or repaid; or
– The forecast transaction is no longer deemed highly probable.

SEB has decided to continue applying hedge accounting requirements in IAS 39.

*Fair value hedge*
Fair value hedges are used to protect the group against undesirable exposures to changes in the market prices of recognised assets or liabilities. Changes in fair value of derivatives that qualify and are designated as hedging instruments are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk as Net other income.

Where the group hedges the fair value of interest rate exposure in a portfolio including financial assets or financial liabilities, so called portfolio hedging of interest rate risk, the gains or losses attributable to the hedged item are reported as a separate item under assets or as a separate item under liabilities in the balance sheet.

When hedge relationships are discontinued, any adjustment to the carrying amount of the hedged item is amortised to profit or loss over the period to maturity of the hedged item.

*Cash flow hedge*
Cash flow hedging is applied for the hedging of exposure to variations in future interest payments on assets or liabilities with variable interest rates. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss as Net other income.

Gains or losses on hedging instruments that have been accumulated in equity are recognised in profit or loss in the same period as interest income and interest expense from the hedged asset or liability.

When cash flow hedges are discontinued but future cash flows still are expected to occur, accumulated gains or losses from the hedging instrument will remain as a separate item in equity until the hedged future cash flows occur. Accumulated gains or losses are subsequently reported in profit or loss in Net interest income in the same period in which the previously hedged interest flows are recognised in profit or loss.

*Net investment hedge*
Hedge of a net investment is applied to protect the group from translation differences due to net investments in foreign subsidiaries. Foreign currency loans constitute the major portion of hedging instruments in these transactions. The translation differences arising on the hedging instruments are recognised in other comprehensive income and accumulated in equity as translation of foreign operations, to the extent the hedge is effective. Any ineffective part is recognised as Net financial income. When a foreign operation is partially disposed of or sold, exchange differences accumulated in equity are recognised in the income statement as part of the gain or loss on the sale.

**OPERATING INCOME**
**Interest income and interest expense**
The effective interest method is applied to recognise interest income and interest expenses in profit or loss for financial assets and financial liabilities measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income and interest expenses. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument. When calculating future payments, all payments included in the terms and conditions of the contracts, such as advance payments, are taken into consideration. However, future credit losses are not taken into account. The calculation of the effective interest rate includes fees and points to be received and paid that are an integral part of the effective interest rate.

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 subsequently recognised applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Net fee and commission income**

The recognition of revenue from contracts with customers is reported as fee and commission income.

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

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

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

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

Expenses that are directly related to the generation of fee and commission income are recognised as fee and commission expense.

**Net financial income**

Gains and losses arising from changes in fair value of financial assets and liabilities measured at fair value through profit or loss are reported under the item Net financial income. For financial liabilities designated at fair value through profit or loss the change in fair value relating to change in own credit risk is accounted for in other comprehensive income as of 2018.

**Dividend income**

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

**Seized assets**

Seized assets are assets taken over to protect a claim. SEB may refrain from a loan receivable and instead seize the asset that served as collateral for the loan. Seized assets may consist of financial assets, properties and other tangible assets. Seized asset are recognised on the same line item in the balance sheet as similar assets that have been acquired otherwise. At inception seized assets are measured at fair value. The fair value at initial recognition becomes the acquisition value. Subsequently seized assets are measured according to type of asset with the exception of impairment on tangible seized assets that is reported as Gains less losses from tangible and intangible assets rather than as Depreciation, amortisation and impairment of tangible and intangible assets. The purpose is to better reflect the similar character of impairment of assets that are taken over to protect claims on counterparties and credit losses.

**Tangible assets**

Tangible assets, with the exception of investment properties held in insurance operations, are measured at cost and are depreciated according to plan on a straight line basis over the estimated useful life of the asset. The maximum depreciation period for buildings is 50 years. The depreciation period for other tangible assets is between 3 and 8 years.

Tangible assets are tested for impairment whenever there is an indication of impairment.

**Leasing**

A finance lease is a lease that transfers, from the lessor to the lessee, substantially all risks and rewards incidental to the ownership of an asset. In the group, essentially all leasing contracts in which the group is the lessor are classified as finance leases. Finance leases are reported as lending, which implies that the leasing income is reported within net interest income.

**Investment properties**

Investments in properties held in order to receive rental income and/or for capital appreciation are reported as investment properties. The recognition and measurement of such properties differs, depending upon the entity owning the property. Investment properties held in the insurance operations, used to match liabilities providing a yield directly associated with the fair values of specified assets, including the investment properties themselves, are accounted for using the fair value model. Holdings of investment properties in the banking operations are measured at depreciated cost.

**Intangible assets**

Intangible assets are identifiable, non-monetary assets without physical substance. For an intangible asset to be recognised an entity must be able to demonstrate control of the intangible asset, which implies that the entity has the ability to ensure that the future economic benefits flowing from the underlying resource will accrue to the company. Intangible assets, other than goodwill, are only recognised in the balance sheet if it is probable that the future economic benefits attributable to the asset will accrue to the group and if the acquisition cost of the asset can be measured in a reliable manner.

Intangible assets are measured initially at acquisition cost, and thereafter at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite useful lives, i.e. all intangible assets except goodwill, are amortised on a straight line basis over their useful lives and tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Internally generated intangible assets, such as software development, are amortised over a period of between 3 and 8 years.

Intangible assets with indefinite useful lives, i.e. goodwill, are not amortised but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. As regards goodwill, an impairment loss is recognised in profit or loss whenever the carrying amount, with respect to a cash-generating unit or a group of cash-generating units to which the goodwill is attributed, exceeds the recoverable amount. Impairment losses attributable to goodwill are not reversed, regardless of whether the cause of the impairment has ceased to exist.

The recoverable amount of an intangible asset is determined if there is indication of a reduction in the value of the asset. An impairment loss is recognised if the carrying amount exceeds the recoverable amount of the asset.

**Provisions**

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated. Provisions are determined by discounting the expected future cash flows at pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn by a debtor in financial difficulties.

Provisions are evaluated at each balance sheet date and are adjusted as necessary.

**Financial guarantees**

Financial guarantees are contracts that require the group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, which most often equals the premium received. The initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the best estimate of the expenditure required settling any financial obligation arising as a result of the guarantee at the balance sheet date. Provisions and changes in provisions are recognised in the income statement as Net credit losses. The contractual amounts according to financial guarantees are not recognised in the balance sheet but disclosed as obligations.

**Employee benefits**

*Pensions*

There are both defined contribution and defined benefit pension plans within the group, of which most have plan assets. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will get on retirement depending on factors such as age, years of service and compensation. A defined contribution plan is a pension plan where the group pays a contribution to separate entities and has no further obligation once the contribution is paid.

The pension commitments of the group with respect to defined benefit plans are covered by the pension funds of the group or through insurance solutions.

The defined benefit obligation is calculated quarterly by independent actuaries using the Projected Unit Credit Method. ▶▶ *The assumptions upon which the calculations are based are found in note 8b Pensions* All changes in the net defined benefit liability (asset) are recognised as they occur, as follows: (i) service cost and net interest in the income statement; and (ii) remeasurements of both defined benefit obligations and plan assets in other comprehensive income.

Pension costs for defined contribution pension plans are recognised as an expense during the period the employees carry out the service to which the payment relates.

**Share-based payments**
The group operates a number of share-based incentive programmes, under which it awards SEB equity instruments to its employees. Equity-settled share-based incentive programmes entitle employees to receive SEB equity instruments. Cash-settled share-based incentive programmes entitle employees to receive cash based on the price or value of equity instruments of SEB. Fair value of these rights is determined by using appropriate valuation models, taking into account the terms and conditions of the award and the group's estimate of the number of rights that will eventually vest, which is reassessed at each reporting date. Social security charges are accounted for over the vesting period and the provision for social security charges is reassessed on each reporting date to ensure that the provision is based on the rights' fair value at the reporting date.

The cost of equity-settled share-based incentive programmes is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period with a corresponding increase in equity. The vesting period is the period that the employees have to remain in service in SEB in order for their rights to vest. For cash-settled share-based incentive programmes, the services acquired and liability incurred are measured at the fair value of the liability and recognised as an expense over the vesting period, during which the employees render service. Until settlement, the fair value of the liability is remeasured, with changes in fair value recognised in the income statement.

**TAXES**
The group's tax for the period consists of current and deferred tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to or from tax authorities using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Current tax is calculated based on the taxable results for the period. Deferred tax arises due to temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Current tax and deferred tax are generally recognised in profit or loss. However, tax that relates to items recognised in other comprehensive income is also reported directly in other comprehensive income. Examples of such items are changes in the fair value of financial assets at fair value through other comprehensive income, gains or losses on hedging instruments in cash flow hedges.

Deferred tax assets are recognised in the balance sheet to the extent that it is probable that future taxable profits will be available against which they can be utilized. The group's deferred tax assets and tax liabilities have been calculated at the tax rate of 21.4 per cent and 20.6 per cent as of 2021 in Sweden, and at each respective country's tax rate for foreign companies.

**INSURANCE AND INVESTMENT CONTRACTS**
Insurance contracts are contracts under which the group accepts significant insurance risk – defined as a transfer of an absolute risk of minimum 5 percent of the underlying value – from the policyholder by agreeing to compensate the policyholder or other beneficiaries on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract, as they do not transfer significant insurance risk from the policyholder to the group.

**Insurance contracts**
Insurance contracts are classified as short-term (non-life) or long-term (life). Short-term insurance comprise sickness, disability, health-care, and rehabilitation insurance. Long-term insurance comprises mainly traditional life insurance. In the group accounts short-term and long-term insurance are presented aggregated as Insurance contracts.

*Measurement of short-term insurance contracts (non-life)*
The provision for unearned premiums is intended to cover the anticipated cost of claims and operating expenses arising during the remaining policy period of the insurance contracts in force. The provision for unearned premiums is usually strictly proportional over the period of the insurance contracts. If premiums are judged to be insufficient to cover the anticipated cost for claims and operating expenses, the provision for unearned premiums is strengthened with a provision for unexpired risks.

For anticipated future claims that have been incurred but not yet paid, provision for claims outstanding is recognised. The provision is intended to cover the anticipated future payment of all claims incurred, including claims incurred but not reported (IBNR provisions). This provision should also cover all costs for claims settlement. The provision for claims outstanding is not discounted, with the exception of provisions for sickness annuities, which are discounted using standard actuarial methods.

*Measurement of long-term insurance contracts (life)*
For long-term life insurance contracts, a liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability equals the sum of the discounted value of expected benefit payments and future administration expenses, less any outstanding future contractual premium payments. Liabilities for long-term life insurance are discounted using standard actuarial methods.

*Liability adequacy test*
Swedish actuarial procedures involve performing liability adequacy tests on insurance liabilities. This is to ensure that the carrying amount of the liabilities is sufficient in the light of estimated future cash flows. The carrying amount of a liability is the value of the liability itself less any related intangible asset or asset for deferred acquisition costs. The current best estimates of future contractual cash flows, as well as claims handling and administration costs, are used in performing these liability adequacy tests. These cash flows are discounted and compared to the carrying amount of the liability. Any deficit is immediately recognised in profit or loss.

*Revenue recognition*
Premiums for insurance contracts are recognised as revenue when they are paid by the policyholders. For contracts where insurance risk premiums received during a period are intended to cover insurance claims arising in that period those premiums are recognised as revenue proportionally during the period of coverage.

*Recognition of expenses*
Costs for insurance contracts are recognised as an expense when incurred, with the exception of commissions and other variable acquisition costs that vary with and are directly related to securing new contracts and the renewal of existing contracts. These costs are capitalised as deferred acquisition costs. These costs are mainly incremental acquisition costs paid to sales personnel, brokers and other distribution channels. Deferred acquisition costs are amortised as the related revenue is recognised. The asset is tested for impairment every accounting period, ensuring that the economic future benefits expected to arise from the contracts exceed its face amount. All other costs, such as non-incremental acquisition costs or maintenance costs, are recognised in the accounting period in which they arise. Insurance compensation is recorded as an expense when incurred.

*Reinsurance*
Contracts with re-insurers, whereby compensation for losses is received by the group, are classified as ceded reinsurance. For ceded reinsurance, the benefits to which the group is entitled under the terms of the reinsurance contract are reported as the re-insurers' share of insurance provisions. Amounts recoverable from re-insurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract.

**Investment contracts**
The majority of the group's unit linked insurance is classified as investment contracts where no significant insurance risk is transferred from the policyholder to the group. A minor part of the group's unit linked insurance business is classified as insurance contracts.

*Measurement*
Investment contracts are financial commitments whose fair value is dependent on the fair value of the underlying financial assets. The underlying assets are mandatorily measured at fair value through profit or loss and the related liabilities are designated at fair value through profit or loss (fair value option). The choice to use the fair value option for the liabilities has been made for the purpose of eliminating the measurement inconsistency that would occur if different bases for measurement would have been used for assets and liabilities. The fair value of the unit linked financial liabilities is determined using the fair value of the financial assets linked to the financial liabilities attributed to the policyholder on the balance sheet date. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

*Revenue recognition*
Amounts received from and paid to policyholders are reported in the balance sheet as deposits or withdrawals. Fees charged for managing investment contracts are recognised as revenue. The revenue for these management services is evenly distributed over the tenor of the contracts.

*Recognition of expenses*
Incremental costs of obtaining investment contracts with customers are deferred if they are expected to be recovered. Incremental costs are costs to obtain a contract with a customer that would not have been incurred if the contract had not been obtained. These costs are up-front acquisition costs in the form of sales commissions paid for obtaining investment contracts. They are expected to be recovered from the fee income earned from the investment contracts. Deferred acquisition costs are reported in profit or loss as the related revenue is recognised. The asset is tested for impairment during each accounting period to ensure that the future economic benefits expected to

arise from the contract exceed the carrying amount of the asset. All other costs, such as commissions to brokers paid during the tenor of the investment contracts or commission to own staff acting as sales agents or ongoing administration cost, are recognised in the accounting period in which they arise.

**Contracts with discretionary participation features (DPF)**
Some traditional pension saving contracts include a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. All contracts that include a discretionary participation feature are reported as insurance contracts. The amounts referring to the guaranteed element and to the discretionary participation feature are reported as liabilities to policyholders.

**Changes in accounting policies implemented 2018**
The following changes have been implemented in 2018:

The group adopted IFRS 9 *Financial Instruments* with a date of transition 1 January 2018. The standard replaces IAS 39 *Financial Instruments: Classification and Measurement* and covers three areas; classification and measurement, impairment and hedge accounting. The group has elected to continue applying the principles in IAS 39 relating to hedge accounting. For transitional purposes the quantitative indicator used for assessing significant increase in credit risk for impairment purposes is based on risk class or equivalent. As permitted by the transitional provisions in IFRS 9, the group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition are recognised in the opening balance in equity as at 1 January 2018.

The group adopted IFRS 15 *Revenue from Contracts with Customers* with a date of transition 1 January 2018. IFRS 15 replaces all previous revenue standards and related interpretations including IAS 11 *Construction Contracts* and IAS 18 *Revenue* but does not apply to financial instruments, insurance contracts or leasing contracts. IFRS 15 establishes the principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from contract with customers. SEB identified that the treatment of contract costs for investment contracts within Life will change and as a result of the new more specific requirements, a smaller part of deferred acquisition costs is recognised as an asset. The group chose to apply the standard retrospectively to each prior reporting period presented. The transition effect is therefore recognised as a reduction of the opening retained earnings, as at 1 January 2017.

IAS 12 *Income Taxes* has been amended regarding recognition of deferred tax assets for unrealised losses. IAS 7 *Statement of Cash flows* has been amended with new disclosure requirements. Within the annual improvement cycle 2014–2016 the scope of IFRS 12 *Disclosures of interests in other entities* has been clarified. These amendments and interpretations are applied and have been endorsed by the EU.

IFRS 4 *Insurance Contracts* has been amended regarding applying IFRS 9 *Financial Instruments* together with IFRS 4 *Insurance Contracts*. The amendment allows a temporary exemption from IFRS 9 for a limited period for insurers whose activities are predominantly connected with insurance. An insurer applying the temporary exemption continues to apply IAS 39 rather than applying IFRS 9. SEB has chosen to not apply the exemption in the Life division.

**Changes in IFRSs not yet applied**
Consideration will be given in the future to the implications, if any, of the following new and revised standards and interpretations. IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations. The standard is effective as from 1 January 2019 and is endorsed by the EU. For SEB's accounting policies related to IFRS 16, see note 54.

IFRS 17 *Insurance Contracts* was published in May 2017. This standard should be applied as from 1 January 2021 and has not yet been endorsed by EU. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of issued insurance contracts. It also requires similar principles to be applied to held reinsurance contracts and issued investment contracts with discretionary participation features. IFRS 17 replaces IFRS 4 *Insurance Contracts*. SEB is currently evaluating the impact of the change to the financial statements of the group.

IFRIC 23 *Uncertainty over Income Tax* Treatments has been issued and specifies how to reflect the effects of uncertainty in accounting for income taxes. The interpretation is effective as of 1 January 2019 and is endorsed by the EU.

IAS 28 *Interests in Associates and Joint Ventures* has been amended so companies should apply IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Amendments have been made to IFRS 9 *Financial Instruments* regarding prepayment features with negative compensation. The interpretation should be applied as from 1 January 2019 and is endorsed by the EU.

IAS 23 *Borrowing Costs*, IAS 12 *Income Taxes*, IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* have been amended within the Annual improvement cycle 2015–2017. These amendments and interpretations should be applied as from 1 January 2019 and have not been endorsed by the EU. The changes will not have a material effect on the financial statements of the group or on capital adequacy and large exposures.

Amendments to IFRS 3 *Business Combinations* and the definition of business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and are not yet endorsed by the EU.

## Significant accounting policies of the parent company

Skandinaviska Enskilda Banken (SEB) AB is a public limited liability company with corporate number 502032-9081 and with registered office in Stockholm, Sweden.

The financial statements of the parent company are prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the regulation and general guidelines issued by the Swedish Financial Supervisory Authority, Annual Reports in Credit Institutions and Securities Companies (FFFS 2008:25) and statements from the Swedish Financial Reporting Board, RFR 2 and the additional UFR statements.

In accordance with the Financial Supervisory Authority's regulation, the parent company applies statutory IFRS. This means that the International Financial Reporting Standards (IFRS) and interpretations of these standards as adopted by the EU have been applied to the extent that is possible within the framework of Swedish legislation and considering the close tie between financial reporting and taxation. The accounting principles of the parent company differ, in certain aspects, from the accounting principles applied by the SEB Group. The essential differences are described below.

**CHANGED ACCOUNTING POLICIES**
The changed group accounting policies and future accounting developments also applies to the parent company. The Swedish Annual Accounts Act for Credit Institutions and Securities Companies has been updated where the main change is new requirements to publish a sustainability and diversity report. In all other material aspects the accounting policies, basis for preparation and presentation for the parent company are unchanged in comparison with the annual report for 2017.

With effect from 1 January 2018 the regulations and general guidelines issued by the Swedish Financial Supervisory Authority have been updated. The changes are mainly related to the implementation of IFRS 9 and IFRS 15, e.g. the presentation of different items in the income statement and classification of seized assets. With effect from 1 January 2019 the regulations and general guidelines issued by the Swedish Financial Supervisory Authority have been updated. The changes are mainly related to the implementation of IFRS 16 *Leases*.

**PRESENTATION FORMAT**
The presentation format for the balance sheet and the profit and loss account according to the Annual Accounts Act for Credit Institutions and Securities Companies is not in conformity with IFRS. Credit institutions and securities companies applying IFRS as adopted by the EU in their consolidated financial statements have the option to deviate from the presentation format for the balance sheet as stipulated by law, but may not deviate from the stipulated profit and loss account.

**HOLDINGS IN SUBSIDIARIES AND ASSOCIATED COMPANIES**
Shares and participating interests in subsidiaries and associated companies are measured at cost. Dividends on shares in subsidiaries and associated companies are recognised as income in profit or loss. Merger of subsidiaries through absorption are accounted for at consolidated values. The merger effect is reported in equity.

**Financial assets and liabilities**
The changed group accounting policies also applies to the parent company, with the exception of financial liabilities designated as fair value through profit or loss where the change in fair value relating to change in own credit risk is accounted for in profit or loss.

**LEASING**
Leasing contracts which are classified as finance leases in the consolidated accounts are accounted for as operating leases in the parent company.

**PENSIONS**
The parent company does not apply the provisions of IAS 19 concerning accounting for defined benefit plans. Instead, pension costs are calculated on an actuarial basis in the parent company in accordance with the provisions of the Act on Safeguarding Pension Obligations and the Swedish Financial Supervisory Authority's regulations. This is a requirement by the Swedish tax regulation. In Sweden, actuarial pension commitments are guaranteed by a pension foundation.

The recognised net cost of pensions is calculated as pensions paid and pension premiums less any compensation from the pension foundation. The net pension cost for the year is reported under Staff costs in the parent company's profit and loss account. Excess amounts as a result of the value of the plan assets exceeding the estimated pension obligations are not recognised as an asset in the parent company's balance sheet. Deficits are recognised as a liability.

**GOODWILL AND OTHER INTANGIBLE ASSETS**
In accordance with IAS 38, goodwill is not amortised in the consolidated financial statements. In the parent company financial statements, goodwill is amortised as any other intangible asset on a straight line basis.

**TAXES**
In the parent company, untaxed reserves are recognised as a separate item in the balance sheet. Untaxed reserves comprise accelerated depreciation under tax regulations, including the deferred tax component. In the consolidated financial statements, untaxed reserves are reported in retained earnings and deferred tax liability.

**GROUP CONTRIBUTIONS**
The net of group contributions received and paid is reported in the parent company as appropriations.

## Critical judgements in applying the accounting policies

Applying the group's accounting policies requires in some cases the use of estimates and assumptions that have a material impact on the amounts reported in the financial statements. The estimates are based on expert judgements and assumptions that management believes are true and fair. The management continuously evaluates these judgements and estimates. The most significant assumptions and estimates are associated with the areas described below:

**CONSOLIDATION OF MUTUAL LIFE INSURANCE COMPANIES AND FUNDS**
Within the life insurance operations of the SEB Group Gamla Livförsäkrings AB SEB Trygg Liv operates as a mutual life insurance company. The entity is not consolidated, as the judgement of the group is that it does not have control of the entity. Control is seen to imply the power to govern the financial and operating policies of an entity in order to affect the amount of its returns from the entity. Life insurance entities operated as mutual life insurance companies cannot pay dividends which is why the group deems that it cannot obtain benefits. In Gamla Livförsäkrings AB SEB Trygg Liv there are specific policies specifying the composition of the board, which implies that the SEB Group is not able to govern the financial and operating policies of the entity.

In the assessment whether to consolidate funds, an assessment is made whether the group is considered to be an agent or a principal. The group is considered a principal, and hence controls the fund, when it is the fund manager, cannot be removed without cause, has significant right to returns from the fund by holding units and earning fee income and has the practical ability to influence its return by using its power. Funds managed by the group in which entities within the group owns more than 20 per cent are analysed further for consolidation.

The policyholders in SEB's unit-linked company choose to invest in a variety of funds. The insurance company providing unit-linked products invests in the funds chosen by the customers. By doing so SEB might, in some cases, hold more than 50 per cent of the funds, which it holds on behalf of the customers for whom it acts as investment manager. Due to the legislation regarding fund operations, SEB considers that it does not have the power to govern the financial and operating policies of such investment funds to obtain benefits. This applies irrespective of whether the funds held on behalf of customers are greater or less than 50 per cent of a fund. It is the policyholders who carry the investment risk, not SEB. Consequently, the policyholders are entitled to all of the returns generated by the funds. SEB only charges fees, on market conditions, for managing the funds. SEB has come to the conclusion that these funds which it manages should not be consolidated. However, the shares that the group holds in such funds on behalf of its customers are recognised in the balance sheet.

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

For some of the group's financial assets and liabilities, especially for certain derivatives, quoted prices are not available, and valuation models are used to estimate fair value. As part of the fair value measurement, valuation adjustments are made when valuing derivative financial instruments, to incorporate counterparty and own credit risk. The methodologies for estimating valuation adjustments are continuously revised as a result of changing market practices in response to regulatory and accounting policy changes, as well as general market developments.

The group has an established control environment for the determination of fair values of financial instruments that includes a review, independently from the business, of valuation models and prices. If the validation principles are not adhered to, the Head of Group Finance shall be informed. Exceptions with material and principal importance require approval from the Valuation Committee and the SEB ARC (Accounting Policy and Financial Reporting Committee).
▶▶ *For disclosure purposes, fair values are classified in a fair value hierarchy according to the level of observability of the inputs, see note 37.*

**IMPAIRMENT TESTING OF FINANCIAL ASSETS AND GOODWILL**
**Financial assets – impairment under IFRS 9 expected credit loss model**
When calculating expected credit loss (ECL) there are a number of key concepts that require a high level of judgement. Estimating expected credit loss is, by its very nature, uncertain and the accuracy of these estimates depends on many factors, e.g. macro-economic forecasts and involves complex modelling and judgements.

The assessment of significant increase in credit risk is a new concept under IFRS 9 Financial Instruments and will require significant judgement. At the end of each reporting period the group shall perform an assessment of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument, using key risk indicators that are used in the group's existing risk management processes.

Another area requiring significant judgement is the incorporation of forward-looking information and macro-economic scenarios. IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. SEB uses internally developed macro-economic forecasts as the basis for the forward-looking information in the ECL measurement. SEB uses both models and expert credit judgement (ECJ) in order to determine ECLs. The objective of applying ECJ is to incorporate the estimated impact of factors not captured in the modelled ECL. The degree of judgement that is required to estimate expected credit losses depends on the outcome from calculations, materiality and the availability of detailed information. The models, assessment and assumptions are regularly reviewed by the risk organisation of the group and approved by the Group Risk Committee.

**Financial assets – impairment under IAS 39**
When calculating loan impairment allowances on both individually assessed and collectively assessed loans critical judgements and estimates are applied. Assessing financial assets individually for impairment requires judgement to establish the counterparty's repayment capacity and the realisable value of any collateral. The most important aspect when testing a group of financial assets collectively for impairment is to identify the events that indicate incurred losses. In assessing collective impairment the group uses statistical models based on the probability of default and the amount of loss incurred, considering collaterals and recovery rates. The outcome is adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the models. Default rates and loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Adjusting models for collective impairment testing to current market situation also require a high degree of expert judgement to ensure a reliable estimate. The assessment and assumptions are regularly reviewed by the credit organisation of the group.

**Goodwill**
Judgement is involved in determining the cash-generating units. The annual impairment test of goodwill is based on the value in use with forecasted cash flows for five years. The cash flows beyond five years are determined based on sustainable growth.

The estimation of future cash flows and the calculation of the rate used to discount those cash flows involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting and the assessment of the discount rate appropriate to the business. ▶▶ *Note 23 describes tangible and intangible assets in more detail.*

**CALCULATION OF INSURANCE LIABILITIES**
Calculation of the group's insurance liabilities is based on a number of estimates and assumptions, both financial and actuarial, such as interest rates, mortality, health, expenses, inflation and taxes. One of the important financial assumptions is the interest rate used for discounting future cash flows.

Assumption on interest rates is based on regulations from each local Financial Supervisory Authority (FSA). All other assumptions are based on internally acquired experience.

**ASSETS RECOGNISED FROM THE COSTS TO OBTAIN OR FULFIL A CONTRACT, DEFERRED ACQUISITION COSTS**

SEB recognise as an asset, costs to obtain contracts that would not have incurred if the contract had not been obtained, mainly sales commissions to obtain insurance and investment contracts.

The amortisation period for the asset is based on assumptions about average lifetime of the contracts including assumptions about surrenders and lapses.

**FAIR VALUE OF INVESTMENT PROPERTY**

Investment properties in the insurance operations are fair valued with the assistance of external expertise. The valuation method applied means that the related expected cash flows are discounted to present value. The assumptions concerning expected cash flows are based on assumptions on future rents, vacancy levels, operating and maintenance costs, yield requirement and market interest. Assumptions are in line with the assessments that the market can be expected to make under current market conditions. The yield requirement is based on local analysis of comparable property purchases.

**VALUATION OF DEFERRED TAX ASSETS**

Deferred tax assets that are relying on future profitability can be recognised only to the extent they can be offset against future taxable income and the valuation of deferred tax assets is influenced by management's assessment of SEB's future profitability, future taxable profits and future reversals of existing taxable temporary differences. The expected outcome of uncertain tax positions is determined as the single most likely outcome.

**PROVISIONS**

Judgement is involved in determining whether a present obligation exists, and in estimating the probability, timing and amount of any outflows. Provisions for claims in civil lawsuits and regulatory matters typically require a higher degree of judgement than other types of provisions.

**ACTUARIAL CALCULATIONS OF DEFINED BENEFIT PLANS**

The calculation of the group's expense and obligations for defined benefit plans is based on actuarial, demographic and financial assumptions that have a significant impact on the recognised amounts. One of the important financial assumptions is the interest rate used for discounting future cash flows. The estimation of the discount rate is subject to uncertainty whether corporate bond markets are deep enough, of high quality and also in connection to the extrapolation of yield curves to relevant maturities. The discount rate is based on high quality corporate bonds in a deep market, in Sweden covered bonds. The covered bonds in Sweden are at least AAA-rated and the maturity is in line with the estimated maturity of obligations for post-employment benefits. The discount rate for the defined benefit obligation is revised quarterly and other assumptions are revised each year or when a significant change has occurred.

*Note 8b describing staff costs contain a list of the most critical assumptions used when calculating the defined benefit obligation.*

# 2 Operating segments

**Group business segments**

| **Income statement, 2018** | Large Corporates & Financial Institutions | Corporate & Private Customers | Baltic | Life & Investment Management | Other[1] | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| *Interest income* | *19,620* | *12,447* | *3,049* | *−5* | *16,874* | ***−12,685*** | ***39,299*** |
| *Interest expense* | *−11,409* | *−2,974* | *−211* | *−49* | *−16,339* | ***12,705*** | ***−18,277*** |
| Net interest income | 8,211 | 9,473 | 2,837 | −54 | 535 | **20** | **21,022** |
| *Fee and commission income* | *10,956* | *7,182* | *2,091* | *8,635* | *172* | ***−5,017*** | ***24,018*** |
| *Fee and commission expense* | *−4,523* | *−1,712* | *−642* | *−3,717* | *−60* | ***5,000*** | ***−5,654*** |
| Net fee and commission income | 6,433 | 5,470 | 1,449 | 4,918 | 111 | **−17** | **18,364** |
| Net financial income | 3,384 | 429 | 257 | 955 | 1,043 | **12** | **6,079** |
| Net other income | 309 | 47 | −21 | −6 | 88 | **−14** | **402** |
| **Total operating income** | **18,337** | **15,418** | **4,522** | **5,813** | **1,777** | **1** | **45,868** |
| *of which internally generated* | *−1,765* | *−140* | *151* | *−2,303* | *4,056* | ***1*** | |
| Staff costs | −3,858 | −3,353 | −811 | −1,391 | −4,608 | **18** | **−14,004** |
| Other expenses | −4,990 | −3,735 | −1,021 | −1,012 | 3,576 | **−19** | **−7,201** |
| Depreciation, amortisation and impairment of tangible and intangible assets | −55 | −58 | −53 | −25 | −544 | | **−735** |
| **Total operating expenses** | **−8,903** | **−7,146** | **−1,885** | **−2,429** | **−1,576** | **−1** | **−21,940** |
| Gains less losses on disposals of tangible and intangible assets | 1 | | 19 | | −2 | | **18** |
| Net expected credit losses | −702 | −427 | −55 | −2 | 25 | **−5** | **−1,166** |
| **Operating profit before items affecting comparability** | **8,733** | **7,845** | **2,600** | **3,382** | **224** | **−5** | **22,779** |
| Items affecting comparability | | | | | 4,506 | | **4,506** |
| **OPERATING PROFIT** | **8,733** | **7,845** | **2,600** | **3,382** | **4,730** | **−5** | **27,285** |
| Business equity, SEK bn | 63.8 | 42.4 | 9.6 | 8.0 | | | |
| Return on business equity, % | 10.3 | 13.9 | 22.4 | 36.3 | | | |
| Risk exposure amount, SEK bn | 360 | 220 | 82 | 4 | 50 | | **716** |
| Lending to the public[2], SEK bn | 600 | 781 | 148 | | 18 | | **1,547** |
| Deposits from the public[2], SEK bn | 473 | 421 | 138 | | 76 | | **1,108** |
| **2017[3]** | | | | | | | |
| *Interest income* | *14,066* | *11,794* | *2,616* | *−3* | *14,491* | ***−6,492*** | ***36,472*** |
| *Interest expense* | *−6,022* | *−2,352* | *−243* | *−87* | *−14,415* | ***6,540*** | ***−16,580*** |
| Net interest income | 8,043 | 9,442 | 2,373 | −90 | 76 | **48** | **19,893** |
| *Fee and commission income* | *11,366* | *7,565* | *1,852* | *8,708* | *135* | ***−6,430*** | ***23,196*** |
| *Fee and commission expense* | *−5,130* | *−1,887* | *−532* | *−4,237* | *−108* | ***6,376*** | ***−5,519*** |
| Net fee and commission income | 6,236 | 5,678 | 1,320 | 4,471 | 27 | **−54** | **17,677** |
| Net financial income | 3,465 | 441 | 231 | 1,674 | 1,008 | **60** | **6,880** |
| Net other income | 573 | 87 | −10 | 17 | 448 | **−4** | **1,112** |
| **Total operating income** | **18,318** | **15,648** | **3,914** | **6,072** | **1,558** | **51** | **45,561** |
| *of which internally generated* | *−1,773* | *2,742* | *53* | *−2,386* | *1,312* | ***51*** | |
| Staff costs | −3,862 | −3,298 | −724 | −1,561 | −4,616 | **35** | **−14,025** |
| Other expenses | −5,046 | −3,872 | −965 | −963 | 3,984 | **−85** | **−6,947** |
| Depreciation, amortisation and impairment of tangible and intangible assets | −59 | −57 | −78 | −37 | −734 | | **−964** |
| **Total operating expenses** | **−8,967** | **−7,226** | **−1,766** | **−2,561** | **−1,365** | **−51** | **−21,936** |
| Gains less losses on disposals of tangible and intangible assets | 1 | | −164 | | 1 | | **−162** |
| Net credit losses | −529 | −276 | −7 | | 4 | | **−808** |
| **Operating profit before items affecting comparability** | **8,823** | **8,146** | **1,977** | **3,511** | **198** | | **22,655** |
| Items affecting comparability | | | | | −1,896 | | **−1,896** |
| **OPERATING PROFIT** | **8,823** | **8,146** | **1,977** | **3,511** | **−1,698** | | **20,759** |
| Business equity, SEK bn | 65.8 | 40.6 | 8.0 | 8.4 | | | |
| Return on business equity, % | 10.1 | 15.0 | 21.9 | 35.8 | | | |
| Risk exposure amount, SEK bn | 376 | 120 | 74 | 4 | 37 | | **611** |
| Lending to the public[2], SEK bn | 551 | 744 | 129 | | 6 | | **1,430** |
| Deposits from the public[2], SEK bn | 416 | 384 | 114 | | 86 | | **999** |

1) Profit and loss from associated companies accounted for under the equity method are recognised in Net other income at an amount of SEK −9m (13). The aggregated investments are SEK 295m (334).
2) Excluding repos.
3) The 2017 income statement has been restated for the transition to IFRS 15. For transition disclosures, see note 53.

*Note 2 continued Operating segments*

**Balance sheet**

| 2018 | Large Corporates & Financial Institutions | Corporate & Private Customers | Baltic | Life & Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Assets | 1,407,180 | 857,821 | 176,175 | 313,838 | 2,439,209 | −2,626,706 | **2,567,516** |
| Liabilities | 1,330,962 | 806,043 | 164,108 | 305,100 | 2,439,233 | −2,626,706 | **2,418,727** |
| Investments | 71 | 51 | 161 | 353 | 739 | | **1,376** |
| **2017** | | | | | | | |
| Assets | 1,175,651 | 829,749 | 160,683 | 512,102 | 1,134,625 | −1,255,900 | **2,556,908** |
| Liabilities | 1,098,360 | 779,589 | 150,880 | 500,695 | 1,142,048 | −1,255,900 | **2,415,671** |
| Investments | 164 | 151 | 121 | 1,942 | 1,186 | | **3,563** |

**Parent company business segments**

| 2018 | Large Corporates & Financial Institutions | Corporate & Private Customers | Baltic | Life & Investment Management | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Gross income | 28,440 | 14,673 | 6 | 67 | 28,805 | | **71,991** |
| Assets | 1,306,705 | 774,421 | 51 | 455 | 1,430,837 | −1,434,195 | **2,078,275** |
| Investments | 66 | 47 | | | 751 | | **865** |
| **2017** | | | | | | | |
| Gross income | 26,664 | 15,544 | 22 | 295 | 20,795 | −584 | **62,736** |
| Assets | 964,428 | 753,406 | 169 | 252 | 896,077 | −722,169 | **1,892,163** |
| Investments | 162 | 145 | | | 1,176 | | **1,483** |

**Business segment**
The Business segments are presented on a management reporting basis. The different divisions assist different groups of customers. The customers' demands decide the type of products that are offered. Large Corporates & Financial Institutions offers wholesale and investment banking services to large corporations and institutions. Corporate & Private Customers offers products and private banking services mainly to retail customers (private customers and small and medium-sized corporates). Division Baltic offers products mainly to retail customers (private customers and small and medium-sized corporates) and private banking services in the Baltic countries. Life & Investment Management performs asset management and offers life, sickness, healthcare and pension insurance. Other consists of business support units, treasury and staff units. Eliminations of internal transactions between the business segments are reported separately.

**Gross income by product for external customers**

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Core banking | 38,699 | 35,672 | 28,212 | 24,191 |
| Capital market | 11,665 | 12,477 | 10,844 | 11,283 |
| Asset management | 8,681 | 8,483 | 2,227 | 2,279 |
| Life insurance and pension | 2,832 | 3,445 | | |
| Other | 7,921 | 7,583 | 30,709 | 24,983 |
| **TOTAL** | **69,799** | **67,660** | **71,991** | **62,736** |

Core banking consists of loan, leasing, card and payment related products. Capital market consists of trading and issues on financial markets. Asset management consists of advisory, custody and fund management. Life insurance and pension consists of unit-linked and traditional life insurance products. Other consists of income from treasury operations and other activities.

# 3 Geographical information

**Group by country**

| | 2018 | | | | | 2017[7] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross Income[1] | Operating profit[2] | Income tax expense[3] | Assets | Investments | Gross Income[1] | Operating profit[2] | Income tax expense[3] | Assets | Investments |
| Sweden | 46,119 | 17,533 | −1,882 | 2,197,181 | 930 | 43,466 | 12,288 | −2,703 | 2,043,346 | 2,103 |
| Norway | 7,453 | 2,105 | −502 | 117,872 | 24 | 5,206 | 1,859 | −433 | 102,138 | 94 |
| Denmark | 3,724 | 1,450 | −306 | 168,226 | | 3,775 | 1,918 | −359 | 302,548 | 991 |
| Finland | 2,333 | 1,118 | −209 | 69,612 | 13 | 2,313 | 1,171 | −224 | 89,619 | 72 |
| Estonia[4] | 1,900 | 1,035 | −349 | 62,327 | 60 | 1,658 | 927 | −72 | 54,815 | 64 |
| Latvia | 1,299 | 461 | | 38,532 | 52 | 1,207 | 368 | −79 | 36,283 | 18 |
| Lithuania | 2,522 | 1,328 | −191 | 81,194 | 90 | 2,134 | 1,014 | −155 | 75,218 | 68 |
| Germany[5] | 2,881 | 599 | −329 | 98,244 | 5 | 3,482 | −923 | −120 | 162,745 | |
| United Kingdom | 1,802 | 555 | −138 | 84,817 | 7 | 1,962 | 1,076 | −225 | 68,997 | 5 |
| United States[6] | 6,461 | 142 | −16 | 192,876 | | 4,508 | 191 | −31 | 146,661 | |
| Ireland | 561 | 155 | −20 | 68,698 | 176 | 588 | 181 | 2 | 70,730 | 139 |
| Luxembourg | 1,539 | 531 | −101 | 41,291 | 3 | 1,484 | 385 | −65 | 53,155 | 5 |
| Singapore | 755 | 17 | −17 | 30,424 | 10 | 679 | 66 | −16 | 24,619 | 1 |
| China | 646 | 139 | −53 | 25,537 | | 631 | 162 | −50 | 24,097 | |
| Russia | 464 | 36 | −16 | 6,666 | 4 | 370 | 28 | −16 | 5,300 | 2 |
| Poland | 168 | 55 | −16 | 5,398 | 2 | 156 | 15 | −14 | 8,224 | 2 |
| Hong Kong | 184 | 40 | | 3,770 | | 144 | 29 | | 2,199 | |
| Ukraine | 67 | 16 | −5 | 600 | 1 | 54 | 3 | −2 | 498 | |
| Netherlands | −14 | −14 | | 11 | | | | | | |
| Group eliminations | −11,066 | −18 | | −725,758 | 1 | −6,155 | | | −714,287 | |
| **TOTAL** | **69,799** | **27,285** | **−4,152** | **2,567,516** | **1,376** | **67,660** | **20,759** | **−4,562** | **2,556,908** | **3,563** |

1) Gross income in the group is defined as the sum of Interest income, Fee and commission income, Net financial income and Net other income according to IFRS. The basis for the income allocation is SEB's presence in each country, with the exception of when the local companies / branches serve as sales offices and receive commission payments and the transaction is booked in the central unit.
2) Before tax.
3) For more information about tax see note 15.
4) Until and including 2017, no income tax is paid in Estonia unless profit is distributed as dividend.
5) Restated to included Treasury activities 2017.
6) Including Cayman Islands, where the parent company is represented by a branch office which is a United States tax resident entity, why tax expense related to Cayman income is reported in US.
7) 2017 has been restated for the transition to IFRS 15. For transition disclosures, see note 53.

**Parent company by country**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Income[1] | Assets | Investments | Gross Income[1] | Assets | Investments |
| Sweden | 54,650 | 1,729,789 | 814 | 49,760 | 1,661,054 | 1,297 |
| Norway | 3,558 | 63,783 | 24 | 3,090 | 56,656 | 94 |
| Denmark | 1,954 | 99,081 | | 1,920 | 67,499 | 3 |
| Finland | 1,550 | 42,899 | 11 | 1,278 | 5,927 | 71 |
| Other countries | 10,279 | 142,723 | 16 | 6,688 | 101,027 | 18 |
| **TOTAL** | **71,991** | **2,078,275** | **865** | **62,736** | **1,892,163** | **1,483** |

1) Gross income in the parent company is defined as the sum of Interest income, Leasing income, Dividends, Fee and commission income, Net Financial income and Other income according to SFSA accounting regulations. The basis for the income allocation is SEB's presence in each country, with the exception of when the local companies / branches serve as sales offices and receive commission payments and the transaction is booked in the central unit.

**Transfer pricing**
The internal transfer pricing objective in the SEB Group is to measure net interest income, to transfer interest rate risk and liquidity and to manage liquidity.

The internal price is based on SEB's actual or implied market-based cost of funds for a specific interest and liquidity term. Transactions between Business segments are conducted at arm's length.

# 4 Net interest income

| | Group | | | Parent company | | |
|---|---|---|---|---|---|---|
| **2018** | Average balance | Interest | Interest rate | Average balance | Interest | Interest rate |
| Loans to credit institutions and central banks | 363,075 | 2,822 | 0.78% | 409,394 | 2,568 | 0.63% |
| Loans to the public | 1,516,485 | 29,790 | 1.96% | 1,302,034 | 24,062 | 1.85% |
| Debt securities | 19,164 | 294 | 1.54% | 18,020 | 326 | 1.81% |
| **Total interest earning assets AmC** | **1,898,724** | **32,907** | **1.73%** | **1,729,447** | **26,956** | **1.56%** |
| Debt securities | 179,560 | 2,680 | 1.49% | 154,391 | 2,529 | 1.64% |
| Loans | 100,609 | −551 | −0.55% | 100,702 | −552 | −0.55% |
| **Total interest earning assets at FVTPL** | **280,169** | **2,128** | **0.76%** | **255,093** | **1,976** | **0.77%** |
| **Total interest earning assets** | **2,178,894** | **35,035** | **1.61%** | **1,984,540** | **28,932** | **1.46%** |
| Derivatives and other assets | 637,597 | 4,264 | | 317,683 | 8,804 | |
| **TOTAL ASSETS** | **2,816,491** | **39,299** | | **2,302,224** | **37,737** | |
| Deposits from credit institutions | 135,823 | −1,253 | −0.92% | 186,993 | −1,647 | −0.88% |
| Deposits and borrowing from the public | 1,156,434 | −5,414 | −0.47% | 985,460 | −4,245 | −0.43% |
| Debt securities issued | 682,160 | −10,714 | −1.57% | 679,711 | −10,714 | −1.58% |
| Subordinated liabilities | 34,025 | −1,220 | −3.59% | 34,025 | −1,220 | −3.59% |
| **Total interest bearing liabilities AmC** | **2,008,442** | **−18,602** | **−0.93%** | **1,886,190** | **−17,826** | **−0.95%** |
| Deposits | 31,221 | 132 | 0.42% | 23,307 | 490 | 2.10% |
| Debt securities short position | 24,195 | −721 | −2.98% | 24,195 | −721 | −2.98% |
| Debt securities issued | 23,533 | −830 | −3.53% | 21,509 | −829 | −3.86% |
| **Total interest bearing liabilities at FVTPL** | **78,949** | **−1,419** | **−1.80%** | **69,011** | **−1,060** | **−1.54%** |
| **Total interest bearing liabilities** | **2,087,392** | **−20,020** | **−0.96%** | **1,955,201** | **−18,886** | **−0.97%** |
| Derivatives and other liabilities | 587,357 | 1,743 | | 246,390 | −2,646 | |
| Equity | 141,742 | | | 100,631 | | |
| **TOTAL LIABILITIES AND EQUITY** | **2,816,491** | **−18,277** | | **2,302,223** | **−21,532** | |
| **NET INTEREST INCOME** | | **21,022** | | | **16,205** | |
| **NET YIELD ON INTEREST EARNING ASSETS** | | | **0.96%** | | | **0.82%** |
| 2017 | | | | | | |
| Loans to credit institutions and central banks | 418,221 | 2,198 | 0.53% | 582,286 | 1,994 | −0.34% |
| Loans to the public | 1,508,963 | 26,734 | 1.77% | 1,168,445 | 20,156 | −1.73% |
| Debt securities | 14,828 | 236 | 1.59% | 26,951 | −6 | 0.02% |
| **Total interest earning assets LaR** | **1,942,013** | **29,167** | **1.50%** | **1,777,682** | **22,144** | **−1.25%** |
| Debt securities | 183,436 | 1,648 | 0.90% | 153,404 | 1,702 | −1.11% |
| **Total interest earning assets at fair value** | **183,436** | **1,648** | **0.90%** | **153,404** | **1,702** | **−1.11%** |
| **Total interest earning assets** | **2,125,449** | **30,815** | **1.45%** | **1,931,086** | **23,846** | **−1.23%** |
| Derivatives and other assets | 725,599 | 5,657 | | 311,886 | 8,439 | |
| **TOTAL ASSETS** | **2,851,049** | **36,472** | | **2,242,972** | **32,285** | |
| Deposits from credit institutions | 156,027 | −686 | −0.44% | 222,199 | −1,028 | −0.46% |
| Deposits and borrowing from the public | 1,162,946 | −4,450 | −0.38% | 929,878 | −2,493 | −0.27% |
| Debt securities issued | 668,670 | −9,838 | −1.47% | 623,874 | −9,907 | −1.59% |
| Subordinated liabilities | 42,708 | −1,646 | −3.85% | 41,628 | −1,646 | −3.95% |
| **Total interest bearing liabilities AmC** | **2,030,351** | **−16,620** | **−0.82%** | **1,817,579** | **−15,074** | **−0.83%** |
| Debt securities short position | 26,719 | −96 | −0.36% | 26,441 | −96 | −0.36% |
| Debt securities issued | 28,606 | −660 | −2.31% | 26,357 | −610 | −2.31% |
| **Total interest bearing liabilities at fair value** | **55,325** | **−756** | **−1.37%** | **52,798** | **−706** | **−1.34%** |
| **Total interest bearing liabilities** | **2,085,676** | **−17,376** | **−0.83%** | **1,870,377** | **−15,780** | **−0.84%** |
| Derivatives and other liabilities | 624,345 | 796 | | 273,473 | −1,970 | |
| Equity | 141,028 | | | 99,122 | | |
| **TOTAL LIABILITIES AND EQUITY** | **2,851,049** | **−16,580** | | **2,242,972** | **−17,750** | |
| **NET INTEREST INCOME** | | **19,893** | | | **14,535** | |
| **NET YIELD ON INTEREST EARNING ASSETS** | | | **0.94%** | | | **0.75%** |

**Net interest income**

| | Parent company | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | 37,737 | 32,285 |
| Income from leases [1)] | 5,656 | 5,481 |
| Interest expense | −21,532 | −17,750 |
| Depreciation of leased equipment [1)] | −4,985 | −4,817 |
| **TOTAL** | **16,877** | **15,200** |

1) In the group Net income from leases is classified as interest income. In the parent company depreciation of leased equipment is reported as Depreciation, amortisation and impairment of tangible and intangible assets.

# 5 Net fee and commission income

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017[1)]** | **2018** | **2017** |
| Issue of securities | 451 | 724 | 745 | 1,035 |
| Secondary market | 1,758 | 2,125 | 1,342 | 1,436 |
| Custody and mutual funds | 8,082 | 8,040 | 3,654 | 3,690 |
| Securities commissions | 10,291 | 10,890 | 5,742 | 6,161 |
| Payments | 1,968 | 1,850 | 1,667 | 1,512 |
| Card fees | 3,986 | 3,610 | 545 | 505 |
| Payment commissions | 5,955 | 5,460 | 2,212 | 2,017 |
| Life insurance commissions | 1,848 | 1,707 | | |
| Advisory | 599 | 443 | 585 | 393 |
| Lending | 2,527 | 2,254 | 2,413 | 1,889 |
| Deposits | 293 | 276 | 61 | 71 |
| Guarantees | 598 | 541 | 573 | 380 |
| Derivatives | 421 | 439 | 501 | 400 |
| Other | 1,486 | 1,186 | 1,194 | 843 |
| Other commissions | 5,924 | 5,140 | 5,328 | 3,975 |
| **Fee and commission income** | **24,018** | **23,196** | **13,281** | **12,153** |
| Securities commissions | −2,071 | −2,001 | −1,446 | −1,217 |
| Payment commissions | −2,104 | −2,006 | −838 | −619 |
| Life insurance commissions | −565 | −646 | | |
| Other commissions | −914 | −866 | −934 | −760 |
| **Fee and commission expense** | **−5,654** | **−5,519** | **−3,218** | **−2,596** |
| Securities commissions, net | 8,220 | 8,889 | 4,296 | 4,944 |
| Payment commissions, net | 3,851 | 3,454 | 1,375 | 1,398 |
| Life insurance commissions, net | 1,283 | 1,061 | | |
| Other commissions, net | 5,010 | 4,273 | 4,393 | 3,215 |
| **TOTAL** | **18,364** | **17,677** | **10,064** | **9,557** |

1) 2017 has been restated for the transition to IFRS 15. For transition disclosures, see note 53.

**Fee and commission income by division**

| **Group, 2018** | Large Corporates & Financial Institutions | Corporate & Private Customers | Baltic | Life & Investment Management | Other[1)] & eliminations | Total |
|---|---|---|---|---|---|---|
| Issue of securities and advisory | 996 | 35 | 17 | | 2 | 1,050 |
| Secondary market and derivatives | 1,694 | 465 | 22 | 4 | −5 | 2,179 |
| Custody and mutual funds | 3,519 | 1,700 | 192 | 6,223 | −3,551 | 8,082 |
| Payments, cards, lending, deposits, guarantees and other | 4,747 | 4,982 | 1,861 | 426 | −1,158 | 10,858 |
| Life insurance commissions | | | | 1,982 | −134 | 1,848 |
| **TOTAL** | **10,956** | **7,182** | **2,091** | **8,635** | **−4,846** | **24,018** |
| 2017 | | | | | | |
| Issue of securities and advisory | 1,118 | 34 | 14 | | 2 | 1,167 |
| Secondary market and derivatives | 1,920 | 803 | 24 | 6 | −189 | 2,565 |
| Custody and mutual funds | 4,112 | 2,102 | 177 | 5,931 | −4,282 | 8,040 |
| Payments, cards, lending, deposits, guarantees and other | 4,216 | 4,625 | 1,637 | 604 | −1,366 | 9,717 |
| Life insurance commissions | | | | 2,167 | −460 | 1,707 |
| **TOTAL** | **11,366** | **7,565** | **1,852** | **8,708** | **−6,295** | **23,196** |

1) Other consists of business support units, treasury and staff units and German run-off operations.

Fee and commission income is disaggregated in major types of service tied to primary geographical markets and operating segments.

Revenue from Issue of securities, Advisory, Secondary market, Derivatives, Payments, cards, lending and deposits are mainly recognised at a point in time. Revenue from Custody, Mutual funds and Life insurance commissions are mainly recognised over time.

# 6 Net financial income

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Equity instruments and related derivatives | 637 | 1,400 | 398 | 1,333 |
| Debt instruments and related derivatives | 636 | −369 | 1,408 | −429 |
| Currency and related derivatives | 3,580 | 4,023 | 3,209 | 3,512 |
| Other life insurance income, net | 984 | 1,738 | | |
| Other | 242 | 88 | −441 | 78 |
| **TOTAL** | **6,079** | **6,880** | **4,574** | **4,493** |

Gains (losses) on financial assets and liabilities held for trading are presented on different rows based on type of underlying financial instrument. Changes in the treasury result are due to changes in interest rates and credit spreads. The net effect from trading operations is fairly stable over time, but shows volatility between rows. There were effects from structured products offered to the public in the amounts of approximately SEK 1,340m (975) in equity related derivatives and a corresponding effect in debt securities of SEK −640m (−505).

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Derivatives – counterparty risk | −147 | 420 | −173 | 429 |
| Derivatives – own credit standing | 27 | −180 | 46 | −141 |
| Issued securities designated at fair value through profit or loss – own credit standing[1] | | −31 | | −57 |
| **TOTAL** | **−119** | **210** | **−127** | **231** |

1) Own credit standing from own issued securities is as of January 1st 2018 presented in Other comprehensive income. Valuation changes arising from own credit standing amounted to SEK −31m for the group and SEK −57m for the parent bank in 2017.

| **Group, 2018**[1] | FVHFT | FVMPL | FVDPL | Other life insurance income, net | Total |
|---|---|---|---|---|---|
| Equity instruments and related derivatives | 100 | 537 | | | **637** |
| Debt instruments and related derivatives | −1,233 | −184 | 2,054 | | **636** |
| Currency and related derivatives | 3,580 | | | | **3,580** |
| Other life insurance income, net | | | | 984 | **984** |
| Other | 242 | | | | **242** |
| **TOTAL** | **2,688** | **352** | **2,054** | **984** | **6,079** |

| **Group, 2017**[2] | HFT | FVO | AFS | Other life insurance income, net | Total |
|---|---|---|---|---|---|
| Equity instruments and related derivatives | 1,388 | 22 | −10 | | **1,400** |
| Debt instruments and related derivatives | 740 | −1,109 | | | **−369** |
| Currency and related derivatives | 4,024 | | | | **4,024** |
| Other life insurance income, net | | | | 1,738 | **1,738** |
| Other | 88 | | | | **88** |
| **TOTAL** | **6,239** | **−1,087** | **−10** | **1,738** | **6,880** |

1) IFRS 9
2) IAS 39

| **Parent company, 2018**[1] | FVHFT | FVMPL | FVDPL | Total |
|---|---|---|---|---|
| Equity instruments and related derivatives | 106 | 292 | | **398** |
| Debt instruments and related derivatives | −525 | −60 | 1,994 | **1,408** |
| Currency and related derivatives | 3,209 | | | **3,209** |
| Other | −441 | | | **−441** |
| **TOTAL** | **2,348** | **232** | **1,994** | **4,574** |

| **Parent company, 2017**[2] | HFT | FVO | Total |
|---|---|---|---|
| Equity instruments and related derivatives | 1,333 | | **1,333** |
| Debt instruments and related derivatives | 640 | −1,069 | **−429** |
| Currency and related derivatives | 3,512 | | **3,512** |
| Other | 78 | | **78** |
| **TOTAL** | **5,563** | **−1,069** | **4,493** |

1) IFRS 9
2) IAS 39

# 7 Net other income

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Dividends[1] | 73 | 77 | | |
| Investments in associates | 152 | −38 | | |
| Gains less losses from investment securities | −275 | 203 | 1,175 | 624 |
| Gains less losses from tangible assets[2] | | | 20 | 27 |
| Gains less losses from divestment of shares in subsidiaries | 31 | | | |
| Other income | 421 | 870 | 576 | 691 |
| **TOTAL** | **402** | **1,112** | **1,770** | **1,342** |

1) Reported separately in the Income Statement for parent company.
2) See note 11 for the group.

**Dividends**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Equity instruments | 73 | 77 | 217 | 51 |
| Investments in associates | | | 9 | 514 |
| Dividends from subsidiaries | | | 8,904 | 6,416 |
| **TOTAL** | **73** | **77** | **9,130** | **6,981** |

**Gains less losses from investment securities**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Equity instruments | 119 | 722 | 8 | 614 |
| Debt securities | | 90 | | |
| Buy back liabilities[2] | 2 | | 1,167 | 10 |
| **Gains** | **121** | **812** | **1,175** | **624** |
| Equity instruments | −87 | −93 | | |
| Debt securities | | −7 | | |
| Loans[1] | −157 | −508 | | |
| Buy back liabilities[2] | −121 | | | |
| **Losses** | **−365** | **−609** | | |
| **TOTAL** | **−244** | **203** | **1,175** | **624** |

1) Loans at amortised cost (AmC) are realised as preparation activities related to the wind down of DSK Hyp AG (former SEB AG).
2) Liabilities at amortised cost (AmC) are realised as preparation activities related to the wind down of DSK Hyp AG (former SEB AG) and active liability management.

**Other income**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Fair value adjustment in hedge accounting | 33 | 205 | −63 | 792 |
| Operating result from non-life insurance, run off | 210 | 283 | | |
| Other income | 178 | 382 | 638 | −102 |
| **TOTAL** | **421** | **870** | **576** | **691** |

**Fair value adjustment in hedge accounting**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Fair value changes of the hedged items attributable to the hedged risk | 125 | 3,751 | 126 | 3,757 |
| Fair value changes of the hedging derivatives | −167 | −3,721 | −168 | −2,936 |
| Amortisation of discontinued hedge items | −21 | 188 | | |
| **Fair value hedges** | **−63** | **218** | **−42** | **822** |
| Fair value changes of the hedging derivatives | −13 | −10 | −13 | −10 |
| **Cash-flow hedges – ineffectiveness** | **−13** | **−10** | **−13** | **−10** |
| Fair value changes of the hedged items | 5 | −26 | 5 | −52 |
| Fair value changes of the hedging derivatives | −12 | −79 | −12 | 33 |
| Amortisation of discontinued hedge items | 116 | 102 | | |
| **Fair value portfolio hedge of interest rate risk – ineffectiveness** | **109** | **−3** | **−7** | **−20** |
| **TOTAL** | **33** | **205** | **−63** | **792** |

# 8 Staff costs

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Base salary | −8,200 | −8,073 | −5,868 | −5,431 |
| Cash-based variable remuneration | −635 | −666 | −487 | −428 |
| Long-term equity-based remuneration | −596 | −616 | −455 | −462 |
| **Salaries and other compensations** | **−9,432** | **−9,355** | **−6,810** | **−6,321** |
| Social charges | −2,553 | −2,543 | −1,886 | −1,861 |
| Defined benefit retirement plans [1)] | −395 | −472 | 4 | |
| Defined contribution retirement plans [1)] | −867 | −881 | −644 | −643 |
| Benefits and redundancies [2)] | −282 | −271 | −207 | −169 |
| Education and other staff related costs | −474 | −502 | −348 | −340 |
| **TOTAL** | **−14,004** | **−14,025** | **−9,891** | **−9,335** |

1) Pension costs in the group are accounted for according to IAS 19 Employee benefits. Pension costs in Skandinaviska Enskilda Banken are calculated in accordance with the Act on Safeguarding Pensions Obligations and the Swedish Financial Supervisory Authority's regulations. Non-recurring costs of SEK 95m (196m) for early retirement have been charged to the pension funds of the bank.
2) Includes costs for redundancies of SEK 201m (179) for the group and SEK 160m (126) for the parent company.

# 8 a Remuneration

Presented in note 8a is the statement of remuneration for the Consolidated situation and significant units within the group according to Regulation on prudential requirements for credit institutions and investment firms. In the SEB Group 974 (989) positions are defined as Identified Staff. SEB has chosen to include the remuneration also in the insurance operations that are not part of the Financial group of undertakings but part of the SEB Group.

**Remuneration by division**

| | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed[1)] | | Variable[1)] | | Fixed[1)] | | Variable[1)] | |
| **2018** | Remuneration | FTEs | Remuneration | FTEs | Remuneration | FTEs | Remuneration | FTEs |
| Large Corporates & Financial Institutions | −2,521 | 1,986 | −580 | 1,919 | −2,251 | 1,895 | −571 | 1,828 |
| Corporate & Private Customers | −2,394 | 3,596 | −196 | 3,588 | −1,564 | 2,904 | −156 | 2,895 |
| Baltic | −541 | 2,377 | −69 | 2,377 | | | | |
| Life & Investment Management | −994 | 1,328 | −101 | 1,322 | | | | |
| Other[2)] | −3,294 | 5,465 | −285 | 5,366 | −2,905 | 4,271 | −215 | 4,172 |
| **TOTAL** | **−9,745** | **14,751** | **−1,231** | **14,570** | **−6,720** | **9,071** | **−942** | **8,896** |
| whereof collective variable pay[3)] | | | −487 | 14,570 | | | | |
| **2017** | | | | | | | | |
| Large Corporates & Financial Institutions | −2,511 | 2,049 | −613 | 1,979 | −1,994 | 1,707 | −565 | 1,637 |
| Corporate & Private Customers | −2,375 | 3,531 | −153 | 3,521 | −1,654 | 2,818 | −121 | 2,808 |
| Baltic | −481 | 2,431 | −61 | 2,431 | | | | |
| Life & Investment Management | −1,120 | 1,478 | −103 | 1,458 | | | | |
| Other[2)] | −4,532 | 5,457 | −352 | 5,432 | −2,595 | 4,182 | −204 | 4,084 |
| **TOTAL** | **−11,019** | **14,946** | **−1,282** | **14,821** | **−6,243** | **8,707** | **−890** | **8,529** |
| whereof collective variable pay[3)] | | | −546 | 14,821 | | | | |

*Note 8 a continued* *Remuneration*

| 2018 | SEB Pank AS, Estonia | | | | SEB Banka AS, Latvia | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed[1] | | Variable[1] | | Fixed[1] | | Variable[1] | |
| | Remuneration | FTEs | Remuneration | FTEs | Remuneration | FTEs | Remuneration | FTEs |
| Baltic | −165 | 706 | −20 | 706 | −163 | 621 | −16 | 621 |
| Other[4] | −96 | 312 | −16 | 312 | −72 | 229 | −6 | 229 |
| **TOTAL** | **−261** | **1,018** | **−36** | **1,018** | **−235** | **850** | **−21** | **850** |
| **2017** | | | | | | | | |
| Baltic | −150 | 725 | −20 | 725 | −123 | 640 | −16 | 640 |
| Other[4] | −88 | 316 | −11 | 316 | −56 | 246 | −6 | 246 |
| **TOTAL** | **−238** | **1,041** | **−31** | **1,041** | **−179** | **886** | **−22** | **886** |

| 2018 | SEB bankas AB, Lithuania | | | |
|---|---|---|---|---|
| | Fixed[1] | | Variable[1] | |
| | Remuneration | FTEs | Remuneration | FTEs |
| Baltic | −216 | 1,020 | −28 | 1,020 |
| Other[4] | −97 | 384 | −9 | 384 |
| **TOTAL** | **−313** | **1,404** | **−38** | **1,404** |
| **2017** | | | | |
| Baltic | −186 | 1,024 | −24 | 1,024 |
| Other[4] | −89 | 373 | −8 | 373 |
| **TOTAL** | **−275** | **1,397** | **−32** | **1,397** |

1) Variable pay is defined as short-term cash-based remuneration and long-term equity-based remuneration. All other remuneration is reported as fixed remuneration and includes: base pay, pensions, severance pay, fees and benefits such as e.g. company car and domestic services, in accordance with FFFS 2011:1. The reported remuneration does not include social charges.
2) Including Life & Investment Management and Baltic in the parent company.
3) Collective short-term and long-term remuneration. Collective short-term and long-term remuneration compared to expected outcome is reported in Other.
4) Including Life & Investment Management in Baltic countries. In Lithuania also Large Corporates & Financial Institutions are included.

DSK Hyp AG (former SEB AG), Germany is no longer considered a significant subsidiary, as most of its business was transferred to Skandinaviska Enskilda Banken AB Frankfurt branch 1 January 2018.

**Remuneration by category**

| 2018 | Group | | | | | | Parent company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Remuneration | | | FTEs | | | Remuneration | | | FTEs | | |
| | Identified Staff[6] | Other employees | Total | Identified Staff[6] | Other employees | Total | Identified Staff[6] | Other employees | Total | Identified Staff[6] | Other employees | Total |
| Fixed remuneration[1] | −1,161 | −8,584 | **−9,745** | 908 | 13,843 | **14,751** | −632 | −6,087 | **−6,720** | 537 | 8,534 | **9,071** |
| Variable pay[1] | −342 | −889 | **−1,231** | 571 | 13,999 | **14,570** | −173 | −768 | **−942** | 336 | 8,560 | **8,896** |
| whereof: | | | | | | | | | | | | |
| Short-term cash-based | −146 | −489 | **−635** | | | | −65 | −422 | **−487** | | | |
| Long-term equity-based[2] | −195 | −400 | **−596** | | | | −108 | −347 | **−455** | | | |
| Deferred variable pay[3] | −232 | −364 | **−596** | | | | −124 | −331 | **−455** | | | |
| Accrued and paid remuneration[4] | −1,532 | −9,444 | **−10,976** | | | | −816 | −6,845 | **−7,661** | | | |
| Severance pay[5] | | | **−209** | | | **491** | | | **−166** | | | **237** |
| Agreed not yet paid severance pay | | | **−301** | | | **284** | | | **−274** | | | **218** |
| Highest single amount | | | **−8** | | | | | | **−8** | | | |
| **2017** | | | | | | | | | | | | |
| Fixed remuneration[1] | −1,140 | −9,879 | **−11,019** | 989 | 13,957 | **14,946** | −617 | −5,626 | **−6,243** | 585 | 8,122 | **8,707** |
| Variable pay[1] | −334 | −948 | **−1,282** | 554 | 14,267 | **14,821** | −166 | −724 | **−890** | 311 | 8,218 | **8,529** |
| whereof: | | | | | | | | | | | | |
| Short-term cash-based | −142 | −524 | **−666** | | | | −64 | −364 | **−428** | | | |
| Long-term equity-based[2] | −192 | −424 | **−616** | | | | −102 | −360 | **−462** | | | |
| Deferred variable pay[3] | −218 | −398 | **−616** | | | | −114 | −348 | **−462** | | | |
| Accrued and paid remuneration[4] | −1,490 | −9,936 | **−11,426** | | | | −785 | −6,350 | **−7,135** | | | |
| Severance pay[5] | | | **−622** | | | **547** | | | **−140** | | | **191** |
| Agreed not yet paid severance pay | | | **−609** | | | **362** | | | **−147** | | | **170** |
| Highest single amount | | | **−2** | | | | | | **−2** | | | |

*Note 8 a continued* *Remuneration*

| | SEB Pank AS, Estonia | | | | | | SEB Banka AS, Latvia | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Remuneration | | | FTEs | | | Remuneration | | | FTEs | | |
| **2018** | Identified Staff [6] | Other employees | Total | Identified Staff [6] | Other employees | Total | Identified Staff [6] | Other employees | Total | Identified Staff [6] | Other employees | Total |
| Fixed remuneration[1] | –15 | –246 | **–261** | 21 | 997 | **1,018** | –11 | –224 | **–235** | 16 | 834 | **850** |
| Variable pay[1] | –2 | –34 | **–36** | 9 | 1,009 | **1,018** | –1 | –20 | **–21** | 11 | 839 | **850** |
| whereof: | | | | | | | | | | | | |
| Short-term cash-based | | –17 | **–17** | | | | | –9 | **–9** | | | |
| Long-term equity-based[2] | –2 | –17 | **–19** | | | | –1 | –11 | **–13** | | | |
| Deferred variable pay[3] | –2 | –14 | **–16** | | | | –1 | –12 | **–13** | | | |
| Accrued and paid remuneration[4] | –18 | –279 | **–297** | | | | –12 | –245 | **–257** | | | |
| Severance pay[5] | | | **–2** | | | **19** | | | **–9** | | | **86** |
| **2017** | | | | | | | | | | | | |
| Fixed remuneration[1] | –11 | –227 | **–238** | 16 | 1,025 | **1,041** | –8 | –171 | **–179** | 15 | 871 | **886** |
| Variable pay[1] | –2 | –29 | **–31** | 6 | 1,035 | **1,041** | –1 | –21 | **–22** | 9 | 877 | **886** |
| whereof: | | | | | | | | | | | | |
| Short-term cash-based | | –15 | **–15** | | | | | –9 | **–9** | | | |
| Long-term equity-based[2] | –2 | –14 | **–16** | | | | –1 | –12 | **–13** | | | |
| Deferred variable pay[3] | –2 | –14 | **–16** | | | | –1 | –12 | **–13** | | | |
| Accrued and paid remuneration[4] | –13 | –256 | **–269** | | | | –9 | –192 | **–201** | | | |
| Severance pay[5] | | | **–1** | | | **20** | | | **–4** | | | **72** |

| | SEB bankas AB, Lithuania | | | | | |
|---|---|---|---|---|---|---|
| | Remuneration | | | FTEs | | |
| **2018** | Identified Staff [6] | Other employees | Total | Identified Staff [6] | Other employees | Total |
| Fixed remuneration[1] | –20 | –293 | **–313** | 22 | 1,382 | **1,404** |
| Variable pay[1] | –3 | –35 | **–38** | 5 | 1,399 | **1,404** |
| whereof: | | | | | | |
| Short-term cash-based | | –15 | **–15** | | | |
| Long-term equity-based[2] | –3 | –20 | **–23** | | | |
| Deferred variable pay[3] | –3 | –20 | **–23** | | | |
| Accrued and paid remuneration[4] | –23 | –328 | **–351** | | | |
| Severance pay[5] | | | **–12** | | | **78** |
| **2017** | | | | | | |
| Fixed remuneration[1] | –14 | –261 | **–275** | 13 | 1,384 | **1,397** |
| Variable pay[1] | –3 | –29 | **–32** | 4 | 1,393 | **1,397** |
| whereof: | | | | | | |
| Short-term cash-based | | –13 | **–13** | | | |
| Long-term equity-based[2] | –3 | –16 | **–19** | | | |
| Deferred variable pay[3] | –3 | –16 | **–19** | | | |
| Accrued and paid remuneration[4] | –17 | –290 | **–307** | | | |
| Severance pay[5] | | | **–8** | | | **58** |

1) Variable pay is defined as short-term cash-based remuneration and long-term equity-based remuneration. All other remuneration is reported as fixed remuneration and includes: base pay, pensions, severance pay, fees and benefits such as e.g. company car and domestic services, in accordance with FFFS 2011:1. The reported remuneration does not include social charges.
2) Long-term equity based remuneration encompasses three different programmes; All Employee Programme, Share Deferral Programme and Restricted Share Programme for a selected group of key employees.
3) The deferred variable pay is locked the first year. Short-term cash-based remuneration can thereafter be paid pro rata over three or five years after a possible risk adjustment. Long-term equity-based programmes are locked for a minimum of three years or paid out pro rata depending on programme.
4) In Accrued and paid remuneration amounts paid within the first quarter after the accrual is included. Deferred variable pay has been subject to risk adjustment.
5) The amount also includes sign-on.
6) Employees with material impact on SEB's risk profile, in accordance with FFFS 2011:1.

### Loans to Executives

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Managing Directors and Deputy Managing Directors [1] | 102 | 113 | 27 | 27 |
| Boards of Directors [2] | 342 | 426 | 126 | 111 |
| **TOTAL** | **444** | **539** | **153** | **138** |

1) Comprises current President and Deputy President in the parent company and Managing Directors and Deputy Managing Directors in subsidiaries. Total number of executives was 39 (47) of which 11 (14) female.
2) Comprises current Board members and their substitutes in the parent company and subsidiaries. Total number of persons was 128 (156) of which 34 (43) female.

### Pension commitments to Executives

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Pension disbursements made | 101 | 112 | 77 | 45 |
| Change in commitments | 32 | 48 | 15 | 19 |
| Commitments at year-end | 1,359 | 1,839 | 825 | 870 |

The above commitments are covered by the bank's pensions funds or through Bank-owned endowment assurance schemes. They include active and retired Presidents and vice Presidents in the parent company and Managing directors and Deputy Managing directors in subsidiaries, in total 91 persons (115).

# 8 b Pensions

**Retirement benefit obligations**
The group has established pension schemes in the countries where business is performed. There are both defined benefit plans and defined contribution plans. The major pension schemes are final salary defined benefit plans and are funded. The defined benefit plan in Sweden is closed to new employees and a defined contribution plan was established during 2013. In Germany a major part was transferred from SEB in 2018. The defined contribution plans follow the local regulations in each country. Multiemployer defined benefit plans exist for employees in some parts of the group. These plans are accounted for as defined contribution plans since sufficient information of SEB's share of the liability/asset and cost is not available.

**Defined benefit plans**
The major defined benefit plans exist in Sweden and Germany and cover most employees in these countries. Independent actuarial calculations according to the Projected Unit Credit Method (PUCM) are performed quarterly to decide the value of the defined benefit obligation. The benefits covered include retirement benefits, disability, death and survivor pensions according to the respective countries' collective agreements. The plan assets are kept separate in specific pension foundations. In case of a deficit in the pension obligation according to local rules SEB is obliged to meet this with contribution to the foundation or insure a deficit. The asset allocation is determined to meet the various risks in the pension obligations and is decided by the board/trustees in the pension foundations. The assets are booked at market value. The pension and interest costs are presented in Staff costs.

**Defined contribution plans**
Defined contribution plans exist both in Sweden and abroad. In Sweden a smaller part of the closed collective retirement agreement is defined contribution based. Over a certain salary level the employees could also choose to leave the defined benefit plan and replace it by a defined contribution plan. The current plan for new employees is fully contribution based. Most other countries have defined contribution plans except for the Baltic countries where the company to a limited extent contributes to the employees retirement. The defined contribution plans are not recognised in the balance sheet but accounted for as an expense among Staff costs.

**DEFINED BENEFIT PLANS IN SEB GROUP**

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Net amount recognised in the Balance sheet** | Sweden[1] | Foreign[1] | Group[1] | Sweden[1] | Foreign[1] | Group[1] |
| Defined benefit obligation at the beginning of the year | 24,372 | 6,448 | **30,820** | 23,287 | 5,794 | **29,081** |
| Curtailment, acquisitions and reclassification[2] | | –5,371 | **–5,371** | | 891 | **891** |
| Service costs | 494 | 15 | **509** | 509 | 39 | **548** |
| Interest costs | 533 | 47 | **580** | 556 | 95 | **651** |
| Benefits paid | –772 | –148 | **–920** | –735 | –321 | **–1,056** |
| Exchange differences | | 84 | **84** | | 177 | **177** |
| Remeasurements of pension obligation | 809 | 172 | **981** | 755 | –227 | **528** |
| **Defined benefit obligation at the end of the year** | **25,436** | **1,245** | **26,682** | **24,372** | **6,448** | **30,820** |
| Fair value of plan assets at the beginning of the year | 29,652 | 5,123 | **34,775** | 27,201 | 5,076 | **32,277** |
| Curtailment, acquisitions and reclassification[2] | | –4,263 | **–4,263** | | | |
| Calculated interest on plan assets | 644 | 49 | **694** | 645 | 85 | **730** |
| Benefits paid/contributions | –751 | | **–751** | –686 | –242 | **–928** |
| Exchange differences | | –36 | **–36** | | 140 | **140** |
| Valuation gains (losses) on plan assets | –5 | –54 | **–59** | 2,492 | 64 | **2,556** |
| **Fair value of plan assets at the end of the year** | **29,541** | **818** | **30,359** | **29,652** | **5,123** | **34,775** |

**Change in the net assets or net liabilities**

| | | | | | | |
|---|---|---|---|---|---|---|
| Defined benefit obligation at the beginning of the year | 5,280 | –1,325 | **3,955** | 3,914 | –718 | **3,196** |
| Curtailment, acquisitions and reclassification | | 1,108 | **1,108** | | –891 | **–891** |
| Total expense in staff costs | –383 | –13 | **–395** | –420 | –49 | **–469** |
| Pension paid | 772 | 148 | **920** | 735 | 321 | **1,056** |
| Benefits paid/contributions | –751 | | **–751** | –686 | –242 | **–928** |
| Exchange differences | | –120 | **–120** | | –37 | **–37** |
| Remeasurements | –814 | –226 | **–1,040** | 1,737 | 291 | **2,028** |
| **NET AMOUNT RECOGNISED IN THE BALANCE SHEET** | **4,104** | **–427** | **3,677** | **5,280** | **–1,325** | **3,955** |

1) The net defined benefit obligation is recognised in the balance sheet either as an asset or liability depending on the situation for each legal entity.
2) The main part of the pension obligations and plan assets under the defined benefit plan in DSK Hyp AG (former SEB AG), has been transferred to Versicherungsverein des Bankgewerbes a.G (BVV) in 2018.

In 2018 a contribution of SEK 15m (39) was paid to the German pension foundation. Contribution to the foundations cannot be ruled out in 2019 due to uncertainty in interest rate levels.

*Note 8 b continued* *Pensions*

### Principal actuarial assumptions used

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Sweden | Foreign | Sweden | Foreign |
| Discount rate | 2.0% | 2.0% | 2.2% | 1.9% |
| Inflation rate | 1.5% | 1.8% | 1.5% | 1.8% |
| Expected rate of salary increase | 3.5% | 2.5% | 3.5% | 2.5% |
| Expected rate of increase in the income basis amount | 3.0% | | 3.0% | |

The discount rate is based set on high-quality corporate bonds in a deep market, in Sweden covered bonds which are at least AAA-rated. An extrapolation of the maturity of the covered bonds is made based on government bonds and checked against swaps. This extrapolated maturity is in line with the estimated maturity of obligations for post-employment benefits. Life expectancy assumptions in Sweden are established by the Actuarial Research Board (FTN) and are based on DUS14 for white-collar workers. In Germany the Heubeck Sterbetafeln is used. Weighted average duration for the obligation is 23 years in Sweden and 14 years in Germany.

A decrease of the discount rate for Sweden of 0.5 per cent would imply an increase of the Swedish pension obligation by SEK 2,347m while the same change in the inflation assumption for Sweden would have the opposite effect and decrease the obligation by SEK 2,006m. An increase of the discount rate by same ratio would reduce the obligation with SEK 2,284m and an increased inflation rate of 0.5 per cent gives an increased obligation of SEK 2,347m. A decrease in assumption for expected salary increase in Sweden of 0.5 per cent would have a positive effect on the obligation by SEK 258m an increase would have a negative effect of SEK 320m.

The obligation in Germany would increase with SEK 83m if the discount rate was reduced by 0.5 per cent. An increase by the same percentage would decrease the obligation by SEK 73m. If the inflation assumption for Germany increases by 0.25 per cent the pension obligation would increase by SEK 13m and corresponding decrease would be SEK 12m at a lower inflation assumption. A change in expected salary increases in Germany by 0.25 per cent would with a higher rate give an increase of the obligation with SEK 29m and with a lower rate reduce the obligation with SEK 29m.

### Allocation of plan assets

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Sweden | Foreign | Group | Sweden | Foreign | Group |
| Cash and cash equivalents | 719 | 198 | **918** | 573 | 60 | **633** |
| Equity instruments with a quoted market price in an active market | 17,470 | | **17,470** | 18,357 | | **18,357** |
| Equity instruments not listed in an active market | 4,907 | | **4,907** | 5,068 | 1,063 | **6,131** |
| Debt instruments with a quoted market price in an active market | | 620 | **620** | | 400 | **400** |
| Debt instruments not listed in an active market | 3,621 | | **3,621** | 3,405 | 3,600 | **7,005** |
| Properties | 2,824 | | **2,824** | 2,249 | | **2,249** |
| **TOTAL** | **29,541** | **818** | **30,359** | **29,652** | **5,123** | **34,775** |

The pension plan assets include SEB shares with a fair value of SEK 1,213m (1,209). Buildings in Sweden are occupied by SEB.

### Amounts recognised in Income statement

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Sweden | Foreign | Group | Sweden | Foreign | Group |
| Service costs | –494 | –15 | **–509** | –509 | –39 | **–548** |
| Interest costs | –533 | –47 | **–580** | –556 | –95 | **–651** |
| Calculated interest on plan assets | 644 | 49 | **694** | 645 | 85 | **730** |
| **INCLUDED IN STAFF COSTS** | **–383** | **–13** | **–395** | **–420** | **–49** | **–469** |

### Amounts recognised in Other comprehensive income

| | | | | | | |
|---|---|---|---|---|---|---|
| Remeasurements of pension obligation | –809 | –172 | **–981** | –755 | 227 | **–528** |
| *where of experience adjustments* | *175* | *–55* | ***119*** | *180* | *112* | ***292*** |
| *where of due to changes in financial assumptions* | *–984* | *–116* | ***–1,100*** | *–935* | *115* | ***–820*** |
| *where of due to changes in demographic assumptions* | | | | | | |
| Valuation gains (losses) on plan assets | –5 | –54 | **–59** | 2,492 | 64 | **2,556** |
| Deferred tax pensions | 208 | –15 | **194** | –382 | –862 | **–1,244** |
| **INCLUDED IN OTHER COMPREHENSIVE INCOME** | **–606** | **–240** | **–846** | **1,355** | **–571** | **784** |

### DEFINED CONTRIBUTION PLANS IN SEB GROUP

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Net amount recognised in Income statement** | Sweden | Foreign | Group | Sweden | Foreign | Group |
| Expense in Staff costs including special salary tax | –880 | –238 | **–1,119** | –943 | –239 | **–1,182** |

*Note 8 b continued* *Pensions*

## DEFINED BENEFIT PLANS IN SKANDINAVISKA ENSKILDA BANKEN

| Net amount recognised in the Balance sheet | Parent company 2018 | Parent company 2017 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | 24,213 | 23,417 |
| Imputed pensions premium | 227 | 299 |
| Interest costs and other changes | 386 | 1,017 |
| Early retirement | 95 | 196 |
| Pension disbursements | –751 | –716 |
| **DEFINED BENEFIT OBLIGATION AT THE END OF THE YEAR** | **24,170** | **24,213** |

| | | |
|---|---|---|
| Fair value of plan assets at the beginning of the year | 28,621 | 26,249 |
| Return on assets | 635 | 3,058 |
| Benefits paid | –751 | –686 |
| **FAIR VALUE OF PLAN ASSETS AT THE END OF THE YEAR** | **28,504** | **28,621** |

The above defined benefit obligation is calculated according to tryggandelagen. Skandinaviska Enskilda Banken consequently adopts the discount rate set by the Swedish FSA before year-end. The obligation is fully covered by assets in the pension foundation and is not included in the balance sheet.

The assets in the foundation are mainly equity related SEK 21,575m (22,606) and to a smaller extent interest earning SEK 4,187m (3,838). The assets include SEB shares at a market value of SEK 1,170m (1,167) and buildings occupied by the company valued at SEK 2,742m ( 2,170). The return on assets was 2 per cent (12) before pension compensation.

### Amounts recognised in Income statement

| | Parent company 2018 | Parent company 2017 |
|---|---|---|
| Pension disbursements | –751 | –716 |
| Compensation from pension foundations | 751 | 686 |
| **TOTAL** | **0** | **–30** |

### Principal actuarial assumptions used

| | 2018 | 2017 |
|---|---|---|
| Gross interest rate | 0.7% | 0.6% |
| Interest rate after tax | 0.6% | 0.5% |

The actuarial calculations are based on salaries and pensions on the balance sheet date.

## DEFINED CONTRIBUTION PLANS IN SKANDINAVISKA ENSKILDA BANKEN

| Net amount recognised in Income statement | Parent company 2018 | Parent company 2017 |
|---|---|---|
| Expense in Staff costs including special salary tax | –644 | –643 |

### Pension foundations

| | Pension commitments 2018 | Pension commitments 2017 | Market value of asset 2018 | Market value of asset 2017 |
|---|---|---|---|---|
| SEB-Stiftelsen, Skandinaviska Enskilda Bankens Pensionsstiftelse | 24,170 | 24,213 | 28,504 | 28,621 |
| SEB Kort AB:s Pensionsstiftelse | 970 | 959 | 1,036 | 1,031 |
| **TOTAL** | **25,140** | **25,172** | **29,541** | **29,652** |

# 8c Remuneration to the Board and the Group Executive Committee

**Guidelines for remuneration**
The guidelines for remuneration to the President and the other members of the Group Executive Committee (GEC) were prepared by the Board of Directors and its Remuneration and Human Resources Committee and approved by the Annual General Meeting 2018.

The remuneration structure for the President and the other members of the GEC is in accordance with the remuneration policy for the bank. No member of the GEC has been entitled to cash based variable remuneration since 2009. Thus, the remuneration is based upon three main components; base pay, equity-based remuneration and pensions and other benefits. Other benefits may consist of e.g. company car and domestic services.

*For more information, see page 64–65.*

**Identified staff**
The President and all other members of the GEC are considered employees who have a material impact on SEB's risk profile according to the Swedish Financial Supervisory Authority regulations (FFFS 2011:1).

**Remuneration to the Board[1], SEK**

| 2018 | Base pay | Directors' fee | Benefits[2] | Total |
|---|---|---|---|---|
| Chairman of the Board, Marcus Wallenberg | | 3,745,000 | | **3,745,000** |
| Other members of the Board[3] | | 9,187,500 | | **9,187,500** |
| President and CEO, Johan Torgeby | 11,000,000 | | 345,965 | **11,345,965** |
| **TOTAL** | **11,000,000** | **12,932,500** | **345,965** | **24,278,465** |
| 2017 | | | | |
| Chairman of the Board, Marcus Wallenberg | | 3,640,000 | | **3,640,000** |
| Other members of the Board[3] | | 9,128,183 | | **9,128,183** |
| President and CEO, Johan Torgeby (29 March–31 December) | 7,125,000 | | 112,318 | **7,237,318** |
| President and CEO, Annika Falkengren (1 January–28 March) | 2,875,000 | | 168,307 | **3,043,307** |
| **TOTAL** | **10,000,000** | **12,768,183** | **280,625** | **23,048,808** |

1) The number of Board members decided by the AGM in 2018 is eleven (eleven). Sara Öhrvall left the Board 30 June 2018 to take up a position in the SEB Group.
2) Includes benefits as domestic services, company car and holiday pay.
3) Directors' fee to the Board members on individual level is presented on page 56–57.

Sara Öhrvall has further invoiced SEK 1,880,775 (1,050,230) for consultancy services until she was employed by the bank.

**Remuneration to the Group Executive Committee, SEK[1]**

| | Base pay | Benefits | Total |
|---|---|---|---|
| **2018** | 57,643,578 | 2,164,512 | **59,808,090** |
| **2017** | 49,224,511 | 1,853,522 | **51,078,033** |

1) GEC excluding the President and CEO. The members partly differ between the years but in average twelwe (eleven) members are included. At the end of the year the number of members were twelve (eleven).

Additional members are not included.

**Long-term equity programmes**
Under the Share Deferral Programme members of the GEC may be granted an individual number of conditional share rights based on the fulfilment of pre-determined Group, business unit and individual target levels as outlined in SEB's business plan. The targets are set on an annual basis as a mix of the financial targets Return on Equity/Return on Business Equity and cost development and the non-financial target customer satisfaction among others. For GEC the initial allotment may not exceed 100 per cent of the base pay.

Ownership of 50 per cent of the share rights are transferred to the participant after a qualification period of three years, 50 per cent after a qualification period of five years. After each respective qualification period there is an additional holding period of one year after which the share rights can be excercised. Each share right carries the right to receive one Class A share in the bank. There is normally a requirement for vesting that the participant remains with SEB during the first three years, but some exemption apply. A further requirement for vesting is that the participant holds shares in SEB equal to a predetermined amount, for GEC equivalent to one year salary net of taxes, acquired no later than on a pro-rata basis during the initial three year vesting period.

The Share Matching Programme (SMP) 2014 vested in 2017 with 63 per cent matching. GEC is not participating in the SMP 2012–2014 nor the All Employee Programme (AEP) except for outstanding rights earned before being member of GEC.

**Long-term equity programmes (expensed amounts for ongoing programmes), SEK**

| 2018 | Share deferral programme | Total |
|---|---|---|
| President and CEO, Johan Torgeby | 1,249,972 | **1,249,972** |
| Other members of the GEC[1] | 8,258,831 | **8,258,831** |
| **TOTAL** | **9,508,803** | **9,508,803** |
| 2017 | | |
| President and CEO, Johan Torgeby | 1,522,952 | **1,522,952** |
| Other members of the GEC[1] | 15,489,205 | **15,489,205** |
| **TOTAL** | **17,012,157** | **17,012,157** |

1) GEC excluding the President and CEO. The members partly differ between the years but in average twelwe (eleven) members are included. At the end of the year the number of members were twelve (eleven).

Additional members are not included.

Some of the GEC members have previously received rights in the All Employee Programme. The corresponding calculated costs and number of outstanding rights/shares are not included in the tables.

*Note 8 c continued Remuneration to the Board and the Group Executive Committee*

**Number outstanding by 2018-12-31**

| | Number outstanding | | | | |
|---|---|---|---|---|---|
| | President and CEO Johan Torgeby | Other members of the GEC | Total | First day of exercise | Performance criteria |
| 2012: Share matching rights | 23,579 | | **23,579** | 2015 | final vesting 100%[1] |
| 2013: Share matching rights | 36,401 | 64,723 | **101,124** | 2016 | final vesting 92% |
| 2014: Share matching rights | 18,658 | 26,242 | **44,900** | 2017 | final vesting 63% |
| 2012: Share rights | | 14,896 | **14,896** | 2016;2018[2] | – |
| 2013: Share rights | | 133,987 | **133,987** | 2017;2019[2] | – |
| 2014: Conditional share rights/Share rights | | 96,933 | **96,933** | 2018;2020[2] | – |
| 2015: Conditional share rights/Share rights | 12,342 | 203,397 | **215,739** | 2019;2021[2] | – |
| 2016: Conditional share rights | 42,104 | 292,520 | **334,624** | 2020;2022[2] | – |
| 2017: Conditional share rights | 31,936 | 199,596 | **231,532** | 2021;2023[2] | – |
| 2018: Conditional share rights | 57,826 | 297,389 | **355,215** | 2022;2024[2] | – |

1) Share Matching Programme 2012 vested in 2015 with 100 per cent matching, since the programme had reached its cap the outcome after adjustment related to the cap was 92 per cent.
2) The qualification period ends after three or five years respectively and are followed by a holding period of one year, thereafter there is normally an exercise period of three years.

During the year the President and CEO has exercised rights to a value of SEK 0 (0). The corresponding value for the GEC excluding the President is SEK 25,128,614 (23,030,558).

**Pension and severance pay**

The pension agreement of the President is contribution-based and inviolable. The pension contribution is a fixed amount.

Termination of employment by the bank is subject to a maximum 12-month period of notice and entitles to a severance pay of 12 months' salary.

As regards pension benefits and severance pay the following is applicable to the members of the GEC excluding the President. The pension plans are inviolable and defined contribution-based except for a portion in the collective agreement.

Termination of employment by the bank is subject to a maximum 12-month period of notice and entitles to a severance pay of 12 months' salary.

**Pension costs (service costs, interest costs and defined contribution premiums), SEK**

| | President and CEO, Johan Torgeby | President and CEO, Annika Falkengren | Other members of the Group Executive committee[1] | Total |
|---|---|---|---|---|
| **2018** | 3,834,302 | | 16,963,710 | **20,798,012** |
| **2017** | 2,625,000 | 1,250,000 | 16,917,548 | **20,792,548** |

1) GEC excluding the President and CEO. The members partly differ between the years but in average twelwe (eleven) members are included. At the end of the year the number of members were twelve (eleven).

Additional members are not included.

For information about related parties see note 46.

# 8 d Share-based payments

**Long-term equity-based programmes**

| **2018** | Restricted share programme | All employee programme | Share deferral programme | Share matching programme[1] | Performance shares |
|---|---|---|---|---|---|
| Outstanding at the beginning of the year | | 10,564,099 | 17,750,711 | 1,967,361 | |
| Granted[2] | 1,449,922 | 3,083,545 | 5,809,645 | 123,696 | |
| Forfeited | −8,600 | −243,305 | −5,395,913 | −2,309 | |
| Exercised[3] | | −2,372,037 | −1,397,553 | −480,913 | |
| Expired | | 0 | | | |
| **OUTSTANDING AT THE END OF THE YEAR** | **1,441,322** | **11,032,302** | **16,766,890** | **1,607,835** | |
| *of which exercisable* | *0* | *0* | *978,586* | *1,607,835* | |

| **2017** | Restricted share programme | All employee programme | Share deferral programme | Share matching programme[1] | Performance shares |
|---|---|---|---|---|---|
| Outstanding at the beginning of the year | | 10,142,015 | 14,046,597 | 2,957,797 | 1,274,019 |
| Granted[2] | | 2,991,591 | 5,520,433 | 1,011,633 | |
| Forfeited | | −610,833 | −1,070,225 | −5,540 | |
| Exercised[3] | | −1,958,674 | −746,094 | −1,996,529 | −1,165,121 |
| Expired | | | | | −108,898 |
| **OUTSTANDING AT THE END OF THE YEAR** | | **10,564,099** | **17,750,711** | **1,967,361** | |
| *of which exercisable* | | *0* | *589,659* | *1,967,361* | |

1) Numbers include investments done by participants, as well as allocated matching share rights.
2) Including compensation for dividend.
3) Weighted average share price for SMP and SDP at exercise SEK 89.59 (104.09).

*Note 8 d continued Share-based payments*

**Total Long-term equity-based programmes**

| | Original no of holders[4] | No of issued (maximum outcome) | No of outstanding 2018[5] | No of outstanding 2017[5] | A share per option/ share | Exercise price | Validity | First date of exercise |
|---|---|---|---|---|---|---|---|---|
| 2012: Share matching programme | 432 | 7,024,168 | 677,895 | 874,084 | 4 | | 2012–2019 | 2015[2] |
| 2013: Share matching programme | 213 | 3,485,088 | 627,663 | 702,408 | 4 | | 2013–2020 | 2016[2] |
| 2014: Share matching programme | 96 | 1,300,288 | 302,277 | 390,869 | 4 | | 2014–2021 | 2017[2] |
| 2012: Share deferral programme – equity settled | 86 | 1,199,504 | 276,644 | 854,226 | 1 | | 2012–2021 | 2015/2017[3] |
| 2013: Share deferral programme – equity settled | 263 | 1,361,861 | 1,059,004 | 1,126,673 | 1 | | 2013–2022 | 2016/2018[3] |
| 2014: Share deferral programme – equity settled | 622 | 1,909,849 | 1,520,505 | 1,993,157 | 1 | | 2014–2023 | 2017/2019[3] |
| 2015: Share deferral programme – equity settled | 816 | 2,603,843 | 2,604,856 | 2,478,718 | 1 | | 2015–2024 | 2018/2020[3] |
| 2015: Share deferral programme – cash settled | 513 | 1,717,150 | 1,705,862 | 1,622,652 | | | 2015–2021 | 2018/2020[3] |
| 2016: Share deferral programme – equity settled | 874 | 3,593,155 | 3,297,588 | 3,355,003 | 1 | | 2016–2025 | 2019/2021[3] |
| 2016: Share deferral programme – cash settled | 500 | 2,017,622 | 1,953,743 | 1,913,887 | | | 2016–2022 | 2019/2021[3] |
| 2017: Share deferral programme – equity settled[1] | 1,373 | 4,439,824 | 4,142,224 | 4,210,294 | 1 | | 2017–2026 | 2020/2022[3] |
| 2017: Share deferral programme – cash settled | 75 | 206,125 | 206,464 | 196,101 | | | 2017–2023 | 2020/2022[3] |
| 2018: Share deferral programme – equity settled[1] | 788 | 3,785,769 | 3,681,626 | | 1 | | 2018–2027 | 2021/2023[3] |
| 2018: Share deferral programme – cash settled | 14 | 97,770 | 97,770 | | | | 2018–2024 | 2021/2023[3] |
| 2018: Restricted Share programme – equity settled | 411 | 1,378,367 | 1,369,767 | | 1 | | 2018–2022 | 2019/2022[3] |
| 2018: Restricted Share programme – cash settled | 28 | 71,555 | 71,555 | | | | 2018–2022 | 2019/2022[3] |
| 2013: All employee programme – equity settled | 8,347 | 1,255,838 | | | 1 | | 2013–2016 | 2017 |
| 2013: All employee programme – cash settled | 5,358 | 532,184 | | | | | 2013–2016 | 2017 |
| 2014: All employee programme – equity settled | 8,709 | 1,786,471 | | 1,599,693 | 1 | | 2014–2017 | 2018 |
| 2014: All employee programme – cash settled | 5,216 | 964,436 | | 765,734 | | | 2014–2017 | 2018 |
| 2015: All employee programme – equity settled | 8,319 | 2,290,359 | 2,043,001 | 2,103,704 | 1 | | 2015–2018 | 2019 |
| 2015: All employee programme – cash settled | 6,745 | 1,220,463 | 993,735 | 1,041,755 | | | 2015–2018 | 2019 |
| 2016: All employee programme – equity settled | 8,209 | 1,731,922 | 1,588,616 | 1,640,581 | 1 | | 2016–2019 | 2020 |
| 2016: All employee programme – cash settled | 6,517 | 933,905 | 831,973 | 874,726 | | | 2016–2019 | 2020 |
| 2017: All employee programme – equity settled | 7,954 | 1,613,740 | 1,569,640 | 1,613,740 | 1 | | 2017–2020 | 2021 |
| 2017: All employee programme – cash settled | 6,867 | 924,166 | 848,781 | 924,166 | | | 2017–2020 | 2021 |
| 2018: All employee programme – equity settled | 8,086 | 1,969,746 | 1,969,746 | 0 | 1 | | 2018–2021 | 2022 |
| 2018: All employee programme – cash settled | 6,863 | 1,186,810 | 1,186,810 | 0 | | | 2018–2021 | 2022 |
| **TOTAL** | | **52,601,978** | **34,627,745** | **30,282,171** | | | | |

1) The exercise period for GEC members is extended during the period that they are GEC members.
2) As soon as practically possible following the end of the performance period, the establishing of the outcome of number of Matching Shares and the allocation of the A shares and, if applicable, the Matching Shares.
3) As soon as possible following the end of the performance period the outcome is established. For the equity-settled programmes the ownership of the performance shares is transferred upon registration, but the shares are withheld for one additional year. Cash-settled programmes are paid out in connection with the following payroll run.
4) In total approximately 2,000 individuals (1,900) participated in any of the programmes, All Employee Programme excluded.
5) Including additional deferral rights for dividend compensation.

**Long-term equity-based programmes**

The Annual General meeting 2018 decided on three Long-term equity based programmes, one *Share Deferral Programme*, one *Restricted Share Programme* and one *All Employee Programme*.

The first *Share Deferral Programme* was introduced in 2012 for the Group Executive Committee and certain other executive managers and key employees with critical competences. The participants are granted an individual number of conditional share rights based on pre-determined Group, division/business unit and individual target levels, both financial (Return on Equity/Return on Business Equity and cost development) and non-financial (customer satisfaction and parameters such as compliance, employee commitment, SEB's corporate sustainability and risk management), set on an annual basis.

For GEC members and other senior executives 50 per cent of the share rights ownership is transferred after a qualification period of three years and 50 per cent after a qualification period of five years. For other participants the qualification period is three years. The requirement for vesting is normally that the participant remains with SEB during the first three years and that the participant holds shares in SEB equal to a predetermined amount, acquired no later than on a pro-rata basis during the initial three year period. After each respective qualification period there is an additional holding period of one year after which the share rights can be exercised, normally during a period of three years. Each share right carries the right to receive one Class A share in the bank. In countries mainly outside Europe the participants receives so called phantom shares that gives the right to receive cash adjusted for the share price development during the qualification period and thereafter the total shareholder return of the SEB A share at the end of the holding period.

In the 2018 programme the holders are only compensated for dividends after the qualification period, in the previous programmes the holders are compensated for dividends to the shareholders during the full period. Thus, the number of share rights will be recalculated, after the Annual General Meeting each year, taking the dividend into account depending on programme. The share rights are not securities that can be sold, pledged or transferred to others. However, an estimated value per share right has been calculated for 2018 to SEK 61 (83) for a qualification period of three years and SEK 57 for a qualification period of five years (based upon an average closing price of one SEB Class A share at the time of grant).

In 2018 a Restricted Share Programme was introduced in order to ensure a competitive and attractive remuneration model within certain business units and to comply with new regulations implemented. The participants are selected employees on the level below senior executives. They are granted an individual number of conditional / share rights based on the fulfilment of pre-determined Group, business unit and individual targets as outlined in SEB's business plan, set on an annual basis as a mix of financial and non-financial targets.

The ownership of the share rights are transferred to the participants during a three year period in either three or four annual instalments. The share rights are subject to restrictions in terms of e.g. certain regulatory and employment requirements during the period between initial allotment and the transfer of the ownership. After the transfer of ownership there is an additional holding period of one year before the share rights can be exercised. Each share right carries the right to receive one SEB Class A share. The share rights are not securities that can be sold, pledged or transferred to others. However, an estimated value per share right has been calculated for 2018 to SEK 86 for the first installment to SEK 77 for the remaining instalments (based upon an average closing price of one SEB Class A share at the time of grant).

In 2013 an *All Employee Programme* was introduced for most employees, where 50 per cent of the outcome is paid in cash and 50 per cent is deferred for three years and paid in SEB A shares. Deferrals will normally only be obtained under the condition that the employee remains with SEB. In Sweden the deferred part is paid out in SEB A shares, adjusted for dividends. In all other countries the deferred part is paid out in cash adjusted for total shareholder return of the SEB A share. The initial outcome is capped at a maximum amount, which was adjusted in 2016, for each geography and is based on the fulfilment of pre-determined Group targets outlined in SEB's business plan, both financial (Return on Equity and cost development) and non-financial (customer satisfaction). The outcome in 2018 year's programme was 60 per cent (56) of the maximum amount. In Sweden the maximum amount is SEK 75,000.

**Previously allotted programmes**

From 2005 to 2010 the programmes were based on performance shares. They all have a maximum term of seven years, a vesting period of three years and an exercise period of four years. The number of allotted performance shares that can be exercised depends on the development of two predetermined performance criteria of equal importance. All programmes are vested and the exercise period for the 2010 years programme ended in 2017.

Between 2009 and 2014 a *Share Matching Programme* for a number of selected senior executives and other key employees has been run. The programmes are based on performance, have a vesting period of three years and are settled with SEB Class A shares. All programmes require own investment. The investment amount is pre-determined and capped for each participant.

After three years, if still employed, the participant receives one Class A share / share rights for each invested share / share right and a conditional number of performance based matching shares for each invested share / share right. From 2012 the settlement is in the form of share rights with an exercise period of four years. The 2014 programme was closed in 2017 with 63 per cent matching.

Between 2009 and 2014 a Share Matching Programme for a number of selected senior executives and other key employees has been run. The programmes are based on performance, have a vesting period of three years and are settled with SEB Class A shares. All programmes require own investment in SEB shares. The investment amount is pre-determined and capped for each participant. After three years, if still employed, the participant receives one Class A share for each invested share and a conditional number of performance based matching shares for each invested share. From 2012 the settlement is in the form of share rights with an exercise period of four years. The 2014 programme was closed in 2017 with 63 per cent matching.

In the 2014 years programme the number of performance based matching shares depend on the development of two pre-determined performance criteria; measured as total shareholder return (TSR) in relation to the markets required return based on the interest of Swedish government 10 year bonds i.e. long-term risk free interest rate (LTIR), two thirds, and the total shareholder return in relation to SEB's competitors, one third. Maximum outcome for the participants is three performance based matching shares. The outcome is also subject to risk adjustment.

The holders are compensated for dividends to the shareholders during the exercise period. Thus, the number of share rights will be recalculated, after the Annual General Meeting each year during the exercise period, taking the dividend into account.

Matching rights are not securities that can be sold, pledged or transferred to another party. However, an estimated value per matching right has been calculated for 2014 to SEK 65 and for the performance based matching rights to SEK 39. Other inputs to the options pricing model are; exercise price SEK 0; volatility 46 (based on historical values); expected dividend approximately 4 per cent; risk free interest rate 1.13 and expected early exercise of 3 per cent due to staff turnover. In the value of the option the expected outcome of the performance criteria described above are taken into account.

The programme is subject to a cap, if the share price at the time of vesting has more than doubled the number of matching shares and performance based matching shares that are transferred to a participant will be reduced proportionately so that the value corresponds to the doubled share price capped value.

▶▶ *Further details of the outstanding programmes are found in the table above.*

## 8 e Number of employees

| Average number of employees | Group | | | Parent company | | |
|---|---|---|---|---|---|---|
| **2018** | Men | Women | Total | Men | Women | Total |
| Sweden | 3,913 | 4,059 | **7,972** | 3,348 | 3,393 | **6,741** |
| Norway | 225 | 155 | **380** | 192 | 106 | **298** |
| Denmark | 270 | 188 | **458** | 168 | 72 | **240** |
| Finland | 155 | 129 | **284** | 118 | 95 | **213** |
| Estonia | 284 | 894 | **1,178** | | | |
| Latvia | 423 | 1,137 | **1,560** | 186 | 328 | **514** |
| Lithuania | 840 | 1,769 | **2,609** | 403 | 551 | **954** |
| Germany | 232 | 160 | **392** | 57 | 46 | **103** |
| Poland | 12 | 29 | **41** | 12 | 29 | **41** |
| Ukraine | 18 | 36 | **54** | | | |
| China | 11 | 30 | **41** | 11 | 30 | **41** |
| United Kingdom | 73 | 40 | **113** | 73 | 40 | **113** |
| Ireland | 51 | 72 | **123** | | | |
| Luxembourg | 111 | 97 | **208** | | | |
| Russia | 23 | 66 | **89** | | | |
| Singapore | 32 | 73 | **105** | 28 | 66 | **94** |
| United States | 30 | 18 | **48** | 24 | 16 | **40** |
| Other countries[1] | 15 | 14 | **29** | 15 | 14 | **29** |
| **TOTAL** | **6,719** | **8,964** | **15,684** | **4,635** | **4,786** | **9,421** |
| **2017** | | | | | | |
| Sweden | 3,957 | 4,097 | **8,053** | 3,393 | 3,476 | **6,869** |
| Norway | 242 | 160 | **402** | 199 | 101 | **300** |
| Denmark | 365 | 247 | **612** | 171 | 68 | **238** |
| Finland | 154 | 137 | **291** | 109 | 91 | **200** |
| Estonia | 293 | 920 | **1,212** | | | |
| Latvia | 415 | 1,111 | **1,526** | 156 | 276 | **432** |
| Lithuania | 772 | 1,703 | **2,475** | 341 | 476 | **817** |
| Germany | 289 | 201 | **490** | | | |
| Poland | 14 | 29 | **43** | 14 | 29 | **43** |
| Ukraine | 20 | 38 | **58** | | | |
| China | 10 | 32 | **42** | 10 | 32 | **42** |
| United Kingdom | 82 | 44 | **126** | 82 | 44 | **126** |
| Ireland | 54 | 71 | **124** | | | |
| Luxembourg | 121 | 104 | **225** | | | |
| Russia | 23 | 64 | **87** | | | |
| Singapore | 34 | 72 | **106** | 31 | 63 | **94** |
| United States | 31 | 18 | **49** | 24 | 17 | **41** |
| Other countries[1] | 16 | 13 | **28** | 16 | 13 | **28** |
| **TOTAL** | **6,889** | **9,057** | **15,946** | **4,546** | **4,686** | **9,232** |

1) Brazil and Hong Kong.

# 9 Other expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Costs for premises[1] | –1,604 | –1,644 | –1,254 | –1,260 |
| Data costs | –3,377 | –3,479 | –2,406 | –2,372 |
| Travel and entertainment | –394 | –387 | –312 | –277 |
| Consultants | –731 | –842 | –564 | –652 |
| Marketing | –286 | –301 | –148 | –144 |
| Information services | –623 | –549 | –551 | –476 |
| Other operating costs[2] | –186 | 254 | –124 | 264 |
| **TOTAL** | **–7,201** | **–6,947** | **–5,361** | **–4,918** |
| 1) Of which rental costs | –1,130 | –1,158 | –954 | –954 |

2) Net after deduction for capitalised costs, see also note 23.

**Fees and expense allowances to appointed auditors and audit firms[1]**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Audit assignment | –26 | –29 | –12 | –12 |
| Audit related services | –12 | –21 | –1 | –1 |
| Tax advisory | –12 | –12 | –8 | –5 |
| Other services | –8 | –4 | –2 | –2 |
| **PricewaterhouseCoopers[2]** | **–58** | **–65** | **–24** | **–20** |
| Audit assignment | –1 | –1 | | |
| Tax advisory | –3 | –1 | | |
| Other services[3] | –13 | –2 | | |
| **Other audit firms** | **–17** | **–3** | | |
| **TOTAL** | **–75** | **–69** | **–24** | **–20** |

1) The parent company includes the foreign branches.
2) Fees to PricewaterhouseCoopers AB from companies in the SEB group amount to SEK 22.1m (22.9). Out of this amount, SEK 12.4m (15.8) is related to the audit and SEK 9.7m (7.1) to other services.
3) Whereof SEK 13m consultation relating to operational effectiveness.

Audit assignment is defined as the audit of annual financial statements, the administration of the Board of Directors and the President, other tasks resting upon the auditor as well as consulting and other assistance, which have been initiated by the findings in performing audit work or implementation of such tasks. The audit related services include quarterly reviews, regulatory reporting and services in connection with issuing of certificates and opinions. Tax advisory include general expatriate services and other tax services work. Other services include consultation on financial accounting, services related to mergers and acquisitions activities, operational effectiveness and assessments of internal control.

# 10 Depreciation, amortisation and impairment of tangible and intangible assets

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Depreciation of tangible assets | –250 | –222 | –159 | –127 |
| Depreciation of equipment leased to clients[1] | | | –4,985 | –4,817 |
| Amortisation of intangible assets | –480 | –607 | –369 | –462 |
| Impairment of tangible assets | –4 | –4 | | |
| Impairment of intangible assets | | –101 | | –870 |
| Retirement and disposal of intangible assets | | –30 | | –102 |
| **TOTAL** | **–735** | **–964** | **–5,512** | **–6,377** |

1) In the group Net income from leases is classified as interest income. In the parent company depreciation of leased equipment is reported as Depreciation, amortisation and impairment of tangible and intangible assets.

# 11 Gains less losses from tangible and intangible assets

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| Properties | 34 | 62 |
| Other tangible assets | 6 | 8 |
| **Gains** | **40** | **70** |
| Properties | –20 | –229 |
| Other tangible assets | –2 | –3 |
| **Losses** | **–22** | **–232** |
| **TOTAL** | **18** | **–162** |

# 12 Net expected credit losses

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Impairment gains or losses – Stage 1 | –117 | | –106 | |
| Impairment gains or losses – Stage 2 | –134 | | –123 | |
| Impairment gains or losses – Stage 3 | –613 | | –506 | |
| **Impairment gains or losses[1)]** | **–864** | | **–735** | |
| **Net provisions[2)]** | | **12** | | **–183** |
| **Write-offs and recoveries** | | | | |
| Total write-offs | –1,768 | –1,367 | –1,280 | –797 |
| Reversals of allowances for write-offs | 1,267 | 318 | 931 | 180 |
| Write-offs not previously provided for | –501 | –1,050 | –349 | –617 |
| Recovered from previous write-offs | 199 | 230 | 64 | 51 |
| **Net write-offs** | **–302** | **–820** | **–285** | **–566** |
| **NET EXPECTED CREDIT LOSSES[1)]** | **–1,166** | | **–1,020** | |
| **NET CREDIT LOSSES[2)]** | | **–808** | | **–749** |

1) IFRS 9 expected loss model. Consists of increases due to origination, decreases due to derecognition and changes due to changes in credit risk.
2) IAS 39 incurred loss model.

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Net ECL level, % | 0.06 | | 0.07 | |
| Credit loss level, % | | 0.05 | | 0.05 |

# 13 Items affecting comparability

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| Other income | 4,506 | 494 |
| **Total operating income** | **4,506** | **494** |
| Staff costs | | –1,320 |
| Other expenses | | –92 |
| Depreciation, amortisation and impairment of tangible and intangible assets | | –978 |
| **Total operating expenses** | | **–2,390** |
| **Items affecting comparability** | **4,506** | **–1,896** |
| Income tax on items affecting comparability | 22 | 215 |
| **ITEMS AFFECTING COMPARABILITY AFTER TAX** | **4,528** | **–1,681** |

**Items affecting comparability 2018**
The total income in the income statement from Items affecting comparability was SEK 4,506m before tax and SEK 4,528m after tax.

*SEB Pension*
SEB divested all shares in SEB Pensionsforsikring A/S and SEB Administration A/S (SEB Pension) to Danica Pension Livsforsikringsaktieselskab (Danica), a subsidiary to Danske Bank. The entire business, including employees, customer contracts and systems, transferred from SEB to Danica on 7 June 2018. The in principle tax-exempt capital gain from the transaction amounted to SEK 3,565m.

*UC*
On 29 June 2018, the acquisition by the listed Finnish credit information company Asiakastieto Group Plc ("Asiakastieto") of UC AB ("UC") was finalised. SEB received shares in Asiakastieto, equivalent to 10.2 per cent of the company, and SEK 0.3bn in cash. The transaction resulted in a tax-exempt capital gain of SEK 941m.

**Items affecting comparability 2017**
The total expense in the income statement from Items affecting comparability was SEK 1,896m before tax and SEK 1,681m after tax. In total, the items affecting comparability, including the effect on other comprehensive income of SEK 494m, decreased equity by SEK 2,175m.

*Visa Sweden*
The settlement of the acquisition of Visa Europe by Visa Inc. consisted of a combination of cash and shares to be paid to the different Visa Europe members. A dividend of SEK 494m was received. There was no tax effect. The holdings in Visa have been classified as Available-for-sale asset where the change in value is recognised in Other comprehensive income. The dividend received reduced the amount in Other comprehensive income by SEK 494m.

*SEB's German business*
The operations in Germany were transformed and the core business was transferred from SEB AG (renamed to DSK Hyp AG in 2018) to the German branch of the parent company as of 2 January 2018. The provisions related to redundancy and excess premises amounting to a total of SEK 521m were recognised in 2017. In addition, SEB entered into an agreement to transfer the pension obligations under the defined benefit plan in SEB AG to Versicherungsverein des Bankgewerbes a.G (BVV) at a total cost of SEK 891m.

*Impairment and derecognition of IT assets*
An impairment and a derecognition of intangible IT assets led to an expense in an amount of SEK 978m. The positive tax effect was SEK 215m.

# 14 Appropriations

| | Parent company | |
|---|---|---|
| | **2018** | 2017 |
| Group contribution | 2,149 | 1,554 |
| Accelerated tax depreciation | 568 | 332 |
| **TOTAL** | **2,716** | **1,885** |

# 15 Taxes

| Major components of tax expense | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Current tax | –5,217 | –4,554 | –3,789 | –3,633 |
| Deferred tax | 618 | –145 | | |
| Tax for current year | –4,599 | –4,699 | –3,789 | –3,633 |
| Current tax for previous years | 447 | 137 | 118 | 43 |
| **INCOME TAX EXPENSE** | **–4,152** | **–4,562** | **–3,671** | **–3,590** |

**Relationship between tax expenses and accounting profit**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Net profit | 23,134 | 16,197 | 21,720 | 17,811 |
| Income tax expense | 4,152 | 4,562 | 3,671 | 3,590 |
| **Accounting profit before tax** | **27,285** | **20,759** | **25,391** | **21,401** |
| Current tax at Swedish statutory rate of 22.0 per cent | –6,003 | –4,577 | –5,586 | –4,708 |
| Tax effect relating to other tax rates in other jurisdictions | 399 | 429 | | |
| Tax effect relating to not tax deductible expenses | –799 | –641 | –998 | –788 |
| Tax effect relating to non-taxable income | 1,525 | 519 | 2,795 | 1,863 |
| Tax effect relating to a previously recognised tax loss, tax credit or temporary difference | –362 | 156 | | |
| Tax effect relating to a previously unrecognised tax loss, tax credit or temporary difference | 23 | –440 | | |
| **Current tax** | **–5,217** | **–4,554** | **–3,789** | **–3,633** |
| Tax effect relating to origin and reversal of tax losses, tax credits and temporary differences | 362 | –156 | | |
| Tax effect relating to changes in tax rates or the imposition of new taxes | 286 | | | |
| Tax effect relating to a previously unrecognised tax loss, tax credit or temporary difference | –30 | 11 | | |
| **Deferred tax** | **618** | **–145** | | |
| **Current tax for previous years** | **447** | **137** | **118** | **43** |
| **INCOME TAX EXPENSE** [1] | **–4,152** | **–4,562** | **–3,671** | **–3,590** |

1) Total income tax expense was SEK 4,152m (4,562). The effective tax rate for the year was 15.2 per cent (21.9). Excluding Items affecting comparability, the effective tax rate was 18.3 per cent (21.0). This was in line with SEB's expected tax rate.

**Deferred tax income and expense recognised in income statement**

| | 2018 | 2017 |
|---|---|---|
| Accelerated tax depreciation | 137 | –30 |
| Pension plan assets, net | 91 | 178 |
| Tax losses carry forwards | –75 | –133 |
| Other temporary differences | 465 | –161 |
| **TOTAL** | **618** | **–145** |

**CURRENT TAX ASSETS**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Other | 6,395 | 5,252 | 2,813 | 1,999 |
| **Recognised in profit and loss** | **6,395** | **5,252** | **2,813** | **1,999** |
| Other | 9 | 2 | | |
| **Recognised in Shareholders' equity** | **9** | **2** | | |
| **TOTAL** | **6,404** | **5,255** | **2,813** | **1,999** |

**DEFERRED TAX ASSETS**

| | 2018 | 2017 |
|---|---|---|
| Tax losses carry forwards | | 75 |
| Pension plan assets, net | 1 | 1 |
| Other temporary differences[1] | 252 | 188 |
| **Recognised in profit and loss** | **253** | **264** |
| Unrealised losses in financial assets | –2 | –3 |
| **Recognised in Shareholders' equity** | **–2** | **–3** |
| **TOTAL** | **251** | **260** |

1) Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Tax losses carried forward in the SEB Group for which the tax assets are not recognised in the balance sheet amount to SEK 5,080m (4,662) gross. These are not recognised due to the uncertainty in the possibility to use them. This includes losses where the amount can only be used for trade tax. The potential tax asset not recognised is SEK 1,108m (919).

*Note 15 continued* *Taxes*

**CURRENT TAX LIABILITIES**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Other | 1,734 | 1,463 | 655 | 684 |
| **Recognised in profit and loss** | **1,734** | **1,463** | **655** | **684** |
| **TOTAL** | **1,734** | **1,463** | **655** | **684** |

**DEFERRED TAX LIABILITIES**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Accelerated tax depreciation | 6,084 | 6,388 | | |
| Pension plan assets and obligations, net | –302 | –211 | | |
| Other temporary differences[1] | 40 | 144 | | |
| **Recognised in profit and loss** | **5,822** | **6,321** | | |
| Pension plan assets and obligations, net | 1,164 | 1,372 | | |
| Unrealised profits in cash flow hedges | 85 | 336 | 85 | 336 |
| Unrealised profits in available-for-sale financial assets | 70 | 49 | | |
| **Recognised in Shareholders' equity** | **1,318** | **1,758** | **85** | **336** |
| **TOTAL** | **7,141** | **8,079** | **85** | **336** |

1) Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Taxable temporary differences give rise to deferred tax assets and liabilities.

As from 2018, advance income tax payments on profits in Estonia at a rate of 14 per cent (0) are made quarterly. The income tax paid in advance can be netted against tax payable on dividend distributions, where the tax rate is between 20 and 14 per cent (20). No deferred tax liability is recognised related to possible future tax costs on dividends from Estonia. Since 2018 no income tax is paid in Latvia unless profit is distributed. No deferred tax liability is recognised related to possible future tax costs on dividends from Latvia. The tax rate applicable to dividends in Latvia is 20 per cent (0).

## 16 Earnings per share

| | Group | |
|---|---|---|
| | **2018** | **2017[1]** |
| Net profit attributable to shareholders, SEK m | 23,134 | 16,197 |
| Weighted average number of shares, millions | 2,164 | 2,168 |
| Basic earnings per share, SEK | 10.69 | 7.47 |
| Net profit attributable to shareholders, SEK m | 23,134 | 16,197 |
| Weighted average number of diluted shares, millions | 2,177 | 2,178 |
| Diluted earnings per share, SEK | 10.63 | 7.44 |

**Dilution[2]**

| | | |
|---|---|---|
| Weighted average number of shares, millions | 2,164 | 2,168 |
| Adjustment for diluted weighted average number of additional Class A shares, millions | 13 | 10 |
| Weighted average number of diluted shares, millions | 2,177 | 2,178 |

1) 2017 has been restated for the transition to IFRS 15. For transition disclosures, see note 53.
2) Calculated dilution based on the estimated economic value of the long-term incentive programmes.

## 17 Cash and cash balances at central banks

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Cash | 2,249 | 1,960 | 155 | 132 |
| Cash balances at central banks | 206,866 | 175,262 | 163,925 | 97,609 |
| **TOTAL** | **209,115** | **177,222** | **164,081** | **97,741** |

# 18 Loans

| | Group 2018[1] | Group 2017[2] | Parent company 2018[1] | Parent company 2017[2] |
|---|---|---|---|---|
| Lending | 33,294 | 12,444 | 29,665 | 8,498 |
| Reverse repos | | 334 | | 334 |
| **Loans to central banks** | **33,294** | **12,778** | **29,665** | **8,832** |
| Lending | 37,631 | 31,862 | 84,694 | 181,221 |
| Margins of safety | 5,197 | 6,800 | 5,774 | 8,672 |
| Reverse repos | 1,458 | 56 | 200 | 56 |
| **Loans to credit institutions** | **44,287** | **38,717** | **90,668** | **189,949** |
| Lending | 1,490,771 | 1,415,603 | 1,256,596 | 1,133,727 |
| Margins of safety | 56,118 | 28,931 | 56,164 | 29,949 |
| Reverse repos | 97,936 | 42,230 | 97,926 | 42,230 |
| **Loans to the public** | **1,644,825** | **1,486,765** | **1,410,687** | **1,205,906** |
| **TOTAL** | **1,722,406** | **1,538,260** | **1,531,020** | **1,404,687** |

1) IFRS 9 expected loss model.
2) IAS 39 incurred loss model.

**Loans by measurement category**

| 2018[1] | Group FVHFT | Group FVMPL | Group AmC | Group Total | Parent company FVHFT | Parent company FVMPL | Parent company AmC | Parent company Total |
|---|---|---|---|---|---|---|---|---|
| Loans to central banks | | | 33,294 | **33,294** | | | 29,665 | **29,665** |
| Loans to credit institutions | 200 | | 44,087 | **44,287** | 200 | | 90,468 | **90,668** |
| Loans to the public | 97,936 | 1,901 | 1,544,988 | **1,644,825** | 97,936 | 1,901 | 1,310,850 | **1,410,687** |
| **TOTAL** | **98,136** | **1,901** | **1,622,368** | **1,722,406** | **98,136** | **1,901** | **1,430,982** | **1,531,020** |

| 2017[2] | Group LaR | Group Total | Parent company LaR | Parent company Total |
|---|---|---|---|---|
| Loans to central banks | 12,778 | **12,778** | 8,832 | **8,832** |
| Loans to credit institutions | 38,717 | **38,717** | 189,949 | **189,949** |
| Loans to the public | 1,486,765 | **1,486,765** | 1,205,906 | **1,205,906** |
| **TOTAL** | **1,538,260** | **1,538,260** | **1,404,687** | **1,404,687** |

1) IFRS 9 expected loss model.
2) IAS 39 incurred loss model.

*Note 18 continued* *Loans*

## Exposure and expected credit loss (ECL) allowances by stage

The table shows gross carrying amounts for exposures on balance measured at amortised cost and nominal amounts for exposures off-balance divided by stage as a mean to put ECL allowances in context to total exposure. For trade receivables a simplified approach based on past-due information is used to calculate loss allowances. For opening balances 1 January 2018 see note 53.

### Group, 2018

| Stage 1 (12-month ECL) | Gross carrying amounts/ Nominal amounts | ECL allowances | Carrying amounts/ Net amounts | ECL coverage ratio, % |
|---|---|---|---|---|
| Debt securities | 16,337 | –1 | 16,336 | |
| Loans[1] | 1,552,954 | –643 | 1,552,311 | |
| Financial assets | 1,569,291 | –643 | 1,568,647 | |
| Financial guarantees and Loan commitments | 602,884 | –195 | 602,689 | |
| **Total** | **2,172,175** | **–838** | **2,171,337** | **0.04** |
| **Stage 2 (lifetime ECL)** | | | | |
| Loans[1) 2)] | 70,125 | –1,364 | 68,761 | |
| Financial assets | 70,125 | –1,364 | 68,761 | |
| Financial guarantees and Loan commitments | 16,712 | –240 | 16,472 | |
| **Total** | **86,837** | **–1,605** | **85,233** | **1.85** |
| **Stage 3 (credit impaired/lifetime ECL)** | | | | |
| Loans[1) 3)] | 8,158 | –3,331 | 4,827 | |
| Financial assets | 8,158 | –3,331 | 4,827 | |
| Financial guarantees and Loan commitments | 242 | –38 | 203 | |
| **Total** | **8,400** | **–3,370** | **5,030** | **40.11** |
| **Total** | | | | |
| Debt securities | 16,337 | –1 | 16,336 | |
| Loans[1] | 1,631,237 | –5,338 | 1,625,899 | |
| Financial assets | 1,647,574 | –5,339 | 1,642,235 | |
| Financial guarantees and Loan commitments | 619,838 | –474 | 619,365 | |
| **TOTAL** | **2,267,412** | **–5,813** | **2,261,600** | **0.26** |

1) Excluding demand deposits credit institutions.
2) Whereof gross carrying amounts SEK 1,169m and ECL allowances SEK 2m under Lifetime ECLs -simplified approach for trade receivables.
3) Whereof gross carrying amounts SEK 1,281m and ECL allowances SEK 349m for Purchased or originated credit impaired loans.

| | |
|---|---|
| Stage 3 loans / Total loans – gross, % | 0.50 |
| Stage 3 loans / Total loans – net, % | 0.30 |

### Parent company, 2018

| Stage 1 (12-month ECL) | Gross carrying amounts/ Nominal amounts | ECL allowances | Carrying amounts/ Net amounts | ECL coverage ratio, % |
|---|---|---|---|---|
| Debt securities | 17,537 | –1 | 17,536 | |
| Loans[1] | 1,370,604 | –534 | 1,370,070 | |
| Financial assets | 1,388,141 | –534 | 1,387,606 | |
| Financial guarantees and Loan commitments | 544,335 | –177 | 544,158 | |
| **Total** | **1,932,475** | **–711** | **1,931,764** | **0.04** |
| **Stage 2 (lifetime ECL)** | | | | |
| Debt securities | 32 | 0 | 32 | |
| Loans[1) 2)] | 59,135 | –1,104 | 58,031 | |
| Financial assets | 59,167 | –1,104 | 58,063 | |
| Financial guarantees and Loan commitments | 12,655 | –195 | 12,460 | |
| **Total** | **71,822** | **–1,299** | **70,523** | **1.81** |
| **Stage 3 (credit impaired/lifetime ECL)** | | | | |
| Loans[1) 3)] | 4,587 | –1,705 | 2,882 | |
| Financial assets | 4,587 | –1,705 | 2,882 | |
| Financial guarantees and Loan commitments | 70 | –11 | 59 | |
| **Total** | **4,656** | **–1,716** | **2,941** | **36.85** |
| **Total** | | | | |
| Debt securities | 17,569 | –1 | 17,568 | |
| Loans[1] | 1,434,325 | –3,343 | 1,430,982 | |
| Financial assets | 1,451,895 | –3,344 | 1,448,551 | |
| Financial guarantees and Loan commitments | 557,060 | –382 | 556,677 | |
| **TOTAL** | **2,008,954** | **–3,726** | **2,005,228** | **0.19** |

1) Excluding demand deposits credit institutions.
2) Whereof gross carrying amounts SEK 1,225m and ECL allowances SEK 2m under Lifetime ECLs -simplified approach for trade receivables.
3) Whereof gross carrying amounts SEK 1,227m and ECL allowances SEK 296m for Purchased or originated credit impaired loans.

| | |
|---|---|
| Stage 3 loans / Total loans, gross, % | 0.32 |
| Stage 3 loans / Total loans, net, % | 0.20 |

*Note 18 continued Loans*

### Loans and expected credit loss (ECL) allowances by industry

The table shows gross carrying amounts for loans measured at amortised cost and ECL allowances as a mean to put ECL allowances in context to overall lending.

| | Gross carrying amounts | | | | ECL allowances | | | | Net carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| **Group, 2018** | Stage 1 (12-month ECL) | Stage 2 (lifetime ECL) | Stage 3 (credit impaired/ lifetime ECL) | Total | Stage 1 (12-month ECL) | Stage 2 (lifetime ECL) | Stage 3 (credit impaired/ lifetime ECL) | Total | Total |
| **Banks** | **97,795** | **900** | | **98,695** | **–2** | **–2** | | **–4** | **98,691** |
| Finance and insurance | 97,670 | 670 | 15 | **98,355** | –17 | –4 | –11 | **–32** | **98,323** |
| Wholesale and retail | 80,168 | 3,357 | 557 | **84,082** | –43 | –83 | –182 | **–308** | **83,774** |
| Transportation | 35,245 | 755 | 107 | **36,107** | –14 | –7 | –77 | **–98** | **36,008** |
| Shipping | 50,158 | 969 | 1,694 | **52,821** | –18 | –5 | –407 | **–430** | **52,391** |
| Business and household services | 153,943 | 8,053 | 868 | **162,863** | –144 | –233 | –352 | **–729** | **162,134** |
| Construction | 12,743 | 1,554 | 225 | **14,522** | –7 | –17 | –47 | **–71** | **14,451** |
| Manufacturing | 91,680 | 3,712 | 731 | **96,122** | –82 | –74 | –529 | **–684** | **95,437** |
| Agriculture, forestry and fishing | 21,788 | 1,577 | 129 | **23,494** | –8 | –8 | –40 | **–56** | **23,438** |
| Mining, oil and gas extraction | 14,615 | 6,046 | 530 | **21,191** | –30 | –421 | –97 | **–548** | **20,644** |
| Electricity, gas and water supply | 39,045 | 764 | 2 | **39,810** | –15 | –44 | | **–60** | **39,750** |
| Other | 52,552 | 3,370 | 119 | **56,040** | –57 | –75 | –237 | **–369** | **55,671** |
| **Corporates** | **649,606** | **30,826** | **4,977** | **685,409** | **–436** | **–971** | **–1,979** | **–3,386** | **682,023** |
| Commercial real estate management | 143,670 | 2,945 | 561 | **147,175** | –18 | –19 | –188 | **–224** | **146,951** |
| Residential real estate management | 92,395 | 1,276 | 93 | **93,764** | –6 | –1 | –32 | **–39** | **93,726** |
| **Real Estate Management** | **236,065** | **4,221** | **655** | **240,940** | **–23** | **–20** | **–220** | **–263** | **240,677** |
| **Housing co-operative associations** | **54,807** | **8,695** | | **63,502** | **–1** | **0** | **–2** | **–4** | **63,498** |
| **Public Administration** | **13,026** | **280** | **2** | **13,309** | **–1** | **–4** | **–2** | **–7** | **13,302** |
| Household mortgages | 434,868 | 18,381 | 714 | **453,963** | –39 | –114 | –227 | **–380** | **453,583** |
| Other | 66,786 | 6,822 | 1,810 | **75,419** | –139 | –253 | –902 | **–1,294** | **74,125** |
| **Households** | **501,655** | **25,204** | **2,524** | **529,383** | **–178** | **–367** | **–1,129** | **–1,674** | **527,708** |
| **TOTAL** | **1,552,954** | **70,125** | **8,158** | **1,631,237** | **–643** | **–1,364** | **–3,331** | **–5,338** | **1,625,899** |

Excluding demand deposits credit institutions and including trade and client receivables presented as other assets.

### Stage 3 loans (credit-impaired) and collaterals by industry

The table shows gross carrying amounts and ECL allowances for credit-impaired loans divided by stage 3 and the fair value of collaterals for these assets.

| **Group, 2018** | Gross carrying amounts | ECL allowances | Carrying amounts | Fair value of collaterals |
|---|---|---|---|---|
| Banks | 0 | 0 | 0 | 0 |
| Corporates | 4,977 | –1,979 | 2,998 | 2,920 |
| Real Estate Management[1)] | 655 | –222 | 433 | 526 |
| Public Administration | 2 | –2 | 1 | 1 |
| Household | 2,524 | –1,129 | 1,395 | 1,236 |
| **TOTAL** | **8,158** | **–3,331** | **4,827** | **4,683** |

1) Including co-operative associations.

### Exposure by risk classification category

The table shows gross carrying amounts for exposures on balance and nominal amounts for exposures off-balance divided by stage and risk classification category. The risk classification categories are further explained in note 41.

| **Group, 2018** | Stage 1 (12-month ECL) | Stage 2 (lifetime ECL) | Stage 3 (credit impaired/ lifetime ECL)[1)] | Total |
|---|---|---|---|---|
| Investment grade | 1,469,235 | 18,693 | 0 | **1,487,928** |
| Standard monitoring | 702,940 | 42,885 | 0 | **745,825** |
| Watch list | 0 | 25,260 | 0 | **25,260** |
| Default | 0 | 0 | 8,400 | **8,400** |
| **TOTAL** | **2,172,175** | **86,837** | **8,400** | **2,267,412** |

1) Whereof gross carrying amounts SEK 1,281m and ECL allowances SEK 349m for Purchased or originated credit impaired loans.

*Note 18 continued Loans*

## Reconciliation of expected credit loss (ECL) allowances

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

| Loans and Debt securities | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 (12-month ECL) | Stage 2 (lifetime ECL) | Stage 3 (credit impaired/ lifetime ECL) | Total | Stage 1 (12-month ECL) | Stage 2 (lifetime ECL) | Stage 3 (credit impaired/life-time ECL) | Total |
| ECL allowance as of 1 January 2018[1] | 624 | 1,142 | 3,688 | **5,453** | 399 | 876 | 2,013 | **3,288** |
| New and derecognised financial assets, net | 542 | −361 | 158 | **339** | 520 | −324 | 132 | **328** |
| Changes due to change in credit risk | −448 | 543 | 614 | **710** | −434 | 489 | 513 | **568** |
| Decreases in ECL allowances due to write-offs | | | −1,267 | **−1,267** | | | −931 | **−931** |
| Exchange rate differences | −74 | 40 | 139 | **104** | 49 | 63 | −21 | **91** |
| **TOTAL** | **643** | **1,364** | **3,331** | **5,339** | **534** | **1,104** | **1,705** | **3,344** |

| Financial guarantees and Loan commitments | Group Stage 1 | Group Stage 2 | Group Stage 3 | Group Total | Parent Stage 1 | Parent Stage 2 | Parent Stage 3 | Parent Total |
|---|---|---|---|---|---|---|---|---|
| ECL allowance as of 1 January 2018[1] | 164 | 283 | 229 | **676** | 133 | 109 | 140 | **381** |
| New and derecognised financial assets, net | 68 | −224 | −86 | **−242** | 52 | −230 | −74 | **−253** |
| Changes due to change in credit risk | −44 | 175 | −73 | **58** | −32 | 189 | −64 | **92** |
| Exchange rate differences | 8 | 7 | −32 | **−18** | 25 | 128 | 10 | **162** |
| **TOTAL** | **195** | **240** | **38** | **474** | **177** | **195** | **11** | **382** |

| Total Loans, Debt securities, Financial guarantees and Loan commitments | Group Stage 1 | Group Stage 2 | Group Stage 3 | Group Total | Parent Stage 1 | Parent Stage 2 | Parent Stage 3 | Parent Total |
|---|---|---|---|---|---|---|---|---|
| ECL allowance as of 1 January 2018[1] | 787 | 1,425 | 3,917 | **6,129** | 532 | 985 | 2,152 | **3,669** |
| New and derecognised financial assets, net | 610 | −585 | 72 | **97** | 572 | −554 | 58 | **75** |
| Changes due to change in credit risk | −492 | 718 | 541 | **768** | −466 | 678 | 448 | **660** |
| Decreases in ECL allowances due to write-offs | | | −1,267 | **−1,267** | | | −931 | **−931** |
| Exchange rate differences | −66 | 46 | 107 | **87** | 74 | 191 | −11 | **253** |
| **TOTAL** | **838** | **1,605** | **3,370** | **5,813** | **711** | **1,299** | **1,716** | **3,726** |

1) IFRS 9

The decrease in total ECL allowances in 2018 was due to write-offs of exposures in Stage 3.

ECL allowances in Stage 1 increased due to the growth in exposures.

While Stage 2 exposures decreased the Stage 2 ECL allowances increased as a result of negative migration of exposures with higher ECL cover ratio. There was also an outflow of exposures from Stage 2 to Stage 3 due to credit quality deterioration and to Stage 1 driven by improvements in data quality.

Stage 3 exposures and ECL allowances were significantly reduced by write-offs, partly off-set by an inflow of exposures to Stage 3 due to deterioration in credit risk.

**Key macroeconomic variable assumptions for calculating ECL allowances**
The group uses internally developed macroeconomic forecasts as the basis for the forward-looking information incorporated in the ECL measurement. In order to ensure an unbiased estimation of credit losses under IFRS 9, at least three scenarios are used. One of the scenarios is the base case scenario, representing the most likely outcome, which is also applied in the financial planning and budgeting process, while the other case scenarios represent more positive or negative outcomes. The probability weights assigned to each scenario are determined using a combination of statistical analysis and expert judgment. The scenarios are reviewed four times a year, or more frequently when appropriate due to rapid developments. The most significant macroeconomic variable assumptions of the Base scenario used as of 31 December 2018, are set out below. Individual scenarios for SEB's home markets are used.

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Domestic GDP growth, SEB's home markets | 1.4%–4.3% | 1.8%–3.5% | 1.7%–3.2% | 1.7%–3.0% |
| World GDP (PPP) growth | 3.8% | 3.6% | 3.6% | 3.4% |
| Household consumption expenditure growth, Sweden | 2.0% | 1.8% | 1.8% | 2.0% |
| Interest rate (STIBOR) | −0.30% | 0.2% | 0.75% | 1.55% |
| Residential real estate price growth, Sweden | −3.2% | −3.0% | 1.6% | 4.0% |
| Unemployment rate, Baltic countries | 6.5–7.7% | 6.2–7.0% | 6.0–6.5% | 6.4–6.5% |

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

**Non-retail portfolios**

| | |
|---|---|
| (i) GDP | impact on companies' performance |
| (ii) Real estate price growth | impact on collateral valuations |

**Retail portfolios**

| | |
|---|---|
| (i) Household consumption expenditure growth | impact on borrowers' ability to meet their contractual obligations |
| (ii) Residential real estate price growth | impact on mortgage collateral valuations |
| (iv) Unemployment rate | impact on borrowers' ability to meet their contractual repayments |
| (ii) Interest rates | impact on borrowers' ability to meet their contractual obligations |

As of 31 December 2018, the probability of the negative scenario was estimated to 20–25 per cent and the probability of the positive scenario was 15 per cent.

*Note 18 continued Loans*

**Sensitivity analysis of macroeconomic assumptions**

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

Should the positive and negative scenarios be assigned 100 per cent probability of occurring, the model calculated ECL allowances would increase by 8 per cent and decrease by 4 per cent, respectively compared to the weighted scenario.

| | | ECL allowances resulting from scenario | Difference from the probability weighted ECL allowances, % |
|---|---|---|---|
| Group | Negative scenario | 6,256 | 8% |
| | Positive scenario | 5,570 | −4% |
| Corporates & Private Customers | Negative scenario | 1,896 | 9% |
| | Positive scenario | 1,638 | −6% |
| Large Corporates & Financial Institutions | Negative scenario | 2,787 | 8% |
| | Positive scenario | 2,553 | −4% |
| Baltic | Negative scenario | 1,484 | 6% |
| | Positive scenario | 1,358 | −3% |

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

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

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

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

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

Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following back-stop indicators occur:
– payments are past due >30 days but <90 days, or
– financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions given).

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

**Sensitivity analysis of significant increase in credit risk (SICR) trigger assumptions**

Sensitivity of ECL to changes in the quantitative triggering approach is being analysed regularly, including tests of the following alternative triggers:
– recognizing as Stage 2 SICR all exposures that have worsened risk grade of 1 grade or more;
– reduction of Stage 2 SICR triggering thresholds to 30bp increase in annualized lifetime PD, as prescribed in EBA stress test methodology.

The increase of total ECL as at 31 December 2018 resulting from the above tests is below 1.5 per cent of the total ECL. Small change is due to the fact that backstop indicators capture large portion of exposures in Stage 2 regardless of the changes in the quantitative trigger measures.

In addition, the impact of severe adverse macroeconomic developments on loan portfolio is being tested as part of the regular ICAAP process, described in more detail in note 42 Capital adequacy.

**Past due loans**

| | Group | | Parent company | |
|---|---|---|---|---|
| **2018** | Loans | Total | Loans | Total |
| ≤ 30 days | 3,540 | **3,540** | 1,708 | **1,708** |
| >30 ≤ 60 days | 1,758 | **1,758** | 1,429 | **1,429** |
| >60 ≤ 90 days | 803 | **803** | 633 | **633** |
| > 90 days | 4,350 | **4,350** | 1,883 | **1,883** |
| **TOTAL** | **10,450** | **10,450** | **5,653** | **5,653** |

**Past due loans that are not impaired**

| | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| **2017** | Corporates | Households | Other | Total | Corporates | Households | Other | Total |
| <30 days | 4,855 | 4,219 | 48 | **9,122** | 2,126 | 2,870 | 6 | **5,001** |
| 31–60 days | 154 | 423 | 2 | **579** | 67 | 228 | | **295** |
| >60 days[1] | 316 | 322 | 3 | **641** | 114 | 99 | 2 | **214** |
| **TOTAL** | **5,325** | **4,965** | **52** | **10,342** | **2,306** | **3,197** | **7** | **5,510** |

1) Excluding portfolio assessed loans.

**Forborne loans**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Total forborne loans | 13,339 | 14,640 | 9,911 | 10,948 |
| of which performing[1] | 7,793 | 6,995 | 6,095 | 5,373 |

1) According to EBA definition.

# 19 Debt securities

**Group, 2018**

| **Debt securities by issuers** | Swedish government | Swedish municipalities | Swedish mortgage institutions | Other Swedish issuers | Foreign government | Other foreign issuers | Total |
|---|---|---|---|---|---|---|---|
| **Eligible debt securities**[1] | | | | | | | |
| Held for trading | 3,786 | | | | 7,652 | 2,168 | **13,607** |
| Fair value through profit or loss mandatorily | 7,392 | 2,725 | 1,048 | 187 | 34,461 | 2,713 | **48,527** |
| Fair value through profit or loss designated | 950 | 111 | 3,947 | | 1,066 | 95 | **6,168** |
| Amortised cost | | | | | 8,509 | | **8,509** |
| **Total** | **12,128** | **2,836** | **4,995** | **187** | **51,688** | **4,976** | **76,811** |
| **Other debt securities** | | | | | | | |
| Held for trading | | | 2,638 | 3,725 | 5 | 24,224 | **30,592** |
| Fair value through profit or loss mandatorily | 377 | 3,840 | 9,396 | 4,049 | 912 | 21,434 | **40,008** |
| Fair value through profit or loss designated | 50 | | 1 | 22 | | 152 | **225** |
| Amortised cost | | | | | | 7,649 | **7,649** |
| **Total** | **427** | **3,840** | **12,035** | **7,796** | **918** | **53,458** | **78,474** |
| **Accrued interest** | | | | | | | **844** |
| **TOTAL** | **12,555** | **6,676** | **17,030** | **7,983** | **52,606** | **58,435** | **156,128** |

Group, 2017

| | Swedish government | Swedish municipalities | Swedish mortgage institutions | Other Swedish issuers | Foreign government | Other foreign issuers | Total |
|---|---|---|---|---|---|---|---|
| **Eligible debt securities**[1] | | | | | | | |
| Loans to the public | | | | | 6,875 | 6,020 | **12,895** |
| Securities held for trading | 7,893 | 4,606 | | 15,000 | 18,759 | 15 | **46,274** |
| Insurance assets at fair value | 783 | 859 | | 4,686 | 1,632 | 524 | **8,485** |
| Other financial assets at fair value through profit or loss | | | | | 6,259 | 876 | **7,135** |
| Available-for-sale financial assets | 304 | | | | 21,641 | 3,441 | **25,386** |
| **Total** | **8,980** | **5,465** | | **19,686** | **55,167** | **10,877** | **100,175** |
| **Other debt securities** | | | | | | | |
| Securities held for trading | | | 15,740 | 8,183 | 23 | 38,874 | **62,820** |
| Insurance assets at fair value | | 254 | 317 | 2,441 | 998 | 369 | **4,379** |
| Other financial assets at fair value through profit or loss | | | | | 813 | | **813** |
| Available-for-sale financial assets | | | | | 270 | | **270** |
| **Total** | | **254** | **16,057** | **10,624** | **2,104** | **39,243** | **68,283** |
| **Accrued interest** | | | | | | | **812** |
| **TOTAL** | **8,980** | **5,719** | **16,057** | **30,310** | **57,271** | **50,120** | **169,269** |

1) Eligible papers are considered as such if they, according to national legislation, are accepted by the Central bank in the country in which SEB is located.

**Parent company, 2018**

| **Debt securities by issuers** | Swedish government | Swedish municipalities | Swedish mortgage institutions | Other Swedish issuers | Foreign government | Other foreign issuers | Total |
|---|---|---|---|---|---|---|---|
| **Eligible debt securities**[1] | | | | | | | |
| Held for trading | 3,786 | | | | 7,470 | 2,144 | **13,400** |
| Fair value through profit or loss mandatorily | 6,840 | 2,725 | | | 11,409 | 1,486 | **21,261** |
| Amortised cost | | | | | 8,509 | | **8,509** |
| **Total** | **10,626** | **2,725** | | | **27,389** | **3,630** | **44,370** |
| **Other debt securities** | | | | | | | |
| Held for trading | | | 2,638 | 3,725 | | 24,179 | **30,543** |
| Fair value through profit or loss mandatorily | | 3,840 | 7,973 | 2,707 | | 21,416 | **35,937** |
| Amortised cost | | | | | | 7,649 | **7,649** |
| **Total** | | **3,840** | **10,612** | **6,432** | | **53,244** | **74,128** |
| **Accrued interest** | | | | | | | **729** |
| **TOTAL** | **10,626** | **6,565** | **10,612** | **6,432** | **27,389** | **56,874** | **119,227** |

Parent company, 2017

| | Swedish government | Swedish municipalities | Swedish mortgage institutions | Other Swedish issuers | Foreign government | Other foreign issuers | Total |
|---|---|---|---|---|---|---|---|
| **Eligible debt securities**[1] | | | | | | | |
| Loans to the public | | | | | 6,875 | | **6,875** |
| Securities held for trading | 7,893 | 4,606 | | 15,000 | 18,546 | | **46,045** |
| Available-for-sale financial assets | | | | | 6,087 | | **6,087** |
| **Total** | **7,893** | **4,606** | | **15,000** | **31,508** | | **59,007** |
| **Other debt securities** | | | | | | | |
| Securities held for trading | | | 15,740 | 8,182 | | 38,872 | **62,793** |
| Available-for-sale financial assets | | | | 2,575 | | 29 | **2,604** |
| **Total** | | | **15,740** | **10,757** | | **38,901** | **65,398** |
| **Accrued interest** | | | | | | | **665** |
| **TOTAL** | **7,893** | **4,606** | **15,740** | **25,757** | **31,508** | **38,901** | **125,070** |

1) Eligible papers are considered as such if they, according to national legislation, are accepted by the Central bank in the country in which SEB is located.

# 20 Equity instruments

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Fair value through profit or loss held for trading | 33,192 | 48,371 | 33,191 | 48,370 |
| Fair value through profit or loss mandatorily[1] | 17,242 | | 3,801 | |
| Fair value option[2] | | 8,880 | | 9 |
| Available-for-sale[2] [3] | | 1,952 | | 1,719 |
| **TOTAL[3]** | **50,434** | **59,204** | **36,993** | **50,098** |

1) IFRS 9
2) IAS 39
3) Of which seized shares for protection of claim SEK 29m (42).

# 21 Derivatives and hedge accounting

| **Derivatives** | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Interest-related | 56,262 | 59,908 | 54,598 | 58,750 |
| Currency-related | 42,260 | 37,904 | 41,879 | 38,494 |
| Equity-related | 4,428 | 3,349 | 4,432 | 3,355 |
| Other | 12,513 | 3,708 | 12,373 | 3,621 |
| **Positive replacement values** | **115,463** | **104,868** | **113,282** | **104,220** |
| Interest-related | 35,701 | 39,372 | 35,723 | 40,223 |
| Currency-related | 41,976 | 40,669 | 40,490 | 41,438 |
| Equity-related | 3,825 | 1,928 | 3,825 | 1,950 |
| Other | 15,371 | 3,465 | 15,231 | 3,379 |
| **Negative replacement values** | **96,872** | **85,434** | **95,269** | **86,990** |

| **Group, 2018** | Positive replacement values: Nominal amount | Positive replacement values: Book value | Negative replacement values: Nominal amount | Negative replacement values: Book value |
|---|---|---|---|---|
| Options | 178,317 | 2,923 | 180,630 | 2,931 |
| Futures | 2,003,207 | 75 | 1,822,075 | 57 |
| Swaps | 4,534,026 | 53,264 | 3,925,372 | 32,713 |
| **Interest-related** | **6,715,550** | **56,262** | **5,928,077** | **35,701** |
| *of which exchange traded* | *1,226* | *139* | *25* | *103* |
| Options | 227,898 | 1,658 | 130,787 | 1,863 |
| Futures | 677,737 | 12,158 | 666,221 | 11,096 |
| Swaps | 1,838,641 | 28,444 | 1,802,621 | 29,017 |
| **Currency-related** | **2,744,276** | **42,260** | **2,599,629** | **41,976** |
| *of which exchange traded* | | *9* | | *60* |
| Options | 13,019 | 1,124 | 13,078 | 1,721 |
| Futures | | 991 | | 1,104 |
| Swaps | 36,170 | 2,314 | 15,921 | 1,000 |
| **Equity-related** | **49,189** | **4,428** | **29,000** | **3,825** |
| *of which exchange traded* | | *721* | | *2,041* |
| Options | 37,252 | 3,010 | 58,610 | 3,065 |
| Futures | 54,981 | 8,780 | 52,439 | 10,564 |
| Swaps | 18,687 | 723 | 36,699 | 1,742 |
| **Other** | **110,920** | **12,513** | **147,748** | **15,371** |
| *of which exchange traded* | *31,443* | *5,071* | *7,454* | *6,018* |
| **TOTAL** | **9,619,936** | **115,463** | **8,704,454** | **96,872** |
| *of which exchange traded* | *32,669* | *5,941* | *7,479* | *8,222* |
| **Group, 2017** | | | | |
| Options | 127,819 | 2,719 | 194,210 | 3,949 |
| Futures | 2,026,323 | 127 | 2,379,972 | 179 |
| Swaps | 3,125,249 | 57,062 | 2,808,063 | 35,244 |
| **Interest-related** | **5,279,390** | **59,908** | **5,382,245** | **39,372** |
| Options | 202,288 | 2,082 | 195,228 | 2,225 |
| Futures | 322,076 | 7,741 | 497,127 | 11,880 |
| Swaps | 1,540,961 | 28,081 | 1,576,686 | 26,563 |
| **Currency-related** | **2,065,326** | **37,904** | **2,269,041** | **40,669** |
| *of which exchange traded* | | *3* | | *42* |
| Options | 20,630 | 2,226 | 15,835 | 576 |
| Futures | | 62 | | 29 |
| Swaps | 120,991 | 1,060 | 168,563 | 1,322 |
| **Equity-related** | **141,621** | **3,349** | **184,398** | **1,928** |
| *of which exchange traded* | | *278* | | *146* |
| Options | 43,648 | 1,801 | 58,023 | 2,550 |
| Futures | 26,270 | 951 | 3,387 | 65 |
| Swaps | 16,334 | 955 | 20,242 | 850 |
| **Other** | **86,252** | **3,708** | **81,652** | **3,465** |
| *of which exchange traded* | *28,802* | *1,068* | *3,141* | *375* |
| **TOTAL** | **7,572,590** | **104,868** | **7,917,336** | **85,434** |
| *of which exchange traded* | *28,802* | *1,349* | *3,141* | *563* |

*Note 21 continued* *Derivatives and hedge accounting*

| **Parent company, 2018** | Positive replacement values | | Negative replacement values | |
|---|---|---|---|---|
| | Nominal amount | Book value | Nominal amount | Book value |
| Options | 148,362 | 1,857 | 148,640 | 2,015 |
| Futures | 2,001,981 | 74 | 1,822,050 | 57 |
| Swaps | 4,538,798 | 52,667 | 3,928,277 | 33,651 |
| **Interest-related** | **6,689,140** | **54,598** | **5,898,967** | **35,723** |
| Options | 228,913 | 1,662 | 131,213 | 1,864 |
| Futures | 501,649 | 12,152 | 509,422 | 11,081 |
| Swaps | 1,831,138 | 28,066 | 1,811,430 | 27,544 |
| **Currency-related** | **2,561,699** | **41,879** | **2,452,065** | **40,490** |
| *of which exchange traded* | | *9* | | *60* |
| Options | 13,019 | 1,124 | 13,063 | 1,721 |
| Futures | | 991 | | 1,104 |
| Swaps | 36,155 | 2,318 | 15,921 | 1,000 |
| **Equity-related** | **49,174** | **4,432** | **28,985** | **3,825** |
| *of which exchange traded* | | *721* | | *2,041* |
| Options | 36,253 | 2,892 | 57,611 | 2,948 |
| Futures | 53,838 | 8,758 | 51,296 | 10,542 |
| Swaps | 18,687 | 723 | 36,699 | 1,742 |
| **Other** | **108,778** | **12,373** | **145,606** | **15,231** |
| *of which exchange traded* | *29,301* | *4,931* | *5,312* | *5,878* |
| **TOTAL** | **9,408,792** | **113,282** | **8,525,623** | **95,269** |
| *of which exchange traded* | *29,301* | *5,662* | *5,312* | *7,980* |

| Parent company, 2017 | | | | |
|---|---|---|---|---|
| Options | 106,346 | 2,333 | 147,622 | 3,512 |
| Futures | 2,026,323 | 127 | 2,379,972 | 179 |
| Swaps | 3,135,062 | 56,290 | 2,825,626 | 36,531 |
| **Interest-related** | **5,267,731** | **58,750** | **5,353,220** | **40,223** |
| Options | 211,368 | 2,142 | 199,247 | 2,220 |
| Futures | 349,973 | 8,272 | 492,378 | 11,783 |
| Swaps | 1,553,851 | 28,080 | 1,640,304 | 27,434 |
| **Currency-related** | **2,115,192** | **38,494** | **2,331,929** | **41,438** |
| *of which exchange traded* | | *3* | | *42* |
| Options | 20,665 | 2,232 | 15,803 | 599 |
| Futures | | 62 | | 29 |
| Swaps | 120,991 | 1,060 | 168,563 | 1,322 |
| **Equity-related** | **141,656** | **3,355** | **184,366** | **1,950** |
| *of which exchange traded* | | *278* | | *146* |
| Options | 42,192 | 1,718 | 59,493 | 2,467 |
| Futures | 25,890 | 948 | 3,767 | 62 |
| Swaps | 16,334 | 955 | 20,242 | 850 |
| **Other** | **84,417** | **3,621** | **83,502** | **3,379** |
| *of which, cleared* | *26,952* | *981* | *4,991* | *289* |
| **TOTAL** | **7,608,996** | **104,220** | **7,953,016** | **86,990** |
| *of which exchange traded* | *26,952* | *1,263* | *4,991* | *477* |

*Note 21 continued Derivatives and hedge accounting*

## Hedge accounting

**Accounting policy**
As the International Accounting Standards Board issued the new accounting standard IFRS 9 they provided entities with an accounting policy choice between applying the hedge accounting requirements in IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting. SEB has decided to continue to apply hedge accounting requirements in IAS 39.

**Risk management strategy**
The Board of Directors defines how much market risk is acceptable by setting the overall market risk limits and general instructions. The market risk tolerance and limits are defined for the trading book, banking book and defined benefit plans. The Group Risk Committee delegates the market risk mandate to the divisions and the treasury function, which in turn further allocate the limits internally. The treasury function has overall responsibility for managing these risks, which are consolidated centrally.

**Risk category and designated risk exposure**
Interest rate risk is the designated risk exposure for fair value and cash flow hedge accounting. Interest rate risk in the banking book arises from changes in market interest rates as a result of mismatches in interest terms and interest rate periods on the balance sheet.

**Fair value hedges and portfolio hedges**
The group holds a portfolio of long-term fixed rate mortgages and long-term fixed rate issued debt securities of which are exposed to fluctuations in fair value due to movements in market interest rates. The interest rate risk component is determined as the change in fair value of the long-term fixed rate mortgages and issued debt securities arising solely from changes in discounting rates such as applicable IBOR rates. The group hedges a portion of its existing interest rate risk from these financial assets and financial liabilities against changes in fair value. For this purpose the group are entering pay fixed/receive floating interest rate swaps for hedging of long-term fixed rate mortgages and receive fixed/pay floating interest swaps for hedging of long-term fixed rate issed debt securities thus resulting in fixed interest rates on the hedged item being swapped to floating interest rates. The hedges are executed item by item for long-term fixed rate issued debt securities and by aggregation of items grouped by maturity for long-term fixed rate mortgages.

*Sources of hedge ineffectiveness*
The effectiveness of the hedge strategy is assessed by the degree to which changes in fair value of the hedged item that are attributable to the changes in benchmark rate used for discounting are offset by changes in fair value of the hedging instrument. Possible sources of hedge ineffectiveness are as follows:
*(i) the discounted cash flow from floating rate payments from the hedging instrument does not have an equivalent cash flow from the long-term fixed mortgages or issued debt securities thus give rise to hedge inefficiencies;*
*(ii) deviations in critical factors between the hedged item and the fixed rate leg in the hedging instrument ('proxy bond') will give rise to hedge inefficiencies;*
*(iii) different benchmark rates used for discounting of the hedged item and the hedging instrument. For example the use of either secured or unsecured benchmark rate depending on the collaterialised characteristisc of hedging instrument while unsecured benchmark rates are applied for the hedged item;*
*(iv) funding value adjustments which impacts the fair value of hedging instruments for which central counterparty clearing is not applied. Equivalent fair value adjustment is not applicable for the hedged item.*

**Cash flow hedges**
The group holds a portfolio of lending and deposits with floating interest rates of which are exposed to fluctuations in cash flow due to movements in market interest rates. The interest rate risk component is determined as the variability in cash flows from floating rate lending and floating rate deposits arising solely from changes in applicable benchmark rates. The group hedges a portion of its existing exposure from these financial assets and financial liabilities against variability in cash flows. For this purpose the group are entering interest rate swaps where the net exposures of lending and deposits with floating rates are swapped to fixed interest. Group either pays or receives the fixed leg of the interest rate swap depending on whether volumes on floating rate lending outweighs floating rate deposits or vice versa. Interest flows from deposits and lending with floating interest rates are expected to be amortised to profit or loss during the period 2018 to 2037.

*Sources of hedge ineffectiveness*
The effectiveness of the hedge strategy is assessed by the degree to which changes in present value of the hedged expected future cash flows that are attributable to the changes in benchmark rate used for estimating future cash flows are offset by changes in fair value of the hedging instrument. Possible sources of hedge ineffectiveness are as follows:
*(i) deviations in critical factors between the hedged item ('hypothetical derivative') and the floating rate leg in the hedging instrument will give rise to hedge inefficiencies;*
*(iI) funding value adjustments which impacts the fair value of hedging instruments for which central counterparty clearing is not applied. Equivalent fair value adjustment is not applicable for the hedged item.*

**Net investment hedges**
The group hedges the currency translation risk of net investments in foreign operations through currency borrowings. Borrowing in foreign currency at an amount of SEK 31,314m (33,357) were designated as hedges of net investments in foreign operations. Ineffectiveness in the hedges has been reported in Net financial income (note 6).

### Hedging instruments

| | Positive replacement values | | | Negative replacement values | | |
|---|---|---|---|---|---|---|
| **Group, 2018** | Nominal amount | Book value | Change in value 2018 | Nominal amount | Book value | Change in value 2018 |
| Derivatives | 386,505 | 4,372 | –41 | 44,892 | 0 | –126 |
| **Fair value hedges of interest rate risk** | **386,505** | **4,372** | **–41** | **44,892** | **0** | **–126** |
| Derivatives | 10,750 | 0 | 3 | 84,400 | 10 | –15 |
| **Portfolio fair value hedges of interest rate risk** | **10,750** | **0** | **3** | **84,400** | **10** | **–15** |
| Derivatives | 39,990 | 723 | –1,129 | 28,750 | 707 | –15 |
| **Portfolio cash flow hedges of interest rate risk** | **39,990** | **723** | **–1,129** | **28,750** | **707** | **–15** |
| **TOTAL** | **437,245** | **5,095** | **–1,167** | **158,043** | **717** | **–157** |
| Group, 2017 | | | | | | |
| Derivatives | 240,568 | 5,294 | 1,148 | 140,268 | 122 | –4,869 |
| **Fair value hedges of interest rate risk** | **240,568** | **5,294** | **1,148** | **140,268** | **122** | **–4,869** |
| Derivatives | 4,000 | 21 | 13 | 72,650 | 0 | –91 |
| **Portfolio fair value hedges of interest rate risk** | **4,000** | **21** | **13** | **72,650** | **0** | **–91** |
| Derivatives | 54,222 | 1,273 | –1,622 | 50,115 | 741 | 65 |
| **Portfolio cash flow hedges of interest rate risk** | **54,222** | **1,273** | **–1,622** | **50,115** | **741** | **65** |
| **TOTAL** | **298,790** | **6,587** | **–461** | **263,033** | **863** | **–4,895** |

*Note 21 continued* *Derivatives and hedge accounting*

**Fair value hedges of interest rate risk**

| **Group, 2018** | Book value | The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount | The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period | Remaining accumulated adjustments for discontinued micro hedges | Hedge ineffectiveness recognized in profit or loss |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Net other Income | | | | | −42 |
| **Balance sheet** | | | | | |
| Debt securities issued | 440,227 | −3,913 | 125 | | |
| **Fair value hedges of interest rate risk** | **440,227** | **−3,913** | **125** | | **−42** |
| **Income Statement** | | | | | |
| Net other Income | | | | | −7 |
| **Balance sheet** | | | | | |
| Loans to the public | 189,373 | | | | |
| Fair value changes of hedged items in a portfolio hedge | | 38 | 5 | −7 | |
| **Portfolio fair value hedges of interest rate risk** | **189,373** | **38** | **5** | **−7** | **−7** |
| **TOTAL** | **629,600** | **−3,876** | **130** | **−7** | **−49** |

| Group, 2017 | | | | | |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Net other Income | | | | | 30 |
| **Balance sheet** | | | | | |
| Debt securities issued | 388,685 | −4,125 | 3,751 | −16 | |
| **Fair value hedges of interest rate risk** | **388,685** | **−4,125** | **3,751** | **−16** | **30** |
| **Income Statement** | | | | | |
| Net other Income | | | | | −105 |
| **Balance sheet** | | | | | |
| Loans to the public | 174,943 | | | | |
| Fair value changes of hedged items in a portfolio hedge | | 32 | −26 | 985 | |
| **Portfolio fair value hedges of interest rate risk** | **174,943** | **32** | **−26** | **985** | **−105** |
| **TOTAL** | **563,628** | **−4,093** | **3,725** | **969** | **−74** |

**Portfolio cash flow hedges of interest rate risk**

| **Group, 2018** | The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period | The balances in the cash flow reserve | Hedging gains/losses of the reporting period that were recognized in other comprehensive income | Hedge ineffectiveness recognized in profit or loss |
|---|---|---|---|---|
| **Income Statement** | | | | **−13** |
| Net other Income | | | | |
| **Statement of comprehensive income** | | | | |
| Cash flow hedges | | | −1,132 | |
| **Balance sheet** | | | | |
| Loans to the public and deposits and borrowing from the public | 1,132 | | | |
| **Equity** | | | | |
| Cash flow hedges | | 313 | | |
| **TOTAL** | **1,132** | **313** | **−1,132** | **−13** |

| Group, 2017 | | | | |
|---|---|---|---|---|
| **Income Statement** | | | | **−10** |
| Net other Income | | | | |
| **Statement of comprehensive income** | | | | |
| Cash flow hedges | | | −1,547 | |
| **Balance sheet** | | | | |
| Loans to the public and deposits and borrowing from the public | 1,547 | | | |
| **Equity** | | | | |
| Cash flow hedges | | 1,192 | | |
| **TOTAL** | **1,547** | **1,192** | **−1,547** | **−10** |

*Note 21 continued Derivatives and hedge accounting*

### Hedging instruments

| Parent company, 2018 | Positive replacement values Nominal amount | Positive replacement values Book value | Positive replacement values Change in value 2018 | Negative replacement values Nominal amount | Negative replacement values Book value | Negative replacement values Change in value 2018 |
|---|---|---|---|---|---|---|
| Derivatives | 386,505 | 4,372 | −42 | 44,892 | 0 | −126 |
| **Fair value hedges of interest rate risk** | **386,505** | **4,372** | **−42** | **44,892** | **0** | **−126** |
| Derivatives | 10,750 | 0 | 3 | 84,400 | 10 | −15 |
| **Portfolio fair value hedges of interest rate risk** | **10,750** | **0** | **3** | **84,400** | **10** | **−15** |
| Derivatives | 39,990 | 723 | −1,129 | 28,750 | 707 | −15 |
| **Portfolio cash flow hedges of interest rate risk** | **39,990** | **723** | **−1,129** | **28,750** | **707** | **−15** |
| **TOTAL** | **437,245** | **5,095** | **−1,168** | **158,043** | **717** | **−157** |
| Parent company, 2017 | | | | | | |
| Derivatives | 240,568 | 5,294 | 1,142 | 140,268 | 122 | −4,869 |
| **Fair value hedges of interest rate risk** | **240,568** | **5,294** | **1,142** | **140,268** | **122** | **−4,869** |
| Derivatives | 4,000 | 21 | 13 | 72,650 | 0 | 20 |
| **Portfolio fair value hedges of interest rate risk** | **4,000** | **21** | **13** | **72,650** | **0** | **20** |
| Derivatives | 54,222 | 1,273 | −1,622 | 50,115 | 741 | 65 |
| **Portfolio cash flow hedges of interest rate risk** | **54,222** | **1,273** | **−1,622** | **50,115** | **741** | **65** |
| **TOTAL** | **298,790** | **6,587** | **−468** | **263,033** | **863** | **−4,784** |

### Fair value hedges of interest rate risk

| Parent company, 2018 | Book value | The accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount | The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period | Remaining accumulated adjustments for discontinued micro hedges | Hedge ineffectiveness recognized in profit or loss |
|---|---|---|---|---|---|
| **Income Statement** | | | | | |
| Net other Income | | | | | −42 |
| **Balance sheet** | | | | | |
| Debt securities issued | 440,227 | −3,913 | 126 | | |
| **Fair value hedges of interest rate risk** | **440,227** | **−3,913** | **126** | | **−42** |
| **Income Statement** | | | | | |
| Net other Income | | | | | −7 |
| **Balance sheet** | | | | | |
| Loans to the public | 189,373 | | | | |
| Fair value changes of hedged items in a portfolio hedge | | 38 | 5 | | |
| **Portfolio fair value hedges of interest rate risk** | **189,373** | **38** | **5** | | **−7** |
| **TOTAL** | **629,600** | **−3,876** | **131** | **0** | **−49** |
| Parent company, 2017 | | | | | |
| **Income Statement** | | | | | |
| Net other Income | | | | | 29 |
| **Balance sheet** | | | | | |
| Debt securities issued | 388,685 | −4,125 | 3,757 | | |
| **Fair value hedges of interest rate risk** | **388,685** | **−4,125** | **3,757** | | **29** |
| **Income Statement** | | | | | |
| Net other Income | | | | | −20 |
| **Balance sheet** | | | | | |
| Loans to the public | 174,943 | | | | |
| Fair value changes of hedged items in a portfolio hedge | | 32 | −52 | | |
| **Portfolio fair value hedges of interest rate risk** | **174,943** | **32** | **−52** | | **−20** |
| **TOTAL** | **563,628** | **−4,093** | **3,705** | **0** | **10** |

*Note 21 continued* *Derivatives and hedge accounting*

**Portfolio cash flow hedges of interest rate risk**

| **Parent company, 2018** | The change in value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period | The balances in the cash flow reserve | Hedging gains/losses of the reporting period that were recognized in other comprehensive income | Hedge ineffectiveness recognized in profit or loss |
|---|---|---|---|---|
| **Income Statement** | | | | **–13** |
| Net other Income | | | | |
| **Statement of comprehensive income** | | | | |
| Cash flow hedges | | | –1,132 | |
| **Balance sheet** | | | | |
| Loans to the public and deposits and borrowing from the public | 1,132 | | | |
| **Equity** | | | | |
| Cash flow hedges | | 313 | | |
| **TOTAL** | **1,132** | **313** | **–1,132** | **–13** |

| Parent company, 2017 | | | | |
|---|---|---|---|---|
| **Income Statement** | | | | **–10** |
| Net other Income | | | | |
| **Statement of comprehensive income** | | | | |
| Cash flow hedges | | | –1,547 | |
| **Balance sheet** | | | | |
| Loans to the public and deposits and borrowing from the public | 1,547 | | | |
| **Equity** | | | | |
| Cash flow hedges | | 1,192 | | |
| **TOTAL** | **1,547** | **1,192** | **–1,547** | **–10** |

# 22 Investments in subsidiaries and associates

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Investments in associates | 1,052 | 1,176 | 947 | 1,032 |
| Shares in subsidiaries | 142 | 137 | 50,653 | 50,567 |
| **TOTAL** | **1,195** | **1,314** | **51,600** | **51,599** |

**Investments in associates**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Strategic investments | 295 | 334 | 189 | 190 |
| Venture capital holdings | 758 | 842 | 758 | 842 |
| **TOTAL** | **1,052** | **1,176** | **947** | **1,032** |

| **Strategic investments** | Assets[1)] | Liabilities[1)] | Revenues[1)] | Profit or loss[1)] | Book value | Ownership, % |
|---|---|---|---|---|---|---|
| Bankomat AB, Stockholm | 5,251 | 4,881 | 782 | 11 | 67 | 20 |
| BGC Holding AB, Stockholm | 750 | 159 | 828 | –45 | 103 | 33 |
| Getswish AB, Stockholm | 119 | 57,175 | 89 | 6 | 19 | 20 |
| USE Intressenter AB, Stockholm | | | | | 0 | 28 |
| **Parent company holdings** | | | | | **189** | |
| **Holdings of subsidiaries** | | | | | **17** | |
| **Group adjustments** | | | | | **88** | |
| **GROUP HOLDINGS** | | | | | **295** | |

1) Retrieved from respective Annual report 2017.

| **Venture capital holdings** | 2018 Book value | 2018 Ownership, % | 2017 Book value | 2017 Ownership, % |
|---|---|---|---|---|
| Actiwave, Linköping | | | 0 | 42 |
| Airsonett AB, Ängelholm | 18 | 33 | 100 | 33 |
| Apica AB, Stockholm | 39 | 28 | 60 | 25 |
| Avaj International Holding AB, Stockholm | | | 149 | 18 |
| Avidicare Holding AB, Ängelholm | 22 | 37 | 17 | 38 |
| Capres A/S, Copenhagen | 136 | 42 | 39 | 45 |
| Coinify ApS, Herlev | 12 | 18 | 15 | 16 |
| InDex Pharmaceuticals Holding AB, Stockholm | 94 | 21 | 67 | 23 |
| Leasify AB, Stockholm | 10 | 19 | 10 | 17 |
| Now Interact Nordic AB, Stockholm | 11 | 11 | 15 | 10 |
| NuEvolution AB, Stockholm | 156 | 20 | 167 | 24 |
| OssDsign AB, Uppsala | 61 | 24 | 25 | 22 |
| Scandinova Systems AB, Uppsala | 78 | 30 | 63 | 30 |
| Scibase Holding AB, Stockholm | 7 | 13 | 16 | 13 |
| Senion AB, Linköping | 19 | 34 | 19 | 34 |
| TSS Holding AB, Stockholm | 95 | 43 | 80 | 43 |
| **Parent company holdings** | **758** | | **842** | |
| **GROUP HOLDINGS** | **758** | | **842** | |

Information about the corporate registration numbers and numbers of shares of the associates is available upon request.

Strategic investments in associates in the group are accounted for using the equity method.

Investments in associates held by the venture capital organisation of the group have, in accordance with IAS 28, been designated as at fair value through profit and loss.

Some entities, in which the bank has an ownership of less than 20 per cent, has been classified as investments in associates. The reason is that the bank is represented in the board of directors and participates in the policy making processes of those entities.

All financial assets within the group's venture capital business are managed and its performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

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

*Note 22 continued* *Investments in subsidiaries and associates*

**Shares in subsidiaries**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Swedish subsidiaries | | | 15,646 | 14,228 |
| Foreign subsidiaries [1)] | 142 | 137 | 35,007 | 36,339 |
| **TOTAL** | **142** | **137** | **50,653** | **50,567** |
| *of which holdings in credit institutions* | | | *33,755* | *33,264* |

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| **Swedish subsidiaries** | Country | Book value | Dividend | Ownership, % | Book value | Dividend | Ownership, % |
| Aktiv Placering AB, Stockholm | Sweden | 38 | | 100 | 38 | | 100 |
| Enskilda Kapitalförvaltning SEB AB, Stockholm | Sweden | 0 | | 100 | 0 | | 100 |
| Försäkringsaktiebolaget Skandinaviska Enskilda Captive, Stockholm | Sweden | 100 | | 100 | 100 | | 100 |
| Parkeringshuset Lasarettet HGB KB, Stockholm | Sweden | 0 | | 99 | 0 | | 99 |
| Repono Holding AB, Stockholm | Sweden | 3,227 | | 100 | 3,227 | | 100 |
| SEB Förvaltnings AB, Stockholm | Sweden | 5 | | 100 | 5 | | 100 |
| SEB Internal Supplier AB, Stockholm | Sweden | 12 | | 100 | 12 | | 100 |
| SEB Investment Management AB, Stockholm | Sweden | 541 | | 100 | 523 | 430 | 100 |
| SEB Kort Bank AB, Stockholm | Sweden | 3,760 | 508 | 100 | 2,360 | 1,096 | 100 |
| SEB Life and Pension Holding AB, Stockholm | Sweden | 6,424 | 5,000 | 100 | 6,424 | 2,500 | 100 |
| SEB Portföljförvaltning AB, Stockholm | Sweden | 1,115 | | 100 | 1,115 | | 100 |
| SEB Strategic Investments AB, Stockholm | Sweden | 424 | | 100 | 424 | | 100 |
| Skandinaviska Kreditaktiebolaget, Stockholm | Sweden | 0 | | 100 | 0 | | 100 |
| **TOTAL** | | **15,646** | **5,508** | | **14,228** | **4,026** | |
| **Foreign subsidiaries** | | | | | | | |
| Baltectus B.V., Amsterdam | Netherlands | 0 | 214 | 100 | 167 | | 100 |
| Domena Property Sp. Z o.o., Warsaw | Poland | | | | 130 | | 100 |
| Postep Property Sp. Z o.o., Warsaw | Poland | | | | 55 | | 100 |
| DSK Hyp AG, (former SEB AG), Frankfurt am Main | Germany | 16,563 | 300 | 100 | 18,521 | | 100 |
| SEB Bank JSC, St Petersburg | Russia | 458 | | 100 | 458 | | 100 |
| SEB Banka, AS, Riga | Latvia | 1,853 | 730 | 100 | 1,682 | 701 | 100 |
| SEB bankas, AB, Vilnius | Lithuania | 6,750 | 1,107 | 100 | 6,423 | 1,175 | 100 |
| SEB Corporate Bank, PJSC, Kiev | Ukraine | 138 | | 100 | 138 | | 100 |
| SEB do Brasil Representacões LTDA, Sao Paulo | Brazil | 0 | | 100 | 0 | | 100 |
| SEB Fondbolag Finland Ab, Helsinki | Finland | | | | 19 | | 100 |
| SEB Fund Services S.A., Luxembourg | Luxembourg | | 115 | | 100 | | 100 |
| SEB Hong Kong Trade Services Ltd, Hong Kong | China | | | | 0 | | 100 |
| SEB Kapitalförvaltning Finland Ab, Helsinki | Finland | | | | 255 | | 100 |
| SEB Leasing Oy, Helsinki | Finland | 4,555 | | 100 | 4,273 | 82 | 100 |
| SEB Njord AS, Oslo | Norway | 0 | | 100 | 0 | | 100 |
| SEB Pank, AS, Tallinn | Estonia | 2,706 | 716 | 100 | 2,260 | 286 | 100 |
| SEB Securities Inc, New York | USA | 48 | | 100 | 40 | | 100 |
| Skandinaviska Enskilda Banken S.A., Luxembourg | Luxembourg | 1,528 | 214 | 100 | 1,422 | 145 | 100 |
| Skandinaviska Enskilda Ltd, London | Great Britain | 409 | | 100 | 395 | | 100 |
| **TOTAL** | | **35,007** | **3,396** | | **36,339** | **2,389** | |

Information about the corporate registration numbers and numbers of shares of the subsidiaries is available upon request.

1) Some dormant subsidiaries in the group are consolidated using the equity method.

**Significant restrictions on the ability to use assets and settle liabilities of the group**

Skandinaviska Enskilda Banken AB (Publ) can obtain distributions of capital, use assets and settle liabilities of members of the group within the limitation of some regulatory, statutory and contractual restrictions. These restrictions are:

*Regulatory requirements*

Regulated subsidiaries are subject to prudential regulatory capital requirements in the countries in which they are regulated. These subsidiaries are required to maintain a certain level of own funds in relation to their exposures, restricting their ability to distribute cash or other assets to the parent company. To meet these requirements the subsidiaries hold capital instruments and other forms of subordinated liabilities.

*Statutory requirements*

Subsidiaries are required to have a certain level of solvency and are restricted to make distributions of capital and profits leading to a solvency below that level.

*Contractual requirements*

The group pledges some of its financial assets as collateral for financing and liquidity purposes. Encumbered assets can't be transferred within the Group. Such assets are described further in the note 48 Pledged assets.

# 23 Intangible assets

| | Group | | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2018** | Goodwill[1] | Deferred acquisition costs | Internally developed IT-systems | Other intangible assets | Total | Goodwill[1] | Internally developed IT-systems | Other intangible assets | Total |
| Opening balance | 4,727 | 4,941 | 4,623 | 3,475 | **17,765** | 1,377 | 4,320 | 882 | **6,579** |
| Additions from acquisitions and capitalisations | | 259 | 580 | 89 | **928** | | 477 | 69 | **546** |
| Reclassifications | | 657 | | −213 | **444** | | | | |
| Retirements and disposals | | | −293 | −132 | **−425** | | −293 | −120 | **−413** |
| Exchange rate differences | 35 | 64 | 11 | 80 | **191** | | 2 | −1 | **1** |
| **Acquisition value** | **4,762** | **5,921** | **4,920** | **3,300** | **18,903** | **1,377** | **4,506** | **830** | **6,713** |
| Opening balance | | −3,660 | −3,012 | −3,062 | **−9,734** | −1,377 | −2,917 | −687 | **−4,982** |
| Current year's amortisations | | −337 | −343 | −137 | **−817** | | −320 | −48 | **−369** |
| Reclassifications | | −657 | −192 | 333 | **−515** | | | | |
| Retirements and disposals | | | 293 | 132 | **425** | | 293 | 120 | **413** |
| Exchange rate differences | | −41 | −4 | −61 | **−106** | | 0 | 1 | **0** |
| **Accumulated depreciations** | **0** | **−4,694** | **−3,257** | **−2,796** | **−10,746** | **−1,377** | **−2,944** | **−616** | **−4,937** |
| **TOTAL** | **4,762** | **1,227** | **1,663** | **505** | **8,157** | | **1,561** | **215** | **1,776** |

1) Goodwill has an indefinite useful life. All other intangible assets have a definite useful life. Amortisation methods are described in note 1.

| **2017** | Goodwill[1] | Deferred acquisition costs | Internally developed IT-systems | Other intangible assets | Total | Goodwill[1] | Internally developed IT-systems | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance | 4,760 | 12,695 | 3,911 | 3,845 | **25,211** | 1,377 | 3,668 | 749 | **5,794** |
| Effect of applying IFRS 15[2] | | −8,029 | | | **−8,029** | | | | |
| Restated balance at 1 January 2017 | 4,760 | 4,666 | 3,911 | 3,845 | **17,182** | | | | |
| Additions from acquisitions and capitalisations | | 225 | 908 | 215 | **1,348** | | 804 | 205 | **1,009** |
| Reclassifications | | | 3 | −549 | **−546** | | | | |
| Retirements and disposals[1] | | | −202 | −87 | **−290** | | −151 | −71 | **−222** |
| Exchange rate differences | −33 | 50 | 4 | 52 | **72** | | −2 | −1 | **−3** |
| **Acquisition value** | **4,727** | **4,941** | **4,623** | **3,475** | **17,765** | **1,377** | **4,320** | **882** | **6,579** |
| Opening balance | | −8,651 | −1,986 | −3,169 | **−13,806** | −1,377 | −1,913 | −481 | **−3,771** |
| Effect of applying IFRS 15[2] | | 5,389 | | | **5,389** | | | | |
| Restated balance at 1 January 2017 | | −3,262 | −1,986 | −3,169 | **−8,417** | | | | |
| Current year's amortisations[2] | | −329 | −438 | −169 | **−936** | | −408 | −52 | **−460** |
| Current year's impairments | | | −661 | −312 | **−973** | | −661 | −210 | **−872** |
| Reclassifications | | | | 547 | **547** | | | | |
| Retirements and disposals[1] | | | 75 | 77 | **153** | | 65 | 55 | **120** |
| Exchange rate differences | | −69 | −2 | −37 | **−108** | | | 1 | **1** |
| **Accumulated depreciations** | | **−3,660** | **−3,012** | **−3,062** | **−9,734** | **−1,377** | **−2,917** | **−687** | **−4,982** |
| **TOTAL** | **4,727** | **1,280** | **1,611** | **413** | **8,030** | | **1,403** | **195** | **1,597** |

1) Including Items affecting comparability, see note 13.
2) IFRS 15 Revenue from Contracts with Customers applied retrospectively from 1 January 2018. The main effect from IFRS 15 on SEB relates to the treatment of contract costs for investment contracts within Life that has changed so that a smaller part of deferred acquisition costs (DAC) is recognised as an asset. The change has resulted in a decrease of the deferred acquisition cost in the balance sheet of SEK 2,640m. The effect has been recognised as a reduction of the opening balance of retained earnings as of 1 January 2017. Similarly, net fees and commissions in the 2017 income statement has been restated reducing income by SEK 47m. These changes are included in the restated balance sheet. For transition disclosures, see note 53.

### Goodwill

The Cash Generating Units (CGU) structure is aligned with the business unit (BU) combined with geography to reflect the importance of steering and measuring the customer-oriented organisation.

| **CGUs** | Acquisition year | Opening balance 2017 | Exchange rate differences | Closing balance 2017 | Exchange rate differences | Closing balance 2018 |
|---|---|---|---|---|---|---|
| Card, Norway & Denmark[1] | *2002/2004* | 913 | −33 | 880 | 35 | 915 |
| Life Sweden | *1996/1997* | 2,343 | | 2,343 | | 2,343 |
| Investment Management Sweden | *1997/1998* | 1,504 | | 1,504 | | 1,504 |
| **TOTAL** | | **4,760** | **−33** | **4,727** | **35** | **4,762** |

1) The CGU:s are presented together since both acquisitions are related to the Eurocard business.

**Impairment test 2018**
*Result of impairment test*
The yearly impairment test for 2018 was performed in the fourth quarter. The impairment test did not result in any indication of impairment.

*Estimates and assumptions used: future cash flows*
The impairment test on goodwill is based on value in use and builds on the business plan for 2019–2021 and projected cash flows for 2022–2023. The long-term growth is based on expectations on inflation 1.5 per cent. The allocated capital is derived from the group's internal capital allocation model that has been aligned with the regulatory capital requirements including the management buffer. The cash flows in the business plan starts with the assumptions from the most recent Nordic outlook published at the commencement of this business plan process. The main assumptions are; GDP growth in Sweden from 2.2 per cent to 2.1 per cent over three years and other Nordic countries excluding Sweden from 2.4 per cent to 2.0 per cent; inflation in Sweden 2.1 per cent troughout the period and in Other Nordic countries from 1.5 per cent to 1.9 per cent. The repo rate in Sweden is assumed to be 0.75 per cent end of 2020.

*Estimates and assumptions used: Cost of Equity (CoE) – discount rate*
The discount rate used is 9.5 per cent post-tax for SEB Group and is determined based on information from external sources and applied on all CGUs except Investment Management. The higher discount rate for Investment Management, 11.5 per cent, is applied due to uncertainty related to limitations to retrocessions, possible further margin squeeze and the current negative interest environment that can create squeezed asset prices and volatility.

*Sensitivities*
An increase of one percentage of the discount rate (CoE), a decrease of the average growth rates by one percentage point for earnings before amortisations during the projection period and a decrease of one percentage point of the long term growth was applied in the sensitivity analysis. The sensitivity analysis carried out did not result in any indication of impairment.

**Impairment test 2017**

*Result of impairment test*
The yearly impairment test for 2017 was performed in the fourth quarter covering the four remaining CGUs with allocated goodwill. The impairment test did not result in any indication of impairment.

*Estimates and assumptions used: future cash flows*
The impairment test on goodwill is based on value in use and builds on the business plan for 2018–2020 and projected cash flows for 2021–2022. The long-term growth is based on expectations on inflation 1.5 per cent. The allocated capital is derived from the group's internal capital allocation model that has been aligned with the regulatory capital requirements including the management buffer. The cash flows in the business plan starts with the assumptions from the most recent Nordic outlook published at the commencement of this business plan process. The main assumptions are; GDP growth in Sweden from 2.6 per cent to 2.2 per cent over three years and other Nordic countries excluding Sweden from 2.3 per cent to 1.8 per cent; inflation in Sweden from 1.8 per cent to 2.2 per cent and in Other Nordic countries from 1.1 per cent to 1.7 per cent. The repo rate in Sweden is assumed to be 0.50 per cent end of 2019.

*Estimates and assumptions used: Cost of Equity (CoE) – discount rate*
The discount rate used is 9.0 per cent post-tax for SEB Group and is determined based on information from external sources and applied on all CGUs except Investment Management. The higher discount rate for Investment Management, 11.0 per cent, is applied due to uncertainty related to limitations to retrocessions, possible further margin squeeze and the current negative interest environment that can create squeezed asset prices and volatility.

*Sensitivities*
An increase of one percentage of the discount rate (CoE), a decrease of the average growth rates by one percentage point for earnings before amortisations during the projection period and a decrease of one percentage point of the long term growth was applied in the sensitivity analysis. The sensitivity analysis carried out did not result in any indication of impairment.

# 24 Properties and equipment

| | Group | | | Parent company | | | |
|---|---|---|---|---|---|---|---|
| **2018** | Equipment | Properties for own operations | Total | Equipment | Equipment leased to clients[1] | Properties for own operations | Total |
| Opening balance | 2,500 | 28 | **2,528** | 1,410 | 48,903 | 2 | **50,316** |
| Additions from acquisitions and capitalisations | 433 | 0 | **433** | 322 | 5,602 | | **5,923** |
| Reclassifications | −1 | −1 | **−2** | | | | |
| Retirements and disposals | −189 | | **−189** | −16 | −5,616 | | **−5,632** |
| Exchange rate differences | 51 | −2 | **49** | 6 | | | **6** |
| **Acquisition value** | **2,794** | **26** | **2,820** | **1,722** | **48,888** | **2** | **50,612** |
| Opening balance | −1,389 | −9 | **−1,398** | −568 | −15,260 | | **−15,829** |
| Current year's depreciations | −249 | −1 | **−250** | −160 | −4,985 | | **−5,144** |
| Current year's impairments | −3 | −1 | **−4** | | | | |
| Reclassifications | 1 | 0 | **2** | | | | |
| Retirements and disposals | 179 | 1 | **180** | 13 | 3,995 | | **4,008** |
| Exchange rate differences | −50 | 1 | **−49** | −16 | 377 | | **361** |
| **Accumulated depreciations** | **−1,510** | **−9** | **−1,519** | **−731** | **−15,872** | | **−16,603** |
| **TOTAL** | **1,284** | **17** | **1,300** | **991** | **33,016** | **2** | **34,009** |
| 2017 | | | | | | | |
| Opening balance | 3,248 | 106 | **3,354** | 2,074 | 48,704 | 2 | **50,780** |
| Additions from acquisitions and capitalisations | 562 | | **563** | 473 | 5,158 | | **5,631** |
| Reclassifications | −63 | −76 | **−138** | | | | |
| Retirements and disposals | −1,281 | −1 | **−1,282** | −1,142 | −4,959 | | **−6,101** |
| Exchange rate differences | 33 | −1 | **32** | 6 | | | **6** |
| **Acquisition value** | **2,500** | **28** | **2,528** | **1,410** | **48,903** | **2** | **50,316** |
| Opening balance | −2,395 | −51 | **−2,446** | −1,582 | −14,035 | | **−15,617** |
| Current year's depreciations | −216 | −5 | **−220** | −127 | −4,817 | | **−4,944** |
| Current year's impairments | −4 | | **−4** | | | | |
| Reclassifications | −32 | 48 | **16** | | | | |
| Retirements and disposals | 1,261 | 1 | **1,262** | 1,127 | 3,836 | | **4,964** |
| Exchange rate differences | −3 | −3 | **−6** | 14 | −246 | | **−232** |
| **Accumulated depreciations** | **−1,389** | **−9** | **−1,398** | **−568** | **−15,260** | | **−15,829** |
| **TOTAL** | **1,111** | **19** | **1,130** | **842** | **33,643** | **2** | **34,487** |

1) Equipment leased to clients are recognised as financial leases and presented as loans in the group. See note 51.

# 25 Investment properties

| Group | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment properties at cost | Investment properties at fair value | Properties taken over for protection of claims | Total | Investment properties at cost | Investment properties at fair value | Properties taken over for protection of claims | Total |
| Opening balance | 26 | | 183 | **209** | 37 | 7,401 | 499 | **7,937** |
| Additions from acquisitions and capitalisations | 11 | | 4 | **15** | 6 | 768 | 3 | **777** |
| Reclassifications | | | −9 | **−9** | | −7,097 | −278 | **−7,375** |
| Retirements and disposals | −22 | | −182 | **−204** | −17 | −1,374 | −57 | **−1,449** |
| Exchange rate differences | 1 | | 5 | **6** | | 53 | 16 | **69** |
| **Acquisition value** | **17** | | | **17** | **26** | **−250** | **183** | **−41** |
| Opening balance | −6 | | | **−5** | −6 | | −86 | **−92** |
| Current year's depreciations | −1 | | | **−1** | −1 | | −1 | **−2** |
| Current year's impairments | | | | | | | −57 | **−57** |
| Reclassifications | | | | | | | 128 | **128** |
| Retirements and disposals | 1 | | | **1** | 1 | | 17 | **18** |
| Exchange rate differences | 0 | | | **0** | | | | **−1** |
| **Accumulated depreciations** | **−6** | | | **−6** | **−6** | | | **−5** |
| **Fair value changes** | | | | | | **250** | | **250** |
| **TOTAL** | **11** | | | **11** | **20** | | **183** | **203** |

### Net operating earnings from investment properties

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| External income | | 563 |
| Operating costs[1)] | | −189 |
| **TOTAL** | | **375** |

1) Direct operating expenses arising from investment property that did not generate rental income amounts to SEK 0m (0).

### Net operating earnings from properties taken over for protection of claims

| | Group | |
|---|---|---|
| | 2018 | 2017 |
| External income | 7 | 19 |
| Operating costs | −12 | −41 |
| **TOTAL** | **−5** | **−22** |

SEB may in specific cases acquire assets used as collateral when the loan is in default and the customer can no longer meet its obligations towards SEB. Properties are held and managed during a period with the intention to divest the assets when deemed appropriate.

# 26 Other assets

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Trade receivables | 1,169 | 1,223 | 1,225 | 1,251 |
| Client receivables | 12,826 | 11,817 | 12,429 | 11,620 |
| Other assets | 6,403 | 3,816 | 7,411 | 5,280 |
| **TOTAL** | **20,398** | **16,856** | **21,065** | **18,151** |

# 27 Prepaid expenses and accrued income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Prepaid expenses | 1,775 | 1,500 | 1,762 | 2,323 |
| Accrued income | 664 | 720 | 274 | 145 |
| Other | 32 | 11 | 335 | 13 |
| **TOTAL** | **2,471** | **2,232** | **2,371** | **2,481** |

# 28 Deposits

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Deposits | 47,830 | 44,243 | 47,830 | 44,242 |
| **Deposits from central banks** | **47,830** | **44,243** | **47,830** | **44,242** |
| Deposits | 70,002 | 40,646 | 95,262 | 81,014 |
| Margins of safety | 17,296 | 8,930 | 16,915 | 8,575 |
| Repos | 192 | 730 | 15 | 730 |
| Registered bonds[1] | 399 | 942 | | |
| **Deposits from credit institutions** | **87,889** | **51,247** | **112,192** | **90,319** |
| General governments | 26,712 | 16,834 | 16,956 | 7,781 |
| Financial corporations | 226,434 | 213,345 | 206,272 | 195,648 |
| Non-financial corporations | 461,219 | 431,805 | 414,352 | 378,162 |
| Households | 323,100 | 300,318 | 236,954 | 226,820 |
| Margins of safety | 49,424 | 35,325 | 49,292 | 35,184 |
| Repos | 3,396 | 5,883 | 3,396 | 5,884 |
| Registered bonds[1] | 21,103 | 28,537 | | |
| **Deposits and borrowings from the public** | **1,111,390** | **1,032,048** | **927,224** | **849,479** |
| **TOTAL** | **1,247,109** | **1,127,538** | **1,087,246** | **984,039** |

1) Of which SEK 8,911m at Fair Value Through Profit or Loss Designated (FVDPL) for the group. The group's contractual liability is SEK 6,951m. Difference between carrying amount and the amount the company is contractually obligated to pay to holders of registered bonds at maturity are, for the group SEK 1,960m. The accumulated impact from reflecting the group's own credit standing in the fair value measurement amounts to SEK 166m, of which SEK –210m relates to 2018.

For registered bonds at Fair Value Through Profit or Loss Designated (FVDPL) change in fair value attributable to change in credit risk is determined, by first determining the changes due to market conditions which give rise to market risk, and then deducting those changes from the total change in fair value of the registered bonds. Market conditions which give rise to market risk include changes in the benchmark interest rate.

The company believes that this approach most faithfully represents the amount of change in fair value due to own credit risk, as the changes in factors contributing to the fair value of the registered bonds other than changes in the benchmark interest rate are not deemed to be significant.

# 29 Liabilities to policyholders

| **Financial liabilities for which the customers bear the investment risk**[1] | Group 2018 | Group 2017 |
|---|---|---|
| Opening balance | 284,291 | 296,618 |
| Reclassification to liabilities of disposal groups classified as held for sale | | –37,323 |
| Change in investment contract provisions[2] | –15,827 | 24,445 |
| Exchange rate differences | 2,092 | 551 |
| **TOTAL** | **270,556** | **284,291** |

1) Insurance provisions where the policyholders are carrying the risk. The liabilities and the underlying assets are reported at fair value.
2) The net of premiums received during the year, return on investment funds less payments to the policyholders and deduction of fees and policyholders' tax.

| **Liabilities to policyholders** | Group 2018 | Group 2017 |
|---|---|---|
| Opening balance | 18,911 | 107,213 |
| Transfer of portfolios through divestments | | –792 |
| Reclassification to liabilities of disposal groups classified as held for sale | | –93,910 |
| Change in other insurance contract provisions[1] | 2,844 | 5,696 |
| Exchange rate differences | 90 | 705 |
| **TOTAL** | **21,846** | **18,911** |

1) The net of premiums received during the year, allocated return on investment funds less payments to the policyholders and deduction of fees and policyholders' tax.

# 30 Debt securities issued

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Senior bonds[1)] | 203,729 | 197,691 | 203,528 | 196,659 |
| Covered bonds | 334,244 | 333,272 | 334,244 | 330,641 |
| Commercial Papers/Certificates of Deposits | 142,697 | 83,069 | 142,624 | 82,992 |
| **TOTAL** | **680,670** | **614,033** | **680,396** | **610,292** |

1) Of which SEK 18,518m (24,388) at Fair Value Through Profit or Loss Designated (FVDPL) for the group and 18,316m (23,356) at Fair Value Through Profit or Loss Designated (FVDPL) for the parent company. The group's contractual liability is SEK 19,310m (22,190) and for the parent company SEK 19,110m (21,323). Difference between carrying amount and the amount the company is contractually obligated to pay to holders of issed securities at maturity are, for the group SEK –792m (2,198) and for the parent company SEK –794m (2,033). The accumulated impact from reflecting the group's own credit standing in the fair value measurement amounts to SEK 34m (264), of which SEK –113m (33) relates to 2018. The corresponding amount for the parent company is SEK 34m (205), of which SEK –113m (57) relates to 2018.

For issued securities at Fair Value Through Profit or Loss Designated (FVDPL) change in fair value attributable to change in credit risk is determined, by first determining the changes due to market conditions which give rise to market risk, and then deducting those changes from the total change in fair value of the issued securities. Market conditions which give rise to market risk include changes in the benchmark interest rate. Fair value movements on the embedded derivatives are excluded from the assessment of market risk fair value changes.

The company believes that this approach most faithfully represents the amount of change in fair value due to own credit risk, as the changes in factors contributing to the fair value of the issued securities other than changes in the benchmark interest rate are not deemed to be significant.

# 31 Short positions

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Equity instruments | 13,498 | 14,228 | 13,498 | 14,228 |
| Debt securities | 9,646 | 10,757 | 9,646 | 10,757 |
| **TOTAL** | **23,144** | **24,985** | **23,144** | **24,985** |

# 32 Other liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Trade payables | 1,305 | 2,248 | 1,023 | 1,939 |
| Client payables | 9,572 | 10,894 | 8,509 | 9,843 |
| Other liabilities | 13,117 | 13,430 | 7,010 | 7,685 |
| **TOTAL** | **23,995** | **26,572** | **16,543** | **19,467** |

# 33 Accrued expenses and prepaid income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Accrued expenses | 3,845 | 3,917 | 2,659 | 2,583 |
| Prepaid income | 1,351 | 1,372 | 145 | 143 |
| Other | 65 | 27 | 66 | 55 |
| **TOTAL** | **5,260** | **5,316** | **2,871** | **2,781** |

# 34 Provisions

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Other restructuring and redundancy reserves | 550 | 810 | 3 | 28 |
| Provisions for Financial guarantees and Loan commitments (note 18) | 474 | 75 | 382 | 47 |
| Other provisions | 793 | 799 | | 38 |
| **TOTAL** | **1,817** | **1,684** | **385** | **113** |

### Other restructuring and redundancy reserves

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Opening balance | 810 | 642 | 28 | 35 |
| Additions | 1 | 429 | | |
| Amounts used | −215 | −278 | | −7 |
| Unused amounts reversed | | −3 | | |
| Other movements | −80 | | −25 | |
| Exchange differences | 34 | 20 | | |
| **TOTAL** | **550** | **810** | **3** | **28** |

The main part of the reserve will cover redundancy costs to be used within four years.

### Other provisions

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Opening balance | 799 | 829 | 38 | 45 |
| Additions | 108 | 93 | 30 | |
| Amounts used | −113 | −20 | −68 | −7 |
| Unused amounts reversed | −15 | −30 | | |
| Other movements | | −80 | | |
| Exchange differences | 14 | 7 | | |
| **TOTAL** | **793** | **799** | **0** | **38** |

Other provisions mainly consist of costs for re-organisation within the group to be used within five years and unsettled claims covering all operating segments; among others in the divested German retail business to be settled within one year.

# 35 Subordinated liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Debenture loans | 18,987 | 18,171 | 18,987 | 18,171 |
| Debenture loans, perpetual | 15,251 | 13,922 | 15,251 | 13,922 |
| Change in the value due to hedge accounting at fair value | −7 | 25 | −7 | 25 |
| Accrued interest | 290 | 272 | 290 | 272 |
| **TOTAL** | **34,521** | **32,390** | **34,521** | **32,390** |

### Debenture loans

| | Currency | Original nom. amount | Book value | Rate of interest, % |
|---|---|---|---|---|
| 2014/2026 | EUR | 1,000 | 10,263 | 2.500 |
| 2016/2028 | EUR | 850 | 8,724 | 1.380 |
| **TOTAL** | | | **18,987** | |

### Debenture loans, perpetual

| | Currency | Original nom. amount | Book value | Rate of interest, % |
|---|---|---|---|---|
| 2017 | EUR | 500 | 5,383 | 5.625 |
| 2014 | USD | 1,100 | 9,868 | 5.750 |
| **TOTAL** | | | **15,251** | |

# 36 Untaxed reserves[1)]

| | Parent company 2018 | Parent company 2017 |
|---|---|---|
| Depreciation in excess of plan on office equipment/leased assets | 20,855 | 21,423 |
| Other untaxed reserves | 0 | 6 |
| **TOTAL** | **20,855** | **21,429** |

1) In the balance sheet of the group untaxed reserves are reclassified partly as deferred tax liability and partly as restricted equity.

**Parent company**

| | Excess depreciation | Other untaxed reserves | Total |
|---|---|---|---|
| Opening balance | 21,755 | 6 | **21,761** |
| Reversals | −332 | | **−332** |
| **Closing balance 2017** | **21,423** | **6** | **21,429** |
| Reversals | −568 | | **−568** |
| Exchange rate differencies | | −6 | −6 |
| **CLOSING BALANCE 2018** | **20,855** | **0** | **20,855** |

# 37 Fair value measurement of assets and liabilities

| **2018** | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total |
| Loans | | 100,037 | | **100,037** | | 100,037 | | **100,037** |
| Debt securities | 62,812 | 76,976 | 4 | **139,792** | 34,711 | 66,948 | | **101,659** |
| Equity instruments | 38,697 | 3,835 | 7,902 | **50,434** | 33,317 | 1,576 | 2,099 | **36,993** |
| Financial assets for which the customers bear the investment risk | 261,056 | 7,943 | 614 | **269,613** | | | | |
| Derivatives – Interest related | 75 | 50,583 | 510 | **51,168** | 74 | 48,920 | 510 | **49,503** |
| Derivatives – Equity related | 562 | 3,865 | | **4,427** | 562 | 3,869 | 0 | **4,432** |
| Derivatives – Currency related | 550 | 41,710 | | **42,260** | 85 | 41,794 | | **41,879** |
| Derivatives – Credit related | | 683 | | **683** | | 683 | | **683** |
| Derivatives – Commodities related | | 11,690 | | **11,690** | | 11,690 | | **11,690** |
| Derivatives – Other related | 140 | | | **140** | | | | |
| Derivatives – Hedge accounting | | 5,095 | | **5,095** | | 5,095 | | **5,095** |
| Investment in associates[1)] | 256 | | 501 | **758** | 256 | | 501 | **758** |
| **TOTAL** | **364,148** | **302,417** | **9,531** | **676,096** | **69,005** | **280,614** | **3,110** | **352,729** |
| **Liabilities** | | | | | | | | |
| Deposits | | 12,497 | | **12,497** | | 3,411 | | **3,411** |
| Financial liabilities for which the customers bear the investment risk | 262,029 | 7,924 | 603 | **270,556** | | | | |
| Liabilities to policyholders | 21,752 | 95 | | **21,847** | | | | |
| Debt securities issued | | 18,518 | | **18,518** | | | | |
| Short positions debt securities | 5,275 | 4,371 | | **9,646** | 5,275 | 4,371 | | **9,646** |
| Short positions equity instruments | 13,435 | | 63 | **13,498** | 13,435 | 0 | 63 | **13,498** |
| Derivatives – Interest related | 57 | 34,453 | 473 | **34,983** | 57 | 34,486 | 473 | **35,015** |
| Derivatives – Equity related | 1,408 | 2,416 | | **3,824** | 1,409 | 2,416 | | **3,825** |
| Derivatives – Currency related | 1,011 | 40,965 | | **41,976** | 46 | 40,443 | | **40,490** |
| Derivatives – Credit related | | 1,744 | | **1,744** | | 1,744 | | **1,744** |
| Derivatives – Commodities related | | 13,488 | | **13,488** | | 13,488 | | **13,488** |
| Derivatives – Other related | 140 | | | **140** | | | | |
| Derivatives – Hedge accounting | | 717 | | **717** | | 708 | | **708** |
| Other financial liabilities | 18 | 3,595 | | **3,613** | 18 | 3,595 | | **3,613** |
| Debt securities at fair value through profit and loss | | | | | | 18,316 | | **18,316** |
| **TOTAL** | **305,125** | **140,783** | **1,139** | **447,047** | **20,240** | **122,976** | **536** | **143,753** |

*Note 37 continued* *Fair value measurement of assets and liabilities*

| **2017** | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total |
| Financial assets – policyholders bearing the risk | 275,737 | 7,053 | 630 | **283,420** | | | | |
| Equity instruments at fair value through profit and loss | 51,971 | 3,493 | 1,787 | **57,251** | 47,599 | 599 | 181 | **48,379** |
| Debt securities at fair value through profit and loss | 55,995 | 73,849 | 571 | **130,415** | 40,391 | 68,867 | | **109,258** |
| Derivatives – Interest related | 127 | 52,514 | 686 | **53,327** | 127 | 51,282 | 761 | **52,170** |
| Derivatives – Equity related | 251 | 3,096 | 2 | **3,349** | 251 | 3,102 | 2 | **3,355** |
| Derivatives – Currency related | 786 | 37,118 | | **37,904** | 73 | 38,421 | | **38,494** |
| Derivatives – Credit related | | 950 | | **950** | | 950 | | **950** |
| Derivatives – Commodities related | | 2,672 | | **2,672** | | 2,672 | | **2,672** |
| Derivatives – Other related | 86 | | | **86** | | | | |
| Derivatives – Hedge accounting | | 6,580 | | **6,580** | | 6,580 | | **6,580** |
| Equity instruments available-for-sale | 111 | 1,080 | 627 | **1,818** | 69 | 1,049 | 474 | **1,592** |
| Debt securities available-for-sale | 15,631 | 10,192 | | **25,823** | 6,197 | 2,605 | | **8,802** |
| Non-current assets and disposal groups classified as held for sale | 89,229 | 63,657 | 29,550 | **182,436** | | | | |
| Investment in associates[1] | 251 | | 592 | **843** | 250 | | 592 | **842** |
| **TOTAL** | **490,175** | **262,254** | **34,445** | **786,874** | **94,957** | **176,127** | **2,010** | **273,094** |
| **Liabilities** | | | | | | | | |
| Liabilities to policyholders – investment contracts | 276,482 | 7,185 | 624 | **284,291** | | | | |
| Short positions equity instruments | 13,984 | | 244 | **14,228** | 13,984 | | 244 | **14,228** |
| Short positions debt securities | 6,206 | 4,603 | | **10,809** | 6,206 | 4,603 | | **10,809** |
| Derivatives – Interest related | 179 | 37,531 | 799 | **38,509** | 179 | 38,382 | 799 | **39,360** |
| Derivatives – Equity related | 80 | 1,848 | | **1,928** | 80 | 1,870 | | **1,950** |
| Derivatives – Currency related | 565 | 40,103 | | **40,668** | 71 | 41,367 | | **41,438** |
| Derivatives – Credit related | | 2,598 | | **2,598** | | 780 | | **780** |
| Derivatives – Commodities related | | 780 | | **780** | | 2,598 | | **2,598** |
| Derivatives – Other related | | 863 | | **863** | | | | |
| Derivatives – Hedge accounting | 86 | | | **86** | | 863 | | **863** |
| Other financial liabilities | | 3,842 | | **3,842** | | 3,842 | | **3,842** |
| Debt securities at fair value through profit and loss | | 24,388 | | **24,388** | | 23,356 | | **23,356** |
| Liabilities of disposal groups classified as held for sale | 21,055 | 42,536 | 8,899 | **72,490** | | | | |
| **TOTAL** | **318,637** | **166,277** | **10,566** | **495,480** | **20,520** | **117,661** | **1,043** | **139,224** |

1) Venture capital activities designated at fair value through profit and loss.

**Fair value measurement**

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

The group has an established control environment for the determination of fair values of financial instruments that includes a review, independent from the business, of valuation models and prices. If the validation principles are not adhered to, the Head of Group Finance shall be informed. Exceptions of material and principal importance require approval from the GRMC (Group Risk Measurement Committee) and the ARC (Accounting Reporting Committee).

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

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

Fair value is generally measured for individual financial instruments, in addition portfolio adjustments are made to cover the credit risk. To reflect counterparty risk and own credit risk in OTC derivatives, adjustments are made based on the net exposure towards each counterpart. These adjustments are calculated on a counterparty level based on estimates of exposure at default, probability of default and recovery rates. Probability of default and recovery rate information is generally sourced from the CDS markets. For counterparties where this information is not available, or considered unreliable due to the nature of the exposure, alternative approaches are taken where the the probability of default is based on generic credit indices for specific industry and/or rating. The impact from these adjustments are shown in note 6.

When valuing financial liabilities at fair value own credit standing is reflected. Fair values of financial assets and liabilities by class can be found in note 38.

In order to arrive at the fair value of investment properties a market participant's ability to generate economic benefit by using the asset in its highest and best use are taken into account. The highest and best use takes into account the use of the asset that is physically possible, legally permissible and financially feasible. The current use of the investment properties in SEB is in accordance with the highest and best use. The valuation of investment properties is described in the accounting policies in note 1. The valuation of the investment properties is performed semi-annually, they are presented and approved by the board in each real estate company. The valuation principles used in all entities are in accordance with regulations provided by the local Financial Supervisory Authorities (FSA) which is in accordance with international valuation principles and in accordance with IFRS.

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

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

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

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

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

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

**Significant transfers and reclassifications between levels**
Transfers between levels may occur when there are indications that market conditions have changed, e.g. a change in liquidity. The Valuation/Pricing committe of each relevant division decides on material shifts between levels. At the end of the third quarter 2018 Equity instruments (Fund assets) within the insurance holdings at the amount of SEK 279m have been transferred from level 2 into level 3 as a result of calibration of the classification methodology.

**Changes in level 3**

**Group, 2018**

| Assets | Closing balance 2017 | Changes due to IFRS 9 implementation | Gain/loss in Income statement1) 2) | Gain/loss in Other comprehensive income3) | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Debt securities | 571 | –567 | | | | | | | | | **4** |
| Equity instruments | 1,787 | 2,497 | 1,084 | | 2,594 | –447 | | 279 | | 108 | **7,902** |
| Financial assets for which the customers bear the investment risk | 630 | | –53 | | 105 | –97 | | | | 29 | **614** |
| Derivatives – Interest related | 686 | | 76 | | 5 | –121 | –136 | | | 0 | **510** |
| Derivatives – Equity related | 2 | | –1 | | 0 | 0 | | | | –1 | **0** |
| Equity instruments available-for-sale | 627 | –627 | | | | | | | | | **0** |
| Investment in associates1) | 592 | | –120 | | 66 | –42 | | | | 5 | **501** |
| **TOTAL** | **4,895** | **1,303** | **986** | | **2,770** | **–707** | **–136** | **279** | | **141** | **9,531** |

**Liabilities**

| Liabilities | Closing balance 2017 | Changes due to IFRS 9 implementation | Gain/loss in Income statement1) 2) | Gain/loss in Other comprehensive income3) | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial liabilities for which the customers bear the investment risk | 624 | | –53 | | 100 | –96 | 0 | | | 28 | **603** |
| Short positions equity instruments | 244 | | 19 | | –203 | | | | | 3 | **63** |
| Derivatives – Interest related | 799 | | –75 | | –114 | 5 | –142 | | | | **473** |
| **TOTAL** | **1,667** | | **–109** | | **–217** | **–91** | **–142** | | | **31** | **1,139** |

**Group, 2017**

| Assets | Opening balance | Reclassification | Gain/loss in Income statement1) 2) | Gain/loss in Other comprehensive income3) | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial assets – policyholders bearing the risk | 4,425 | –3,735 | –65 | | 3 | –1 | | | –40 | 43 | **630** |
| Equity instruments at fair value through profit and loss | 9,701 | –8,655 | 140 | | 1,055 | –290 | | | –229 | 65 | **1,787** |
| Debt securities at fair value through profit and loss | 1,779 | –1,181 | 29 | | 184 | –20 | | | –227 | 7 | **571** |
| Derivatives – Interest related | 6,680 | –5,948 | –141 | | | | 47 | | | 48 | **686** |
| Derivatives – Equity related | 7 | –1 | –5 | | | | | | | 1 | **2** |
| Derivatives – Other related | 1,454 | –1464 | | | | | | | | 10 | **0** |
| Equity instruments available-for-sale | 611 | | 100 | –9 | 83 | –219 | | 61 | | | **627** |
| Investment in associates | 789 | | 129 | | 74 | –402 | | | | 2 | **592** |
| Investment properties | 7,401 | –7,454 | | | | | | | | 53 | **0** |
| **TOTAL** | **32,847** | **–28,438** | **187** | **–9** | **1,399** | **–932** | **47** | **61** | **–496** | **229** | **4,895** |

**Liabilities**

| Liabilities | Opening balance | Reclassification | Gain/loss in Income statement1) 2) | Gain/loss in Other comprehensive income3) | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Liabilities to policyholders – investment contracts | 4,410 | –3,724 | –66 | | | | | | –40 | 44 | **624** |
| Short positions equity instruments | 271 | | –18 | | –14 | 3 | | | | 2 | **244** |
| Derivatives – Interest related | 1,774 | | –1,003 | | –12 | | 28 | | | 12 | **799** |
| Derivatives – Other related | 1,862 | –1,875 | | | | | | | | 13 | **0** |
| **TOTAL** | **8,317** | **–5,599** | **–1,087** | | **–26** | **3** | **28** | | **–40** | **71** | **1,667** |

1) Fair value gains and losses recognised in the income statement are included in Net financial income and Net other income.
2) Gains/losses recognised in the income statement relating to instruments held as of 31 December are SEK 1,179m (1,154).
3) Fair value gains and losses recognised in other comprehensive income are included as available for sale.

*Note 37 continued* *Fair value measurement of assets and liabilities*

### Changes in level 3

**Parent company, 2018**

| Assets | Closing balance 2017 | Changes due to IFRS 9 implementation | Gain/loss in Income statement[1)2)] | Gain/loss in Other comprehensive income[3)] | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity instruments | 181 | 1,485 | 323 | | 233 | −224 | | | | 100 | **2,099** |
| Derivatives – Interest related | 761 | | 18 | | 5 | −121 | −153 | | | 0 | **510** |
| Derivatives – Equity related | 2 | | −1 | | | | | | | 0 | **0** |
| Equity instruments available-for-sale | 474 | −474 | | | | | | | | | **0** |
| Investment in associates[1)] | 592 | | −120 | | 66 | −42 | | | | 6 | **501** |
| **TOTAL** | **2,010** | **1,011** | **220** | | **303** | **−387** | **−153** | | | **106** | **3,110** |
| **Liabilities** | | | | | | | | | | | |
| Short positions equity instruments | 244 | | 19 | | −203 | | | | | 3 | **63** |
| Derivatives – Interest related | 799 | | −75 | | −114 | 5 | −142 | | | | **473** |
| **TOTAL** | **1,043** | | **−56** | | **−317** | **5** | **−142** | | | **3** | **536** |

Parent company, 2017

| Assets | Opening balance | Reclassification | Gain/loss in Income statement[1)2)] | Gain/loss in Other comprehensive income[3)] | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Exchange rate differences | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity instruments at fair value through profit and loss | 256 | | −8 | | | −72 | | | | 5 | **181** |
| Derivatives – Interest related | 832 | | −140 | | | | 63 | | | 6 | **761** |
| Derivatives – Equity related | 6 | | −5 | | | | | | | 1 | **2** |
| Equity instruments available-for-sale | 432 | | 161 | 22 | 82 | −218 | | | | −5 | **474** |
| Investment in associates[1)] | 753 | | 142 | | 75 | −380 | | | | 2 | **592** |
| **TOTAL** | **2,279** | | **150** | **22** | **157** | **−670** | **63** | | | **9** | **2,010** |
| **Liabilities** | | | | | | | | | | | |
| Short positions equity instruments | 271 | | −18 | | −14 | 3 | | | | 2 | **244** |
| Derivatives – Interest related | 941 | | −163 | | −12 | | 28 | | | 5 | **799** |
| **TOTAL** | **1,212** | | **−181** | | **−26** | **3** | **28** | | | **7** | **1,043** |

1) Fair value gains and losses recognised in the income statement are included in Net financial income and Net other income.
2) Gains/losses recognised in the income statement relating to instruments held as of 31 December are SEK 461m (139).

**Sensitivity of Level 3 financial instruments to unobservable inputs**
The table below illustrates the potential Profit or Loss impact of the relative uncertainty in the fair value of assets and liabilities that for their valuation are dependent on unobservable inputs. The sensitivity to unobservable inputs is assessed by altering the assumptions to the valuation techniques, illustrated below by changes in index-linked swap spreads, implied volatilities, credit spreads or comparator multiples. It is unlikely that all unobservable inputs would be simultaneously at the extremes of their ranges of reasonably possible alternatives. There have been no significant changes during 2018. The largest open market risk within Level 3 financial instruments is found within the insurance business.

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | Assets | Liabilities | Net | Sensitivity | Assets | Liabilities | Net | Sensitivity |
| Derivatives AFV[1)2)4)] | 510 | −473 | 37 | 45 | 688 | −798 | −110 | 38 |
| Equity instruments AFV[3)6)] | 1,957 | −63 | 1,894 | 380 | 180 | −244 | −64 | |
| Equity instruments AFS[3)6)] | | | | | 336 | | 336 | 63 |
| Investments in associates[3)] | 627 | | 627 | 125 | 729 | | 729 | 146 |
| Insurance holdings – Financial instruments[5)7)] | 5,576 | | 5,576 | 697 | 2,380 | | 2,380 | 331 |
| Non-current assets and disposal groups classified as held for sale[4)5)6)7)] | | | | | 16,070 | −2,395 | 13,675 | 1,657 |

1) Sensitivity from a shift of inflation linked swap spreads by 16 basis points (16) and implied volatilities by 5 percentage points (5).
2) Sensitivity from a shift of swap spreads by 5 basis points (5).
3) Valuation is estimated in a range of reasonable outcomes. Sensitivity analysis is based on 20 per cent (20) shift in market values.
4) Shift in implied volatility down by 10 percentage points (10).
5) Sensitivity analysis is based on a shift in private equity of 20 per cent (20), structured credits 10 per cent (10) and derivative market values of 10 per cent (10).
6) Sensitivity from a shift of investment properties/real estate funds/infrastructure/infrastructure funds market values of 10 per cent (10).
7) The sensitivity shows changes in the value of the insurance holdings which do not at all times affect the P/L of the group since any surplus in the traditional life portfolios are consumed first.

# 38 Financial assets and liabilities by class

| **Group, 2018** | Book value | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | FVTPL held for trading | FVTPL mandatorily | FVTPL designated | Hedge instruments | Amortised cost | Total | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total |
| Loans | 98,136 | 1,901 | | | 1,829,234 | **1,929,272** | 29,234 | 105,813 | 1,795,423 | **1,930,470** |
| Debt securities | 44,461 | 88,896 | 6,435 | | 16,336 | **156,128** | 68,871 | 87,254 | 4 | **156,129** |
| Equity instruments | 33,192 | 17,242 | | | | **50,434** | 38,697 | 3,835 | 7,902 | **50,434** |
| Financial assets for which the customers bear the investment risk | | 269,613 | | | | **269,613** | 261,056 | 7,943 | 614 | **269,613** |
| Derivatives | 110,368 | | | 5,095 | | **115,463** | 1,327 | 113,626 | 510 | **115,463** |
| Other | | | 67 | | 17,127 | **17,194** | 2,249 | | 14,945 | **17,194** |
| **Financial assets** | **286,158** | **377,652** | **6,502** | **5,095** | **1,862,697** | **2,538,104** | **401,434** | **318,471** | **1,819,398** | **2,539,303** |
| Other assets (non-financial) | | | | | | **29,412** | | | | |
| **TOTAL** | **286,158** | **377,652** | **6,502** | **5,095** | **1,862,697** | **2,567,516** | | | | |
| **Liabilities** | | | | | | | | | | |
| Deposits | 3,586 | | 8,911 | | 1,234,613 | **1,247,109** | 35,054 | 18,636 | 1,192,268 | **1,245,958** |
| Financial liabilities for which the customers bear the instruments investment risk | | | 270,556 | | | **270,556** | 262,029 | 7,924 | 603 | **270,556** |
| Debt securities issued | | | 18,518 | | 696,674 | **715,192** | 50 | 713,910 | 23 | **713,983** |
| Short positions debt securities | 9,646 | | | | | **9,646** | 5,275 | 4,371 | | **9,646** |
| Short positions equity instruments | 13,498 | | | | | **13,498** | 13,435 | | 63 | **13,498** |
| Derivatives | 96,155 | | | 717 | | **96,872** | 2,616 | 93,783 | 473 | **96,872** |
| Other | 3,613 | | 22 | | 11,087 | **14,722** | 93 | 3,596 | 11,033 | **14,722** |
| **Financial liabilities** | **126,497** | | **298,007** | **717** | **1,942,374** | **2,367,595** | **318,552** | **842,220** | **1,204,463** | **2,365,235** |
| Liabilities to policyholders | | | | | | **21,847** | | | | |
| Other liabilities (non-financial) | | | | | | **29,285** | | | | |
| Total equity | | | | | | **148,789** | | | | |
| **TOTAL** | **126,497** | | **298,007** | **717** | **1,942,374** | **2,567,516** | | | | |

| Group, 2017 | Book value | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | Held for trading | Designated at fair value through p/l / Hedge instruments | Available-for-sale | Loans and receivables | Total | Quoted prices in active markets (Level 1) | Valuation technique using observable inputs (Level 2) | Valuation technique using non-observable inputs (Level 3) | Total |
| Loans | 42,620 | | | 1,670,898 | **1,713,518** | 46,835 | 6,614 | 1,664,280 | **1,717,729** |
| Equity instruments | 48,371 | 8,880 | 1,952 | | **59,203** | 52,082 | 4,573 | 2,548 | **59,203** |
| Debt securities | 109,512 | 20,902 | 25,824 | 13,030 | **169,268** | 71,626 | 97,171 | 571 | **169,368** |
| Derivatives | 98,281 | 6,587 | | | **104,868** | 1,250 | 102,930 | 688 | **104,868** |
| Financial assets – policyholders bearing the risk | | 283,420 | | | **283,420** | 275,737 | 7,053 | 630 | **283,420** |
| Other | | 93 | | 15,013 | **15,106** | 1,960 | | 13,146 | **15,106** |
| **Financial assets** | **298,784** | **319,882** | **27,776** | **1,698,941** | **2,345,383** | **449,490** | **218,341** | **1,681,863** | **2,349,694** |
| Other assets (non-financial) | | | | | **211,525** | | | | |
| **TOTAL** | **298,784** | **319,882** | **27,776** | **1,698,941** | **2,556,908** | | | | |
| **Liabilities** | | | | | | | | | |
| Deposits | | | | 1,127,538 | **1,127,538** | 30,286 | 4,277 | 1,097,668 | **1,132,231** |
| Equity instruments | 14,228 | | | | **14,228** | 13,984 | | 244 | **14,228** |
| Debt securities | 10,809 | 24,388 | | 622,035 | **657,232** | 6,254 | 653,229 | 2,677 | **662,160** |
| Derivatives | 84,569 | 863 | | | **85,432** | 910 | 83,723 | 799 | **85,432** |
| Liabilities to policyholders – investment contracts | | 284,291 | | | **284,291** | 276,482 | 7,185 | 624 | **284,291** |
| Other | 3,842 | 1,046 | | 13,172 | **18,060** | 21 | 3,897 | 14,142 | **18,060** |
| **Financial liabilities** | **113,448** | **310,588** | | **1,762,745** | **2,186,781** | **327,937** | **752,311** | **1,116,154** | **2,196,402** |
| Other liabilities (non-financial) | | | | | **228,890** | | | | |
| Total equity | | | | | **141,237** | | | | |
| **TOTAL** | **113,448** | **310,588** | | **1,762,745** | **2,556,908** | | | | |

*Note 38 continued* *Financial assets and liabilities by class*

| Parent company, 2018 | Book value | | | | | |
|---|---|---|---|---|---|---|
| **Assets** | FVTPL held for trading | FVTPL mandatorily | FVTPL designated | Hedge instruments | Amortised cost | Total |
| Loans | 98,136 | 1,901 | | | 1,594,908 | **1,694,945** |
| Debt securities | 44,172 | 57,486 | | | 17,568 | **119,227** |
| Equity instruments | 33,191 | 3,801 | | | 50,653 | **87,646** |
| Derivatives | 108,188 | | | 5,095 | | **113,282** |
| Other | | | 38 | | 14,763 | **14,801** |
| **Financial assets** | **283,688** | **63,189** | **38** | **5,095** | **1,677,893** | **2,029,902** |
| Other assets (non-financial) | | | | | | **48,373** |
| **TOTAL** | **283,688** | **63,189** | **38** | **5,095** | **1,677,893** | **2,078,275** |
| **Liabilities** | | | | | | |
| Deposits | 3,411 | | | | 1,083,835 | **1,087,246** |
| Debt securities issued | | | 18,316 | | 696,600 | **714,917** |
| Derivatives | 94,551 | | | 717 | | **95,269** |
| Other | 26,757 | | | | 9,743 | **36,500** |
| **Financial liabilities** | **124,719** | | **18,316** | **717** | **1,790,178** | **1,933,931** |
| Other liabilities (non-financial) | | | | | | **10,794** |
| Total equity and untaxed reserves | | | | | | **133,550** |
| **TOTAL** | **124,719** | | **18,316** | **717** | **1,790,178** | **2,078,275** |

| Parent company, 2017 | Book value | | | | |
|---|---|---|---|---|---|
| **Assets** | Held for trading | Designated at fair value through p/l / Hedge instruments | Available-for-sale | Loans and receivables | Total |
| Loans | | | | 1,480,014 | **1,480,014** |
| Equity instruments | 48,370 | 9 | 52,286 | | **100,665** |
| Debt securities | 109,258 | | 8,802 | 7,010 | **125,070** |
| Derivatives | 97,640 | 6,580 | | | **104,220** |
| Other | | | | 36,349 | **36,349** |
| **Financial assets** | **255,268** | **6,589** | **61,088** | **1,523,373** | **1,846,318** |
| Other assets (non-financial) | | | | | **45,845** |
| **TOTAL** | **255,268** | **6,589** | **61,088** | **1,523,373** | **1,892,163** |
| **Liabilities** | | | | | |
| Deposits | | | | 949,690 | **949,690** |
| Equity instruments | 14,228 | | | | **14,228** |
| Debt securities | 14,651 | | | 642,682 | **657,333** |
| Derivatives | 86,127 | 863 | | | **86,990** |
| Other | | | | 46,132 | **46,132** |
| **Financial liabilities** | **115,006** | **863** | | **1,638,504** | **1,754,373** |
| Other liabilities (non-financial) | | | | | **11,599** |
| Total equity and untaxed reserves | | | | | **126,191** |
| **TOTAL** | **115,006** | **863** | | **1,638,504** | **1,892,163** |

SEB has grouped its financial instruments by class taking into account the characteristics of the instruments:

Loans and deposits includes financial assets and liabilities with fixed or determinable payments that are not quoted in an active market. Loans are further specified in note 41a and 18.

Equity instruments includes shares, rights issues and similar contractual rights of other entities.

Debt instruments includes contractual rights to receive or obligations to deliver cash on a predetermined date. These are further specified in note 41f and 19.

Derivatives includes options, futures, swaps and other derived products held for trading and hedging purposes. These are further specified in note 21.

Investment contracts include those assets and liabilities in the Life insurance operations where the policyholder is carrying the risk of the contractual agreement (is not qualified as an insurance contract under IFRS 4). The Life insurance operations are further specified in note 43.

Insurance contracts includes those assets and liabilities in the Life insurance operations where SEB is carrying the insurance risk of a contractual agreement (is qualified as an insurance contract under IFRS 4). The Life insurance operations are further specified in note 43.

Other includes other financial assets and liabilities recognised in accordance with IFRS 9, i.e. Trade and client receivables and payables.

# 39 Assets and liabilities distributed by main currencies

| Group, 2018 | SEK | EUR | USD | GBP | DKK | NOK | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash balances and loans to central banks | 25,253 | 79,844 | 75,738 | 271 | 6,111 | 1,628 | 53,564 | **242,408** |
| Loans to credit institutions | 3,163 | 7,568 | 19,201 | 2,656 | 896 | 1,450 | 9,353 | **44,287** |
| Loans to the public | 942,874 | 368,465 | 134,514 | 25,688 | 79,289 | 61,950 | 32,045 | **1,644,825** |
| Other financial assets | 356,893 | 113,651 | 79,282 | 5,267 | 18,424 | 26,898 | 6,169 | **606,584** |
| Other assets | 1,124 | 25,746 | 947 | 111 | 892 | 236 | 357 | **29,412** |
| **TOTAL ASSETS** | **1,329,306** | **595,276** | **309,681** | **33,993** | **105,611** | **92,162** | **101,486** | **2,567,516** |
| Deposits from central banks | 411 | 3,582 | 20,534 | 797 | | 16,731 | 5,775 | **47,830** |
| Deposits from credit institutions | 18,410 | 12,129 | 32,712 | 645 | 3,156 | 13,058 | 7,779 | **87,889** |
| Deposits and borrowing from the public | 538,153 | 274,963 | 153,034 | 48,810 | 26,378 | 42,495 | 27,556 | **1,111,390** |
| Other financial liabilities | 555,042 | 265,362 | 249,171 | 32,140 | 9,983 | 4,199 | 4,589 | **1,120,487** |
| Other liabilities | 30,545 | 10,623 | 3,160 | 672 | 2,340 | 1,844 | 1,946 | **51,131** |
| Total equity | 148,789 | | | | | | | **148,789** |
| **TOTAL LIABILITIES AND EQUITY** | **1,291,350** | **566,659** | **458,611** | **83,064** | **41,857** | **78,327** | **47,645** | **2,567,516** |

| 2017 | SEK | EUR | USD | GBP | DKK | NOK | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash balances and loans to central banks | 5,680 | 79,653 | 57,802 | 151 | 4,149 | 5,159 | 37,406 | **190,000** |
| Loans to credit institutions | 1,524 | 10,366 | 14,231 | 3,645 | 897 | 819 | 7,236 | **38,717** |
| Loans to the public | 895,639 | 322,623 | 120,092 | 21,653 | 48,965 | 58,572 | 19,221 | **1,486,765** |
| Other financial assets | 389,583 | 127,540 | 73,548 | 7,749 | 17,516 | 23,474 | 6,802 | **646,213** |
| Other assets | 20,091 | 46,687 | 31,341 | 235 | 96,447 | −88 | 498 | **195,213** |
| **TOTAL ASSETS** | **1,312,516** | **586,870** | **297,012** | **33,434** | **167,974** | **87,937** | **71,164** | **2,556,908** |
| Deposits from central banks | 1,170 | 6,187 | 23,138 | 1,674 | 327 | 16,744 | 1,417 | **50,656** |
| Deposits from credit institutions | 14,996 | 8,793 | 12,116 | 1,153 | 2,367 | 1,839 | 3,571 | **44,833** |
| Deposits and borrowing from the public | 512,170 | 270,771 | 139,737 | 36,938 | 20,386 | 33,140 | 18,907 | **1,032,048** |
| Other financial liabilities | 567,439 | 265,233 | 215,023 | 22,895 | 11,682 | 8,392 | 2,499 | **1,093,164** |
| Other liabilities | 25,122 | 26,693 | −19 | 2,404 | 138,945 | −743 | 2,567 | **194,970** |
| Total equity | 141,237 | | | | | | | **141,237** |
| **TOTAL LIABILITIES AND EQUITY** | **1,262,134** | **577,677** | **389,994** | **65,064** | **173,707** | **59,372** | **28,961** | **2,556,908** |

| Parent company, 2018 | SEK | EUR | USD | GBP | DKK | NOK | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash balances at central banks | 891 | 34,903 | 75,675 | | 1,261 | 1,617 | 49,734 | **164,081** |
| Loans to credit institutions | 35,172 | 38,121 | 20,475 | 3,612 | 8,559 | 5,900 | 8,494 | **120,333** |
| Loans to the public | 906,762 | 188,945 | 132,227 | 22,030 | 75,444 | 55,143 | 30,135 | **1,410,687** |
| Other financial assets | 118,923 | 83,189 | 76,209 | 5,396 | 18,430 | 26,758 | 5,897 | **334,801** |
| Other assets | 17,540 | 24,459 | 1,209 | 1,132 | 892 | 2,786 | 356 | **48,373** |
| **TOTAL ASSETS** | **1,079,287** | **369,615** | **305,795** | **32,170** | **104,587** | **92,204** | **94,616** | **2,078,275** |
| Deposits from central banks | 411 | 3,582 | 20,534 | 797 | | 16,731 | 5,775 | **47,830** |
| Deposits from credit institutions | 25,110 | 22,259 | 37,903 | 984 | 3,182 | 14,471 | 8,283 | **112,192** |
| Deposits and borrowing from the public | 533,911 | 116,319 | 142,857 | 47,550 | 25,797 | 39,869 | 20,920 | **927,224** |
| Other financial liabilities | 321,998 | 224,158 | 249,791 | 32,131 | 9,939 | 4,162 | 4,506 | **846,685** |
| Other liabilities | 2,208 | 648 | 2,821 | 545 | 1,761 | 901 | 1,911 | **10,794** |
| Shareholders' equity and untaxed reserves | 133,550 | | | | | | | **133,550** |
| **TOTAL LIABILITIES AND EQUITY** | **1,017,188** | **366,966** | **453,906** | **82,007** | **40,679** | **76,134** | **41,395** | **2,078,275** |

| 2017 | SEK | EUR | USD | GBP | DKK | NOK | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash balances at central banks | 161 | 18 | 57,670 | | 1,566 | 4,793 | 33,532 | **97,741** |
| Loans to credit institutions | 15,839 | 137,810 | 18,503 | 5,969 | 6,415 | 5,708 | 8,537 | **198,781** |
| Loans to the public | 857,445 | 104,274 | 111,599 | 16,115 | 48,277 | 51,308 | 16,888 | **1,205,906** |
| Other financial assets | 147,025 | 77,687 | 69,123 | 5,206 | 17,615 | 23,111 | 4,123 | **343,891** |
| Other assets | 17,597 | 21,235 | 1,560 | 1,601 | 946 | 2,540 | 365 | **45,845** |
| **TOTAL ASSETS** | **1,038,069** | **341,024** | **258,456** | **28,891** | **74,820** | **87,459** | **63,444** | **1,892,163** |
| Deposits from central banks | 339 | 3,529 | 21,127 | 1,605 | 165 | 16,502 | 975 | **44,242** |
| Deposits from credit institutions | 30,866 | 25,170 | 20,356 | 1,866 | 2,910 | 4,737 | 4,416 | **90,319** |
| Deposits and borrowing from the public | 503,479 | 116,728 | 129,120 | 35,332 | 20,874 | 30,118 | 13,827 | **849,478** |
| Other financial liabilities | 320,528 | 202,458 | 205,997 | 22,177 | 11,394 | 5,986 | 1,793 | **770,334** |
| Other liabilities | 3,381 | 964 | 3,554 | 319 | 304 | 966 | 2,111 | **11,599** |
| Shareholders' equity and untaxed reserves | 126,191 | | | | | | | **126,191** |
| **TOTAL LIABILITIES AND EQUITY** | **984,784** | **348,849** | **380,153** | **61,300** | **35,645** | **58,309** | **23,122** | **1,892,163** |

# 40 Current and non-current assets and liabilities

| **Group** | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Assets** | Current assets | Non-current assets | Total | Current assets | Non-current assets | Total |
| Cash and cash balances at central banks | 209,115 | | **209,115** | 177,222 | | **177,222** |
| Loans to central banks | 33,294 | | **33,294** | 12,778 | | **12,778** |
| Loans to credit institutions | 38,963 | 5,324 | **44,287** | 30,989 | 7,728 | **38,717** |
| Loans to the public | 745,077 | 899,748 | **1,644,825** | 618,931 | 867,834 | **1,486,765** |
| Debt securities | 156,128 | | **156,128** | 169,269 | | **169,269** |
| Equity instruments | 50,434 | | **50,434** | 59,204 | | **59,204** |
| Financial assets for which the customers bear the investment risk | 269,613 | | **269,613** | 283,420 | | **283,420** |
| Derivatives | 115,463 | | **115,463** | 104,868 | | **104,868** |
| *Fair value changes of hedged items in a portfolio hedge* | *67* | | ***67*** | *93* | | ***93*** |
| *Investments in subsidiaries and associates* | | *1,195* | ***1,195*** | | *1,314* | ***1,314*** |
| *Intangible assets* | *817* | *7,340* | ***8,157*** | *1,564* | *6,466* | ***8,030*** |
| *Properties and equipment* | *251* | *1,049* | ***1,300*** | *222* | *908* | ***1,130*** |
| *Investment properties* | *11* | | ***11*** | *203* | | ***203*** |
| *Current tax assets* | *6,404* | | ***6,404*** | *5,255* | | ***5,255*** |
| *Deferred tax assets* | | *251* | ***251*** | | *260* | ***260*** |
| *Retirement benefit plan assets* | *4,104* | | ***4,104*** | *5,280* | | ***5,280*** |
| *Other assets* | *20,398* | | ***20,398*** | *16,856* | | ***16,856*** |
| *Prepaid expenses and accrued income* | *2,471* | | ***2,471*** | *2,232* | | ***2,232*** |
| *Non-current assets and disposal groups classified as held for sale* | | | | *184,011* | | ***184,011*** |
| Other assets | 34,522 | 9,835 | **44,357** | 215,716 | 8,948 | **224,664** |
| **TOTAL** | **1,652,609** | **914,907** | **2,567,516** | **1,672,398** | **884,510** | **2,556,908** |

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Liabilities** | Current liabilities | Non-current liabilities | Total | Current liabilities | Non-current liabilities | Total |
| Deposits from central banks and credit institutions | 133,501 | 2,218 | **135,719** | 91,561 | 3,928 | **95,489** |
| Deposits and borrowing from the public | 1,088,202 | 23,188 | **1,111,390** | 993,621 | 38,427 | **1,032,048** |
| Financial liabilities for which the customers bear the investment risk | 744 | 269,812 | **270,556** | 10,902 | 273,389 | **284,291** |
| Liabilities to policyholders | 1,494 | 20,352 | **21,846** | 8,176 | 10,735 | **18,911** |
| Debt securities issued | 248,316 | 432,354 | **680,670** | 184,334 | 429,699 | **614,033** |
| Short positions | 23,144 | | **23,144** | 24,985 | | **24,985** |
| Derivatives | 96,872 | | **96,872** | 85,434 | | **85,434** |
| Other financial liabilities | 3,613 | | **3,613** | 3,894 | | **3,894** |
| *Fair value changes of hedged items in a portfolio hedge* | *22* | | ***22*** | *1,046* | | ***1,046*** |
| *Current tax liabilities* | *1,734* | | ***1,734*** | *1,463* | | ***1,463*** |
| *Deferred tax liabilities* | | *7,141* | ***7,141*** | | *8,079* | ***8,079*** |
| *Other liabilities* | *23,995* | | ***23,995*** | *26,572* | | ***26,572*** |
| *Accrued expenses and prepaid income* | *5,260* | | ***5,260*** | *5,316* | | ***5,316*** |
| *Provisions* | | *1,817* | ***1,817*** | | *1,684* | ***1,684*** |
| *Retirement benefit plans liabilites* | | *427* | ***427*** | | *1,325* | ***1,325*** |
| *Subordinated liabilities* | *290* | *34,231* | ***34,521*** | *272* | *32,118* | ***32,390*** |
| *Liabilities of disposal groups classified as held for sale* | | | | *178,710* | | ***178,710*** |
| Other liabilities | 31,301 | 43,616 | **74,916** | 213,379 | 43,206 | **256,585** |
| **TOTAL** | **1,627,187** | **791,540** | **2,418,727** | **1,616,286** | **799,385** | **2,415,671** |

Assets and liabilities are classified as current assets and current liabilities when they are cash or cash equivalents, are hold for trading purposes, are expected to be sold, settled or consumed in normal business, and are expected to be realised within twelve months. All other assets and liabilities are classified as non-current.

# 41 Risk disclosures

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

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

*Further information about SEB's risk, liquidity and capital management is available on pages 44–49, notes 18 and 42 and in SEB's report under Pillar 3: Capital Adequacy and Risk Management Report (available on www.sebgroup.com).*

# 41 a Credit risk

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

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

**Risk management**
*Credit policies and approval process*
The main principle in SEB's general credit policy is that all lending is based on credit analysis and is proportionate to the customer's cash flow and ability to repay. The customer shall be known by the bank and the purpose of the loan shall be fully understood. The business units take full responsibility of the credit risk until repayment.

A credit approval is based on an evaluation of the customer's creditworthiness and the type of credit. Relevant factors include the customer's current and anticipated financial position and protection provided by covenants and collateral. A credit approval takes the proposed transaction into account as well as the customer's total business with the bank. The credit decision also includes a risk classification of the customer based on this analysis. The process differs depending on the type of customer (e.g., retail, corporate or institutional), risk level, and size and type of transaction. For larger corporate customers, independent and professional credit analysis is particularly important, and the decisions are mostly taken by a credit committee. For private individuals and small businesses, the credit approval is often based on credit scoring models. Every credit decision of significance requires approval from an independent credit officer. Credit decision-making is based on a hierarchical structure, with the Group Risk Committee being the highest credit granting body, subject to limited exceptions. Below the Group Risk Committee, there are divisional credit committees and, in turn, local credit committees depending on the location of the customer, with small approval authorities for certain bank officers. The approval mandates for each level are set on a risk-adjusted basis using both quantitative and qualitative criteria.

SEB's credit policies reflect the group's approach to sustainability as described in the Corporate Sustainability Policy, the Environmental Policy, the Human Rights Policy, and the Credit Policy on Corporate Sustainability. Position statements on climate change, child labour, and access to fresh water, as well as a number of industry sector policies, including Forestry, Fossil fuel, Mining and metals, Renewable energy and Shipping, shall be considered in the credit granting process and are also used in customer dialogues. Environmental, social and governance risks shall be considered in the credit analysis.

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

*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 is willing to accept. Limits are also established for total exposure in countries in certain risk classes, certain customer segments and for settlement risks in the trading operations.

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

Weak or impaired exposures are subject to more frequent reviews. The objective is to identify credit exposures with an elevated risk of loss at an early stage and to work together with the customer towards a solution that enables the customer to meet its financial obligations and SEB to avoid or limit credit losses. In its core markets, SEB maintains local restructuring teams that are engaged in problem exposures. These are supported by a global restructuring function with overall responsibility for managing problem exposures.

Allowances are made for expected credit losses of financial assets in scope of the accounting standard IFRS 9 Financial Instruments. The guiding principle of the expected credit loss model is to reflect the general pattern of deterioration or improvement in the credit quality of the assets. Up until 31 December 2017, SEB used an incurred loss model for providing for impairments. ▶▶ *For a description of the methodology to estimate the expected credit loss allowance, refer to note 1 and note 18.*

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

*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. As of year-end, the 20 largest corporate exposures (including real estate management) corresponded to 87 per cent of the capital base (89). Stress tests of the credit portfolio, including reverse stress tests, are performed regularly as a part of SEB'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. An internal ratings-based (IRB) risk classification system approved by the regulator is used for the majority of the bank's portfolios and reflects the risk of default on payment obligations. SEB received approval for a significant amendment of its risk classification system for the non-retail portfolio in the parent company at the end of 2015 and for SEB AG in 2016. Approval for the Baltic subsidiaries was received in 2018.

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

For private individuals and small businesses, SEB uses credit scoring systems to estimate PD for the customer. To achieve greater accuracy, SEB uses different credit scoring models for different regions and product segments, as both data accessibility and customer characteristics normally vary by country and product.

The exposure weighted PD of the total credit portfolio increased to 0.58 per cent at year-end (0.53). ▶▶ *The risk distribution of the non-retail and household portfolios is shown on page 146.*

**Counterparty credit risk in derivative contracts**
SEB enters into derivative contracts primarily to support customers in the management of their financial exposures. SEB also uses derivatives to protect cash flows and fair values of financial assets and liabilities in its own book from market fluctuations.

Counterparty credit risk in derivative contracts is the risk of a counterparty not living up to its contractual obligations where SEB has a claim on the counterparty. The claim on the counterparty corresponds to a net positive exposure in favour of SEB. Since the market value of a derivative fluctuates during the term to maturity, the uncertainty of future market conditions must be taken into account. The potential future exposure (PFE) is calculated by applying an add-on to current market value. The add-on is generated either through simulation (internal model method) or by applying a standard add-on which is set by a fixed value depending on product type and time to maturity which reflects potential market movements for the specific contract (standardised method).

SEB's simulation-based approach for calculating potential future exposure (internal model method) is approved by the Swedish FSA for external capital reporting of counterparty credit risk of repos, interest rate derivatives and FX derivatives in the parent company.

Counterparty credit risk in derivative contracts is reduced through the use of close-out netting agreements, where all positive and negative market values under an agreement can be netted at the counterparty level, and through collateral arrangements.

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

*Note 41 a continued* *Credit risk*

## Credit exposure by industry

Total credit exposure comprises the group's credit portfolio (loans, leasing agreements, contingent liabilities and counterparty risks arising from derivative contracts), repos and debt instruments. Exposures are presented before allowances. Interest rate and foreign exchange derivatives and repos are calculated using the internal model method. Other derivatives are reported after netting of market values but before collateral arrangements and include standardised add-ons for potential future exposure. Debt instruments comprise all interest-bearing instruments at nominal amounts, considering credit derivatives and futures. Debt instruments in the Life and Investment Management division are excluded.

| | Loans | | Contingent liabilities | | Derivatives | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Group** | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Banks** | **44,878** | **41,505** | **21,506** | **22,577** | **29,497** | **26,323** | **95,881** | **90,405** |
| Finance and insurance | 115,690 | 70,462 | 48,132 | 40,336 | 27,058 | 25,963 | **190,879** | **136,761** |
| Wholesale and retail | 81,797 | 65,440 | 39,097 | 35,387 | 1,062 | 1,104 | **121,956** | **101,931** |
| Transportation | 36,788 | 29,976 | 24,678 | 24,071 | 3,186 | 1,968 | **64,652** | **56,015** |
| Shipping | 52,927 | 47,128 | 13,001 | 15,166 | 1,564 | 728 | **67,492** | **63,023** |
| Business and household services | 137,314 | 117,056 | 96,724 | 89,668 | 4,067 | 4,266 | **238,106** | **210,990** |
| Construction | 11,446 | 12,681 | 21,286 | 18,677 | 555 | 885 | **33,287** | **32,243** |
| Manufacturing | 96,670 | 85,633 | 141,186 | 143,416 | 11,397 | 7,154 | **249,253** | **236,204** |
| Agriculture, forestry and fishing | 21,275 | 17,019 | 3,138 | 3,292 | 74 | 325 | **24,487** | **20,636** |
| Mining, oil and gas extraction | 21,660 | 23,946 | 27,146 | 22,597 | 1,121 | 1,352 | **49,927** | **47,894** |
| Electricity, gas and water supply | 50,197 | 44,720 | 38,603 | 38,365 | 7,382 | 7,180 | **96,182** | **90,265** |
| Other | 20,841 | 26,176 | 15,008 | 6,920 | 386 | 448 | **36,235** | **33,543** |
| **Corporates** | **646,605** | **540,236** | **467,999** | **437,896** | **57,854** | **51,374** | **1,172,457** | **1,029,506** |
| Commercial real estate management | 158,077 | 152,200 | 23,558 | 21,480 | 3,880 | 4,853 | **185,515** | **178,533** |
| Residential real estate management | 98,857 | 93,968 | 7,205 | 8,411 | 4,452 | 5,927 | **110,514** | **108,307** |
| **Real Estate Management** | **256,933** | **246,169** | **30,763** | **29,891** | **8,332** | **10,781** | **296,029** | **286,840** |
| **Housing co-operative associations** | **59,195** | **55,929** | **4,081** | **4,998** | **2** | **4** | **63,278** | **60,932** |
| **Public Administration** | **21,086** | **37,533** | **21,580** | **19,131** | **7,463** | **8,123** | **50,129** | **64,787** |
| Household mortgage | 521,912 | 504,885 | 29,809 | 30,446 | | | **551,720** | **535,331** |
| Other | 44,447 | 42,421 | 42,197 | 41,240 | 15 | 20 | **86,659** | **83,681** |
| **Households** | **566,358** | **547,306** | **72,006** | **71,687** | **15** | **20** | **638,379** | **619,013** |
| Margins of safety[1)] | | 18,994 | | | | | | **18,994** |
| **Credit portfolio** | **1,595,055** | **1,487,672** | **617,935** | **586,180** | **103,162** | **96,625** | **2,316,153** | **2,170,477** |
| Repos | | | | | | | **8,537** | **1,846** |
| Debt instruments | | | | | | | **141,174** | **156,000** |
| **TOTAL** | | | | | | | **2,465,864** | **2,328,323** |

1) Previously reported as Other assets.

## Credit portfolio by industry and geography[1)]

Total credit portfolio comprises the group's loans, leasing agreements, contingent liabilities and counterparty risks arising from derivative contracts. Exposures are presented before allowances. Interest rate and foreign exchange derivatives and repos are calculated using the internal model method. Other derivatives are reported after netting of market values but before collateral arrangements and include standardised add-ons for potential future exposure.

| **Group, 2018** | Sweden | Other Nordic countries | Baltic countries | Germany, UK | Other | Total |
|---|---|---|---|---|---|---|
| **Banks** | **62,126** | **10,366** | **2,199** | **5,858** | **15,331** | **95,881** |
| Finance and insurance | 161,796 | 7,052 | 772 | 16,868 | 4,392 | **190,879** |
| Wholesale and retail | 65,932 | 17,746 | 25,087 | 5,758 | 7,432 | **121,956** |
| Transportation | 41,899 | 6,011 | 11,162 | 5,533 | 46 | **64,652** |
| Shipping | 59,401 | 976 | 991 | 352 | 5,772 | **67,492** |
| Business and household services | 201,469 | 11,027 | 9,281 | 13,414 | 2,914 | **238,106** |
| Construction | 21,565 | 1,095 | 4,197 | 3,852 | 2,579 | **33,287** |
| Manufacturing | 177,092 | 25,067 | 13,722 | 16,811 | 16,561 | **249,253** |
| Agriculture, forestry and fishing | 15,682 | 416 | 8,283 | 105 | | **24,487** |
| Mining, oil and gas extraction | 43,053 | 4,516 | 815 | 1,225 | 318 | **49,927** |
| Electricity, gas and water supply | 66,429 | 11,306 | 11,777 | 6,550 | 121 | **96,182** |
| Other | 30,469 | 1,966 | 777 | 2,909 | 114 | **36,235** |
| **Corporates** | **884,788** | **87,180** | **86,864** | **73,377** | **40,248** | **1,172,457** |
| Commercial real estate management | 145,518 | 3,808 | 23,718 | 11,945 | 526 | **185,515** |
| Residential real estate management | 106,704 | 23 | | 3,787 | | **110,514** |
| **Real Estate Management** | **252,221** | **3,832** | **23,718** | **15,732** | **526** | **296,029** |
| **Housing co-operative associations** | **63,278** | | | | | **63,278** |
| **Public Administration** | **33,953** | **3,185** | **3,666** | **7,937** | **1,389** | **50,129** |
| Household mortgage | 487,253 | 1,302 | 57,044 | | 6,121 | **551,720** |
| Other | 45,274 | 29,609 | 8,857 | 6 | 2,913 | **86,659** |
| **Households** | **532,527** | **30,911** | **65,901** | **6** | **9,034** | **638,379** |
| **TOTAL** | **1,828,893** | **135,474** | **182,349** | **102,910** | **66,528** | **2,316,153** |

*Note 41 a continued* *Credit risk*

| 2017 | Sweden | Other Nordic countries | Baltic countries | Germany, UK | Other | Total |
|---|---|---|---|---|---|---|
| **Banks** | **57,160** | **9,694** | **991** | **7,826** | **14,734** | **90,405** |
| Finance and insurance | 87,949 | 6,939 | 962 | 36,065 | 4,846 | **136,761** |
| Wholesale and retail | 48,939 | 16,049 | 22,568 | 8,378 | 5,997 | **101,931** |
| Transportation | 31,439 | 5,593 | 8,543 | 10,372 | 68 | **56,015** |
| Shipping | 54,586 | 887 | 917 | 377 | 6,256 | **63,023** |
| Business and household services | 147,684 | 6,588 | 7,978 | 43,641 | 5,099 | **210,990** |
| Construction | 20,931 | 1,439 | 4,198 | 3,190 | 2,485 | **32,243** |
| Manufacturing | 153,926 | 21,705 | 12,838 | 32,908 | 14,826 | **236,204** |
| Agriculture, forestry and fishing | 13,266 | 278 | 6,993 | 93 | 7 | **20,636** |
| Mining, oil and gas extraction | 40,547 | 5,218 | 1,324 | 560 | 244 | **47,894** |
| Electricity, gas and water supply | 42,220 | 11,806 | 11,970 | 24,138 | 130 | **90,265** |
| Other | 27,286 | 2,800 | 722 | 2,683 | 53 | **33,543** |
| **Corporates** | **668,773** | **79,303** | **79,014** | **162,405** | **40,010** | **1,029,506** |
| Commercial real estate management | 130,156 | 4,007 | 22,075 | 22,285 | 10 | **178,533** |
| Residential real estate management | 103,849 | 25 | | 4,433 | | **108,307** |
| **Real Estate Management** | **234,005** | **4,031** | **22,075** | **26,718** | **10** | **286,840** |
| **Housing co-operative associations** | **60,932** | | | | | **60,932** |
| **Public Administration** | **36,764** | **2,412** | **4,900** | **20,710** | **1** | **64,787** |
| Household mortgage | 477,700 | 2,041 | 49,955 | | 5,635 | **535,331** |
| Other | 43,499 | 28,888 | 8,609 | 5 | 2,680 | **83,681** |
| **Households** | **521,199** | **30,929** | **58,564** | **5** | **8,316** | **619,013** |
| Margins of safety[2] | | | | | | **18,994** |
| **TOTAL** | **1,578,833** | **126,370** | **165,544** | **217,664** | **63,072** | **2,170,477** |

1) The geographical distribution is based on where the loan is booked. Amounts before allowances for expected credit losses.
2) Previously reported as Other assets.

## Credit portfolio by PD range

| **Group, 2018** | | | Total, excluding households | | | | | | Households | |
|---|---|---|---|---|---|---|---|---|---|---|
| Category | Probability of Default (PD) range | S&P/Moody's[1] | Banks | Corporates | Real estate management | Housing Co-ops | Public Admin. | Total | Households[2] PD range | |
| Investment grade | 0 < 0.01% | AAA/Aaa | 5.2% | 0.8% | 0.3% | 0.0% | 70.8% | **3.4%** | | |
| | 0.01 < 0.03% | AA/Aa | 42.4% | 11.2% | 6.8% | 0.0% | 15.2% | **11.9%** | 0 < 0.2% | **65.0%** |
| | 0.03 < 0.12% | A/A | 32.2% | 29.2% | 10.0% | 9.8% | 12.6% | **24.7%** | 0.2 < 0.4% | **19.5%** |
| | 0.12 < 0.46% | BBB/Baa | 10.5% | 37.3% | 52.6% | 86.1% | 0.8% | **39.1%** | 0.4 < 0.6% | **0.4%** |
| Standard monitoring | 0.46 < 1.74% | BB/Ba | 5.0% | 16.5% | 28.8% | 4.0% | 0.3% | **17.0%** | 0.6 < 1% | **7.3%** |
| | 1.74 < 7% | B/B | 1.7% | 3.4% | 1.2% | 0.2% | 0.1% | **2.7%** | 1 < 5% | **5.5%** |
| Watch list | 7 < 9% | B/B | 0.6% | 0.6% | 0.0% | 0.0% | 0.0% | **0.5%** | 5 < 10% | **0.9%** |
| | 9 < 22% | CCC/Caa | 2.3% | 0.5% | 0.1% | 0.0% | 0.0% | **0.5%** | 10 < 30% | **0.8%** |
| | 22 < 100% | C/C | 0.0% | 0.1% | 0.1% | 0.0% | 0.0% | **0.0%** | 30 < 50% | **0.3%** |
| Default | 100% | D | 0.0% | 0.4% | 0.2% | 0.0% | 0.0% | **0.3%** | 50 < 100% | **0.4%** |
| **TOTAL** | | | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **TOTAL** | **100%** |

2017

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Investment grade | 0 < 0.01% | AAA/Aaa | 4.3% | 0.5% | 0.1% | 0.0% | 57.6% | **3.1%** | | |
| | 0.01 < 0.03% | AA/Aa | 43.4% | 11.3% | 5.0% | 0.0% | 28.2% | **12.3%** | 0 < 0.2% | **65.2%** |
| | 0.03 < 0.12% | A/A | 30.6% | 26.0% | 13.6% | 9.7% | 12.6% | **22.7%** | 0.2 < 0.4% | **19.3%** |
| | 0.12 < 0.46% | BBB/Baa | 12.5% | 39.1% | 50.0% | 85.9% | 1.4% | **39.8%** | 0.4 < 0.6% | **0.3%** |
| Standard monitoring | 0.46 < 1.74% | BB/Ba | 4.7% | 17.1% | 29.6% | 4.4% | 0.3% | **17.5%** | 0.6 < 1% | **7.4%** |
| | 1.74 < 7% | B/B | 1.9% | 4.2% | 1.2% | 0.1% | 0.0% | **3.1%** | 1 < 5% | **5.4%** |
| Watch list | 7 < 9% | B/B | 0.6% | 0.3% | 0.0% | 0.0% | 0.0% | **0.3%** | 5 < 10% | **0.9%** |
| | 9 < 22% | CCC/Caa | 1.9% | 0.7% | 0.2% | 0.0% | 0.0% | **0.6%** | 10 < 30% | **0.9%** |
| | 22 < 100% | C/C | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% | **0.0%** | 30 < 50% | **0.3%** |
| Default | 100% | D | 0.0% | 0.8% | 0.3% | 0.0% | 0.0% | **0.6%** | 50 < 100% | **0.4%** |
| **TOTAL** | | | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **TOTAL** | **100%** |

1) Estimated link between internal PDs and external ratings based on comparison of historical default outcomes.
2) Household exposure based on internal ratings based (IRB) reported as exposure in the event of a default (EAD – exposure at default).

*Note 41 a continued* *Credit risk*

### Credit portfolio protected by guarantees, credit derivatives and collaterals[1]

| | Group | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| **2018** | Credit portfolio | Protection via guarantees and credit derivatives | Protection via pledged collaterals | Of which, financial collaterals | Credit portfolio | Protection via guarantees and credit derivatives | Protection via pledged collaterals | Of which, financial collaterals |
| Banks | 95,881 | 2,312 | 12,318 | 7,145 | 91,317 | 2,312 | 12,317 | 7,145 |
| Corporates, Real estate management and Housing co-operative associations | 1,531,763 | 24,397 | 353,424 | 23,789 | 1,376,188 | 22,793 | 292,092 | 23,033 |
| Public Administration | 50,129 | | 1,165 | 326 | 41,711 | | 947 | 325 |
| Households | 638,379 | 8 | 477,053 | 454 | 512,088 | | 420,892 | 303 |
| **TOTAL** | **2,316,153** | **26,717** | **843,960** | **31,715** | **2,021,305** | **25,105** | **726,248** | **30,805** |
| **2017** | | | | | | | | |
| Banks | 90,405 | 2,579 | 17,106 | 16,266 | 84,682 | 645 | 16,652 | 14,678 |
| Corporates, Real estate management and Housing co-operative associations[2] | 1,396,272 | 33,517 | 479,384 | 32,170 | 1,099,148 | 27,040 | 408,257 | 29,934 |
| Public Administration | 64,787 | 5,234 | 7,716 | 3,495 | 37,023 | 3,615 | 5,536 | 2,598 |
| Households | 619,012 | 3,577 | 467,703 | 3,704 | 502,096 | 338 | 417,691 | 338 |
| **TOTAL** | **2,170,477** | **44,907** | **971,909** | **55,635** | **1,722,949** | **31,638** | **848,135** | **47,548** |

1) Only risk mitigation arrangements eligible in capital adequacy reporting are represented in the tables above.
2) Inclusive SEK 18,994m previously reported as Other assets.

For information on collaterals that have been taken in possession, see note 25 Investment properties and note 20 Equity instruments.

### Debt instruments

At year-end 2018, SEB's credit exposure in the bond portfolio amounted to SEK 141m (156). The exposure comprises all interest-bearing instruments at nominal amounts including certain credit derivatives and futures.

### Distribution by geography

| | Central & local governments | | Corporates | | Covered bonds | | Asset-backed securities | | Financials | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Sweden | 13.8% | 19.8% | 0.8% | 0.8% | 9.4% | 15.7% | | | 7.0% | 0.2% | **31.0%** | **36.5%** |
| Germany | 23.7% | 20.6% | 0.1% | 0.1% | 0.3% | 0.2% | | 3.9% | 0.1% | 4.4% | **24.2%** | **29.2%** |
| Norway | 6.0% | 3.5% | 0.0% | 0.3% | 5.9% | 3.9% | | | 1.2% | 0.9% | **13.1%** | **8.7%** |
| Denmark | 1.4% | 0.1% | 0.1% | 0.1% | 9.0% | 8.0% | | | 0.1% | 0.4% | **10.6%** | **8.5%** |
| US | 6.6% | 7.5% | 0.0% | 0.0% | | | | 0.0% | 0.0% | 0.0% | **6.6%** | **7.5%** |
| Finland | 2.8% | 3.0% | 0.1% | 0.1% | 1.7% | 0.0% | | | 0.1% | 0.0% | **4.7%** | **3.1%** |
| Luxembourg | 3.2% | 1.0% | | | | | | | | 0.3% | **3.2%** | **1.3%** |
| Netherlands | 0.4% | 0.4% | 0.0% | 0.0% | | | | | 0.0% | 0.0% | **0.4%** | **0.4%** |
| Spain | | | | | | | | | 0.0% | | **0.0%** | |
| Ireland | | | 0.0% | | | | | | 0.0% | 0.0% | **0.0%** | **0.0%** |
| Portugal | | | | | | | | 0.0% | | | | **0.0%** |
| Europe, other | 4.0% | 3.0% | 0.0% | 0.0% | | | | | 0.1% | 0.0% | **4.1%** | **3.1%** |
| Rest of world | 2.0% | 1.7% | | | | | | | | 0.0% | **2.0%** | **1.7%** |
| **TOTAL** | **63.9%** | **60.5%** | **1.1%** | **1.5%** | **26.3%** | **27.9%** | **0.0%** | **3.9%** | **8.6%** | **6.2%** | **100.0%** | **100.0%** |

### Distribution by rating

| | Central & local governments 2018 | Central & local governments 2017 | Corporates 2018 | Corporates 2017 | Covered bonds 2018 | Covered bonds 2017 | Asset-backed securities 2018 | Asset-backed securities 2017 | Financials 2018 | Financials 2017 | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AAA | 43.9% | 42.5% | 0.2% | 0.2% | 25.8% | 27.4% | | 3.3% | 0.1% | 4.2% | **70.0%** | **77.5%** |
| AA | 12.1% | 11.7% | 0.0% | 0.0% | 0.1% | 0.2% | | | 0.2% | 0.9% | **12.5%** | **12.8%** |
| A | 0.6% | 0.9% | 0.0% | 0.1% | | | | 0.6% | 0.2% | 0.1% | **0.9%** | **1.7%** |
| BBB | | | 0.5% | 0.2% | | | | | 0.1% | 0.1% | **0.7%** | **0.3%** |
| BB/B | | | 0.0% | 0.2% | | | | | 0.0% | 0.0% | **0.1%** | **0.2%** |
| CCC/CC | | | 0.0% | | | | | | | | **0.0%** | |
| No issue rating[1] | 7.2% | 5.4% | 0.4% | 0.8% | 0.3% | 0.3% | | | 7.9% | 0.9% | **15.8%** | **7.5%** |
| **TOTAL** | **63.9%** | **60.5%** | **1.1%** | **1.5%** | **26.3%** | **27.9%** | **0.0%** | **3.9%** | **8.6%** | **6.2%** | **100.0%** | **100.0%** |

1) Mainly German local governments (Bundesländer).

# 41 b Market risk

**Definition**
Market risk is the risk of losses in balance sheet positions and obligations, arising from adverse movements in market prices. Market risk can arise from changes in interest rates, foreign exchange rates, credit spreads, commodity and equity prices, implied volatilities, inflation and market liquidity. A clear distinction is made between market risks related to trading activity, i.e., trading book risks, and structural market and net interest income risks, i.e., banking book risks. Whereas positions in the trading book are held with a trading intent and under a daily mark-to-market regime, positions in the banking book do not have a trading intent and are typically held at amortised cost.

**Risk management**
Market risk in the trading book arises from SEB's customer-driven trading activities. The trading activities are carried out by the Large Corporates & Financial Institutions division in its capacity as market maker in international foreign exchange, equity and debt capital markets.

Market risk also arises in the form of interest rate risk in the banking book as a result of balance sheet mismatches in currencies, interest terms and interest rate periods. The treasury function has overall responsibility for managing these risks, which are consolidated centrally. The treasury function also manages a liquidity portfolio, which is part of SEB's liquidity reserve. The market risk from the liquidity portfolio comes from credit spread risk and interest rate risk in pledgeable and higly liquid bonds. For capital adequacy purposes, the assets in this portfolio are classified as assets in the banking book as of 1 January 2018, while from a risk management perspective they are monitored together with trading-related market risk.

Finally, market risk also arises in the bank's traditional life insurance operations and the defined benefit plans for employees as a result of mismatches between the market value of assets and liabilities. Market risks in the pension obligations and the life insurance business are not included in the market risk figures below. ▶▶ *Refer to note 41e for information on market risk in the life insurance business.*

The Board of Directors defines how much market risk is acceptable by setting the overall market risk limits. Limits are defined for the trading book, banking book and defined benefit plans. The Group Risk Committee delegates the market risk mandate to the divisions and the treasury function, which in turn further allocate the limits internally. The trading book risks are managed at the different trading locations within a comprehensive set of limits including VaR, stop-loss, sensitivities and stress tests.

The risk organisation measures the market risk taken by the various units within the group on a daily basis. The risk organisation also independently verifies the valuation of positions held at fair value and calculates the capital buffer for prudent valuation. The risk control function is present in the trading rooms and 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 Group Risk Committee and the Board's Risk and Capital Committee.

**SEB is exposed to the following market risk types:**

| Risk type | Defined as the risk of loss or reduced income due to | Source |
|---|---|---|
| Interest rate risk | Changes in interest rates | Inherent in all banking business |
| Credit spread risk | A change in the creditworthiness of an issuer of, for instance, a bond or a credit derivative | Primarily present in the bank's bond holdings |
| Foreign exchange risk | Variations in the exchange rates | Foreign exchange trading and the bank's operations in various markets |
| Equity price risk | Variations in equity prices | Market making and customer activity in equities and equity derivatives |
| Commodity price risk | Variations in commodity prices | Customer-driven activities in commodities |
| Volatility risk | Changes in implied volatility | Market making and customer activity of options across all asset classes |
| Inflation risk | Change in inflation | Bond holdings, value of assets on balance sheet |
| Market liquidity risk | Bid-ask spread widenings | Sale of assets or closing of positions |
| Credit value adjustment[1] | Variations in the counterparty credit risk based on the expected future exposure | OTC derivative contracts |

1) Credit value adjustment is fundamentally credit risk, but the exposure is calculated using market risk drivers (interest rate, currency, etc.).

**Risk measurement**
When assessing the market risk exposure, SEB uses measures that capture losses under normal and stressed market conditions. Market risks under normal market circumstances are measured using Value at Risk (VaR), Expected Shortfall (ES), as well as specific measures that are relevant for the various risk types. These measures are complemented by stress tests and scenario analyses, in which potential losses under extreme market conditions are estimated. Since no 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 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 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'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.

SEB's VaR and stressed VaR models have been approved by the Swedish FSA for calculation of regulatory capital requirements for all the general market risks in the bank's trading book in the parent bank and the subsidiary Skandinaviska Enskilda Banken S.A. in Luxembourg.

**Value at Risk**

| | 2018 | | | | |
|---|---|---|---|---|---|
| **Trading Book (99%, ten days)[1]** | Min | Max | 31 Dec 2018 | Average 2018 | Average 2017 |
| Commodities risk | 6 | 47 | 15 | 19 | 18 |
| Credit spread risk | 13 | 32 | 25 | 23 | 47 |
| Equity price risk | 13 | 77 | 33 | 35 | 29 |
| Foreign exchange rate risk | 17 | 81 | 28 | 41 | 28 |
| Interest rate risk | 29 | 83 | 57 | 51 | 58 |
| Volatilities risk | 14 | 41 | 34 | 27 | 19 |
| Diversification | | | –98 | –106 | –108 |
| **TOTAL** | **49** | **131** | **95** | **90** | **91** |

1) 2018 excluding the liquidity portfolio, 2017 including the liquidity portfolio.

| **Banking Book (99%, ten days)[1]** | Min | Max | 31 Dec 2018 | Average 2018 | Average 2017 |
|---|---|---|---|---|---|
| Credit spread risk | 36 | 50 | 38 | 42 | 48 |
| Equity price risk | 15 | 48 | 45 | 36 | 15 |
| Foreign exchange rate risk | 0 | 2 | 1 | 0 | |
| Interest rate risk | 145 | 211 | 173 | 177 | 143 |
| Diversification | | | –81 | –89 | –45 |
| **TOTAL** | **147** | **202** | **176** | **176** | **161** |

1) 2018 including the liquidity portfolio, 2017 excluding the liquidity portfolio.

*Expected Shortfall*
Expected Shortfall (ES) is the expected loss given a pre-defined time horizon, conditional that the loss is greater than the VaR for a specific confidence level. Thus, while VaR only shows the loss at a specific confidence level, ES takes the whole loss distribution into account and calculates the expected loss of all of the worst outcomes. SEB currently uses ES to calculate the economic capital for market risk in the trading book.

*Scenario analysis and stress tests*
Scenario analysis and stress tests are a key part of the risk management framework, complementing the VaR measure. In particular, they test the portfolios using scenarios other than those available in the VaR simulation window, and cover longer time horizons. SEB 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). Reverse stress tests are also used for the total trading portfolio as well as for individual divisions and business units, to identify scenarios that would lead to a given significant loss, for instance, the breach of a stop-loss limit. 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. The risk tolerance framework includes limits on different stress test scenarios.

*Specific risk measures*
VaR and stress tests are complemented by specific risk measures including Delta 1 per cent for interest risk, and Single and Aggregated FX for currency risk.
In addition, all units that handle risk for financial instruments valued at market are limited by a stop-loss limit. The stop-loss limit indicates the maximum loss a unit can incur before mitigating actions are taken.

## CVA/DVA sensitivities

The credit and debit valuation adjustments (CVA/DVA) are sensitive to market movements, in particular to movements in interest rates, credit spreads and foreign exchange rates.
In order to monitor this sensitivity, SEB stresses these asset classes on a regular basis and calculates the impact on the valuation adjustments. This is done by comparing the original CVA/DVA numbers with the stressed CVA/DVA numbers where the current rates and credit spreads have been moved up 100 basis points and where SEK has appreciated 5 per cent to all other currencies compared with the current level.

| **2018** | CVA | DVA | Total |
|---|---|---|---|
| Interest rates + 100bp | 173 | 78 | **251** |
| Credit spreads + 100bp | –696 | 387 | **–309** |
| SEK + 5% | 21 | –3 | **18** |
| **2017** | | | |
| Interest rates + 100bp | 104 | 49 | **153** |
| Credit spreads + 100bp | –685 | 373 | **–312** |
| SEK + 5% | 11 | –5 | **6** |

## Interest rate risk

Interest rate risk refers to the risk that the value of the 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 the 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.
The table below shows the sensitivity to a +100 basis point change in the interest rates on the banking and trading book by currency and in different buckets of maturity. This is calculated as the value change for a shift of 1 basis point and then scaled up to reflect a 100 basis point move.

### Interest rate sensitivity in trading book per time buckets

| **2018** | < 3 months | 3–12 months | 1–2 years | 2–5 years | 5–10 years | >10 years | Total |
|---|---|---|---|---|---|---|---|
| EUR | 1 | –137 | 617 | –46 | –268 | –70 | **97** |
| SEK | –19 | –24 | 27 | 34 | 71 | –29 | **60** |
| USD | –44 | 48 | –62 | 43 | –35 | 1 | **–49** |
| Other | –19 | 113 | –505 | 31 | 208 | 192 | **20** |
| **TOTAL** | **–81** | **0** | **77** | **62** | **–24** | **94** | **128** |
| **2017** | | | | | | | |
| EUR | 20 | –13 | 88 | 227 | 105 | –256 | **171** |
| SEK | 37 | 4 | –53 | 213 | 152 | 11 | **364** |
| USD | –91 | –37 | –140 | –30 | –32 | –5 | **–336** |
| Other | –2 | –138 | 66 | –232 | –67 | 339 | **–33** |
| **TOTAL** | **–36** | **–184** | **–39** | **178** | **158** | **89** | **166** |

### Interest rate sensitivity in banking book per time buckets[1)]

| **2018** | < 3 months | 3–12 months | 1–2 years | 2–5 years | 5–10 years | >10 years | Total |
|---|---|---|---|---|---|---|---|
| EUR | 14 | –309 | –221 | –294 | 29 | 128 | **–653** |
| SEK | –179 | –675 | –321 | –586 | –205 | 56 | **–1,910** |
| USD | –7 | 36 | 39 | –6 | 8 | 131 | **201** |
| Other | –24 | –92 | –11 | –33 | –3 | 0 | **–163** |
| **TOTAL** | **–196** | **–1,040** | **–514** | **–919** | **–171** | **315** | **–2,525** |
| **2017** | | | | | | | |
| EUR | 16 | –349 | –16 | –311 | –7 | 116 | **–551** |
| SEK | –199 | –715 | –397 | –643 | –258 | 70 | **–2,142** |
| USD | 68 | 29 | 50 | 15 | –4 | 149 | **307** |
| Other | –15 | –58 | –5 | –35 | –4 | | **–117** |
| **TOTAL** | **–131** | **–1,093** | **–368** | **–973** | **–273** | **335** | **–2,503** |

1) by currency SEK m/100 bp

# 41 c Operational risk

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

**Risk management**
Operational risk is inherent in all of SEB's operations and the responsibility to manage operational risks rests with all managers throughout the bank. SEB 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 from entering into unintended risk-taking that cannot be immediately managed by the organisation. The process is also used for yearly reviews of significant outsourcing arrangements in the group.

All business units with significant risk embedded in their operations shall regularly complete Risk and Control Self-Assessments (RCSA) according to a group-wide methodology. The assessments are designed to identify and mitigate significant operational risks embedded in SEB'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's operational risk profile and help achieve operational excellence and high performance.

SEB ensures that the organisation is prepared to respond to and operate throughout a period of major disruption by identifying critical activities and maintaining updated, tested and communicated 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 uses a group-wide IT application to capture risk events and other operational risk data for analysis and benchmarking towards peers.

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

SEB's approach to meet cyber and other security threats is to prioritise technical protection, raise awareness and continuously enhance the cyber risk culture among both employees and customers. Necessary security updates, system upgrades, and implementation of new features and secure measurements are performed on a regular basis.

The risk organisation is responsible for measuring and reporting SEB's operational risks. Significant incidents and the risk level, both on Group and divisional/site level, are analysed and reported monthly to the Group Executive Committee, the Group Risk Committee and the Board's Risk and Capital Committee as well as local/divisional management. In 2018, the total losses from operational incidents amounted to SEK 197m (185).

**Risk measurement**
SEB uses the Advanced Measurement Approach (AMA) to calculate the regulatory capital requirement for operational risk.

# 41 d Business risk

**Definition**
Business risk is the risk of lower revenues due to reduced volumes, price pressure or competition. Business risk includes venture decision risk (related to undertakings such as acquisitions, large IT projects, transformations, outsourcing, etc.). Strategic risk is close in nature to business risk, but focuses on large-scale or structural risk factors. Reputational risk is the risk arising from negative perception of SEB or the industry in general.

**Risk management**
Business, strategic and reputational risks are inherent in doing business. Digitalisation of the banking industry is accelerating and new types of competitors are emerging. The extensive new regulatory framework for banking and financial institutions is significantly impacting the industry. Corporate sustainability plays an increasingly important part of a company's reputation. SEB continuously works to mitigate business, strategic and reputational risks in many ways, for example, with regular strategic business reviews, proactive cost management, an agile step-by-step IT development approach, an ambitious corporate sustainability agenda and active dialogues on regulatory matters.

# 41 e Insurance risk

**Definition**
Insurance risk in SEB consists of all risks related to the group's insurance operations. SEB's life insurance operations consist of unit-linked insurance and traditional life insurance. The main risks include market risk and underwriting risk.

Market risk in the insurance business is the risk for losses on traditional life insurance policies with guaranteed benefits due to changes in fair value of assets and liabilities. Such changes in fair value can be caused by changes in for example interest rates, credit spreads, equity prices, exchange rates and implied volatilities.

Underwriting risk pertains to the risk of loss or of negative changes in the value of insurance liabilities (technical provisions) due to inadequate pricing and/or provisioning assumptions. It includes factors such as average mortality, longevity, disability/morbidity (including risks that result from fluctuation in the timing and amount of claim settlements), catastrophe risk (e.g., extreme or irregular events), expense risk and lapse risk (i.e., policyholder behaviour risk).

**Risk management and measurement**
In unit-linked insurance, the market risk is borne by the policyholder, while the underwriting risk is limited. However, there is an indirect exposure to market risk through the policyholders' investments, since a significant part of the future income stream of the life insurance business is based on assets under management. The profitability for existing and new business is closely monitored.

Market risk in the traditional life insurance products with guaranteed returns is mitigated through standard market risk hedging schemes and monitored through asset/liability management (ALM) risk measures and stress tests. This is supplemented by market risk tools such as VaR and scenario analysis. In the traditional products, the difference between asset values and the guaranteed obligations constitutes a buffer which is intended to cover SEB's risk.

Underwriting risks are controlled through the use of actuarial analysis and stress tests of the existing insurance portfolio. Mortality and disability/morbidity risks are reinsured for large individual claims or for several claims attributable to the same event. Underwriting risk parameters are validated annually. Policyholders within certain traditional life insurance products are free to move their policies from SEB. The utilisation of this option has been very low historically. Nevertheless, to safeguard against unplanned cash outflows, sufficient liquid investments are maintained. Regular cash flow analysis is conducted to mitigate this risk.

The risk organisation is responsible for measuring and controlling the risks inherent in SEB's life insurance operations. Measurement and monitoring of ALM risk measures, VaR, scenario analysis and stress tests are performed on a regular basis for each insurance company. The risk organisation also has the role of independent risk management function in the respective insurance companies from a Solvency II perspective. Key risks are reported regularly to the Group Risk Committee, the Board's Risk and Capital Committee and to the boards of each insurance company.

Solvency II, effective as of 1 January 2016, is a harmonised regulatory framework with respect to governance, internal control and capital requirements across insurance companies in the EU. Solvency II calculations are performed at least monthly, and the required reporting is submitted to the financial supervisors on a quarterly basis. Calculations show that SEB's life companies are financially strong and resilient to different stressed scenarios.

# 41 f Liquidity risk

**Definition**
Liquidity risk is the risk that the 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 the group is forced to borrow at unfavourable rates or is forced to sell assets at a loss in order to meet its payment commitments.

**Liquidity management and risk measurement**
The Board of Directors has established a comprehensive framework for managing the bank's liquidity requirements in the short- and long-term. The aim of SEB's liquidity risk management is to ensure that the group has a controlled liquidity risk situation, with adequate volumes of liquid assets in all relevant currencies to meet its liquidity requirements in all foreseeable circumstances, without incurring substantial cost.

The liquidity risk is managed through the limits set by the Board which are further allocated by the Group Risk Committee. Liquidity limits are set for the group, branches and specific legal entities, as well as for exposures in certain currencies. The treasury function has the overall responsibility for liquidity management and funding, supported by local treasury centres in the group's major markets. The risk function regularly measures and reports limit utilisation based on different market conditions and liquidity stress tests to the Group Risk Committee and the Board's Risk and Capital Committee.

Liquidity management and the structuring of the balance sheet from a liquidity point of view are built on three basic perspectives:
(i) the structural liquidity perspective, in which stable funding is put in relation to illiquid assets;
(ii) the bank's tolerance for short-term stress in the form of a shutdown of the wholesale and interbank funding markets (wholesale funding dependence); and,
(iii) the bank's tolerance to a severe stress scenario where, in addition to a shutdown of the funding market, the bank experiences a severe outflow of deposits.

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

*Wholesale funding dependence*
One way of measuring tolerance for deteriorating market conditions is to assess the time that SEB's liquid assets would last if the wholesale and interbank funding markets were closed. This measure, the maturing funding ratio, captures the bank's liquid assets in relation to wholesale funding and net interbank borrowings that come to maturity over the coming months, or as the number of months it would take to deplete the liquid assets in a scenario where all maturing funding must be repaid from liquid assets. Wholesale funding dependence is also measured as the loan to deposit ratio, excluding repos and reclassified debt securities.

*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 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. In addition, SEB monitors various rating agencies' survival metrics.

*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 a continuous process.

**Liquidity reserve[1)]**

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SEK | EUR | USD | Other | Total | SEK | EUR | USD | Other | Total |
| Cash and holdings in central banks | 25,253 | 79,844 | 75,738 | 61,573 | **242,408** | 5,680 | 79,653 | 57,802 | 46,865 | **190,000** |
| Deposits in other banks available overnight | 2,275 | 998 | 3,379 | 4,166 | **10,817** | 509 | 566 | 2,515 | 4,734 | **8,324** |
| Securities issued or guaranteed by sovereigns, central banks or multilateral development banks | 9,863 | 11,232 | 24,149 | 6,604 | **51,848** | 3,611 | 19,699 | 18,613 | 988 | **42,911** |
| Securities issued or guaranteed by municipalities or other public sector entities | 1,552 | 15,171 | 4,923 | 5,828 | **27,475** | 2,202 | 14,329 | 6,610 | 862 | **24,004** |
| Covered bonds issued by other institutions | 60,409 | 668 | 456 | 53,928 | **115,460** | 34,099 | 463 | 413 | 32,878 | **67,852** |
| Covered bonds issued by SEB | 1,478 | | | | **1,478** | −3,516 | | | | **−3,516** |
| Securities issued by non-financial corporations | 319 | −2 | 1 | | **317** | 358 | | | | **358** |
| Securities issued by financial corporations (not including covered bonds) | 11,552 | 5,890 | 5,519 | 229 | **23,191** | −114 | 5,341 | 4,284 | 287 | **9,797** |
| **TOTAL** | **112,701** | **113,801** | **114,164** | **132,328** | **472,995** | **42,828** | **120,052** | **90,236** | **86,614** | **339,730** |

1) The liquidity reserve is presented in accordance with the template defined by the Swedish Bankers' Association. Assets included in the liquidity reserve should comply with the following: Assets shall be under the control of the Treasury function in the bank, not be encumbered and be pledgeable with central banks. Furthermore, bonds shall have a maximum risk weight of 20 per cent under the standardised approach to credit risk of the Basel II framework and a lowest rating of Aa2/AA–. Assets are disclosed using market values.

**Liquidity risk management measures**

| | 2018 | 2017 |
|---|---|---|
| Core Gap ratio[1)] | 110% | 108% |
| Loan to deposit ratio | 137% | 143% |
| Liquidity Coverage Ratio[2)] | 147% | 145% |

1) Core Gap ratio represents the Parent company, DSK Hyp AG (former SEB AG) (Germany), SEB Pank AS (Estonia), SEB Banka AS (Latvia) and SEB bankas AB (Lithuania).
2) 2018: EU definition. 2017: Swedish FSA definition.

*Note 41 f continued* *Liquidity risk*

## Contractual maturities

The following tables present cash flows by remaining contractual maturities at the balance sheet date and applies the earliest date on which the group can be required to pay regardless of probability assumptions. The cash flows are not discounted. Derivatives are reported at fair value. Obligations such as loan commitments are reported as when the obligation matures.

### Group, 2018

| **Balance sheet (contractual maturity dates)** | Payable on demand | < 3 months[1)] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cash and cash balances at central banks** | **209,115** | | | | | | **209,115** | | **209,115** |
| **Loans to central banks** | **24,346** | **8,491** | **476** | **0** | | | **33,313** | **−19** | **33,294** |
| **Loans to credit institutions** | **10,812** | **20,268** | **8,049** | **4,857** | **506** | | **44,492** | **−205** | **44,287** |
| *of which repos* | | *1,461* | | | | | *1,461* | *−3* | ***1,458*** |
| General governments | 420 | 5,283 | 2,316 | 6,341 | 5,396 | | 19,756 | −1,009 | **18,747** |
| Households | 5,928 | 31,434 | 170,899 | 352,985 | 63,344 | | 624,590 | −26,822 | **597,768** |
| Corporates | 50,402 | 349,863 | 138,686 | 415,092 | 110,825 | | 1,064,868 | −36,557 | **1,028,311** |
| **Loans to the public** | **56,750** | **386,580** | **311,901** | **774,418** | **179,565** | | **1,709,213** | **−64,388** | **1,644,825** |
| *of which repos* | | *98,417* | | | | | *98,417* | *−481* | ***97,936*** |
| Debt securities | | 16,747 | 26,576 | 94,183 | 24,353 | | 161,859 | −5,731 | **156,128** |
| *of which eligible debt securities* | | *14,570* | *14,827* | *39,834* | *10,049* | | *79,280* | *−2,469* | ***76,811*** |
| *of which other debt securities* | | *1,803* | *11,332* | *54,313* | *14,288* | | *81,736* | *−3,262* | ***78,474*** |
| Equity instruments | | | | | | 50,434 | 50,434 | | **50,434** |
| Derivatives | | | | | | 115,463 | 115,463 | | **115,463** |
| Financial assets for which the customers bear the investment risk | | | | | | 269,613 | 269,613 | | **269,613** |
| **Financial assets at fair value** | | **16,747** | **26,576** | **94,183** | **24,353** | **435,510** | **597,370** | **−5,731** | **591,639** |
| **Other** | | **14,581** | **357** | **8** | **717** | **28,751** | **44,414** | **−57** | **44,357** |
| *of which other financial assets* | | *14,425* | *5* | | *564* | *9* | *15,003* | *−57* | ***14,946*** |
| **Total assets** | **301,023** | **446,667** | **347,358** | **873,466** | **205,141** | **464,261** | **2,637,916** | **−70,400** | **2,567,516** |
| *of which accrued interest loans* | | | | | | *2,423* | *2,423* | | ***2,423*** |
| *of which accrued interest debt securities* | | | | | | *845* | *845* | | ***845*** |
| | | | | | | | | | |
| **Deposits from central banks and credit institutions** | **50,840** | **66,045** | **16,886** | **1,167** | **1,146** | | **136,083** | **−364** | **135,719** |
| *of which repos* | | *192* | | | | | *192* | | ***192*** |
| General governments | 9,609 | 8,130 | 5,321 | 782 | 3,006 | | 26,848 | −133 | **26,715** |
| Households | 290,845 | 25,065 | 6,300 | 928 | 25 | | 323,164 | −63 | **323,101** |
| Corporates | 558,381 | 175,884 | 8,624 | 10,113 | 9,217 | | 762,219 | −645 | **761,574** |
| **Deposits and borrowings from the public** | **858,836** | **209,079** | **20,246** | **11,823** | **12,247** | | **1,112,231** | **−841** | **1,111,390** |
| *of which deposits* | *761,616* | *170,390* | *10,008* | *7,169* | *5,960* | | *955,143* | *−506* | ***954,637*** |
| *of which borrowing* | | *3,722* | *5* | *52* | *87* | | *3,866* | *−8* | ***3,858*** |
| *of which repos* | | *3,400* | | | | | *3,400* | *−4* | ***3,396*** |
| **Financial liabilities for which the customers bear the investment risk** | | | | | | **270,556** | **270,556** | | **270,556** |
| **Liabilities to policyholders** | | **10,875** | **1,050** | **3,103** | **6,818** | | **21,846** | | **21,846** |
| Certificates | | 33,316 | 107,164 | 3,739 | | | 144,219 | −1,522 | **142,697** |
| Covered bonds | | 2,584 | 46,848 | 271,287 | 27,007 | | 347,726 | −13,482 | **334,244** |
| Other bonds | | 25,562 | 28,969 | 151,945 | 3,809 | | 210,285 | −6,556 | **203,729** |
| **Debt securities issued** | | **61,462** | **182,981** | **426,971** | **30,816** | | **702,230** | **−21,560** | **680,670** |
| Debt securities | | 70 | | 7,008 | 3,144 | | 10,222 | −576 | **9,646** |
| Equity instruments | | | | | | 13,498 | 13,498 | | **13,498** |
| Derivatives | | | | | | 96,872 | 96,872 | | **96,872** |
| Other liabilities | | 1,315 | 2,047 | 285 | | | 3,647 | −12 | **3,635** |
| **Financial liabilities at fair value** | | **1,385** | **2,047** | **7,293** | **3,144** | **110,370** | **124,239** | **−588** | **123,651** |
| **Other** | | **11,820** | **1,049** | **605** | **869** | **26,065** | **40,408** | **−35** | **40,373** |
| *of which other financial liabilities* | | *10,863* | *16* | *16* | *170* | *60* | *11,125* | *−35* | ***11,090*** |
| **Subordinated liabilities** | | | **298** | | **42,825** | | **43,123** | **−8,602** | **34,521** |
| **Equity** | | | | | | **148,789** | **148,789** | | **148,789** |
| **Total Liabilities and Equity** | **909,675** | **360,666** | **224,557** | **450,962** | **97,866** | **555,780** | **2,599,506** | **−31,990** | **2,567,516** |
| *of which accrued interest deposits and borrowing* | | | | | | *1,048* | *1,048* | | ***1,048*** |
| *of which accrued interest issued securities* | | | | | | *3,704* | *3,704* | | ***3,704*** |

**Obligations**

| | Payable on demand | < 3 months[1)] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| Loan commitments | 7,453 | 241,376 | 50,268 | 262,779 | 26,780 | 376 | 589,032 | | **589,032** |
| Acceptances and other financial facilities | 16,577 | 26,474 | 27,759 | 26,394 | 39,076 | 154 | 136,434 | | **136,434** |
| Operating lease commitments | | 249 | 746 | 2,757 | 3,466 | | 7,218 | | **7,218** |
| **Total liabilities, equity and obligations** | **933,705** | **628,765** | **303,330** | **742,892** | **167,188** | **556,310** | **3,332,190** | **−31,990** | **3,300,200** |

*Note 41 f continued* *Liquidity risk*

Group, 2017

| **Balance sheet (contractual maturity dates)** | Payable on demand | <3 months[1] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cash and cash balances at central banks** | **177,222** | | | | | | **177,222** | | **177,222** |
| **Loans to central banks** | **5,872** | **6,615** | | **305** | | | **12,791** | **−13** | **12,778** |
| **Loans to credit institutions** | **7,881** | **18,206** | **5,510** | **6,397** | **883** | | **38,877** | **−160** | **38,717** |
| *of which repos* | | *56* | | | | | *56* | | ***56*** |
| General governments | 9,451 | 3,498 | 11,628 | 6,170 | 4,764 | | 35,512 | −956 | **34,556** |
| Households | 5,760 | 32,957 | 151,106 | 352,485 | 57,388 | | 599,696 | −23,413 | **576,283** |
| Corporates | 49,323 | 234,216 | 140,920 | 382,288 | 99,226 | | 905,973 | −30,047 | **875,926** |
| **Loans to the public** | **64,535** | **270,671** | **303,654** | **740,943** | **161,378** | | **1,541,181** | **−54,416** | **1,486,765** |
| *of which repos* | | *42,417* | | | | | *42,417* | *−187* | ***42,230*** |
| Debt securities | | 26,645 | 30,919 | 102,149 | 12,033 | | 171,746 | −2,477 | **169,269** |
| *of which eligible debt securities* | | *19,989* | *15,513* | *58,493* | *7,650* | | *101,646* | *−1,471* | ***100,175*** |
| *of which other debt securities* | | *6,078* | *15,253* | *42,496* | *4,084* | | *67,911* | *−1,006* | ***66,905*** |
| Equity instruments | | | | | | 59,204 | 59,204 | | **59,204** |
| Derivatives | | | | | | 104,868 | 104,868 | | **104,868** |
| Financial assets for which the customers bear the investment risk | | | | | | 283,420 | 283,420 | | **283,420** |
| **Financial assets at fair value** | | **26,645** | **30,919** | **102,149** | **12,033** | **447,492** | **619,238** | **−2,477** | **616,761** |
| **Other** | **1** | **14,602** | **446** | **1,496** | **218** | **207,883** | **224,646** | **18** | **224,664** |
| *of which other financial assets* | | *13,097* | | | *29* | *1* | *13,127* | *18* | ***13,145*** |
| **Total assets** | **255,510** | **336,739** | **340,528** | **851,290** | **174,512** | **655,375** | **2,613,955** | **−57,048** | **2,556,908** |
| *of which accrued interest loans* | | | | | | *1,783* | *1,783* | | ***1,783*** |
| *of which accrued interest debt securities* | | | | | | *812* | *812* | | ***812*** |
| | | | | | | | | | |
| **Deposits from central banks and credit institutions** | **29,055** | **60,645** | **2,230** | **1,956** | **1,756** | | **95,642** | **−153** | **95,489** |
| *of which repos* | | *731* | | | | | *731* | *−1* | ***730*** |
| General governments | 7,783 | 5,257 | 116 | 190 | 3,650 | | 16,996 | −102 | **16,894** |
| Households | 269,682 | 23,454 | 6,118 | 1,087 | 28 | | 300,370 | −51 | **300,319** |
| Corporates | 514,053 | 162,319 | 5,424 | 21,833 | 11,895 | | 715,523 | −688 | **714,835** |
| **Deposits and borrowings from the public** | **791,518** | **191,029** | **11,658** | **23,110** | **15,574** | | **1,032,889** | **−841** | **1,032,048** |
| *of which deposits* | *383,696* | *94,067* | *4,881* | *3,689* | *5,874* | | *492,207* | *−292* | ***491,915*** |
| *of which borrowing* | | *6,216* | | *20* | *138* | | *6,374* | *−10* | ***6,364*** |
| *of which repos* | | *5,889* | | | | | *5,889* | *−6* | ***5,883*** |
| **Financial liabilities for which the customers bear the investment risk** | | | | | | **284,291** | **284,291** | | **284,291** |
| **Liabilites to policyholders** | | **9,414** | **909** | **2,686** | **5,901** | | **18,911** | | **18,911** |
| Certificates | | 46,452 | 28,831 | 8,585 | | | 83,868 | −799 | **83,069** |
| Covered bonds | | 199 | 66,104 | 238,743 | 41,443 | | 346,489 | −13,217 | **333,272** |
| Other bonds | | 19,082 | 17,330 | 164,196 | 3,579 | | 204,187 | −6,496 | **197,691** |
| **Debt securities issued** | | **65,733** | **112,265** | **411,524** | **45,023** | | **634,545** | **−20,512** | **614,033** |
| Debt securities | | 506 | 365 | 6,773 | 3,713 | | 11,357 | −600 | **10,757** |
| Equity instruments | | | | | | 14,228 | 14,228 | | **14,228** |
| Derivatives | | | | | | 85,434 | 85,434 | | **85,434** |
| Other liabilities | | 1,452 | 2,220 | 231 | | | 3,903 | −9 | **3,894** |
| **Financial liabilities at fair value** | | **1,957** | **2,585** | **7,004** | **3,713** | **99,662** | **114,922** | **−609** | **114,313** |
| **Other** | **238** | **17,349** | **1,099** | **530** | **180** | **204,816** | **224,212** | **−17** | **224,195** |
| *of which other financial liabilities* | | *14,186* | | | *17* | *4* | *14,207* | *−17* | ***14,190*** |
| **Subordinated liabilities** | | **275** | | | **41,036** | | **41,311** | **−8,921** | **32,390** |
| **Equity** | | | | | | **141,237** | **141,237** | | **141,237** |
| **Total Liabilities and Equity** | **820,810** | **346,403** | **130,747** | **446,811** | **113,183** | **730,007** | **2,587,961** | **−31,053** | **2,556,908** |
| *of which accrued interest deposits and borrowing* | | | | | | *1,328* | *1,328* | | ***1,328*** |
| *of which accrued interest issued securities* | | | | | | *4,227* | *4,227* | | ***4,227*** |
| | | | | | | | | | |
| **Obligations** | | | | | | | | | |
| Loan commitments | 13,129 | 106,972 | 47,541 | 223,644 | 7,307 | 100 | 398,693 | | **398,693** |
| Acceptances and other financial facilities | 12 | 22,890 | 37,497 | 23,213 | 30,671 | | 114,283 | | **114,283** |
| Operating lease commitments | | 261 | 782 | 2,628 | 4,523 | | 8,193 | | **8,193** |
| **Total liabilities, equity and obligations** | **833,951** | **476,526** | **216,566** | **696,295** | **155,684** | **730,107** | **3,109,130** | **−31,053** | **3,078,077** |

1) Includes items available overnight.

*Note 41 f continued* *Liquidity risk*

## Parent company, 2018

| **Balance sheet (contractual maturity dates)** | Payable on demand | <3 months[1] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cash and cash balances at central banks** | **164,081** | | | | | | **164,081** | | **164,081** |
| **Loans to credit institutions** | **23,619** | **67,330** | **14,388** | **14,784** | **640** | | **120,761** | **−428** | **120,333** |
| *of which repos* | | *200* | | | | | *200* | | ***200*** |
| General governments | 55 | 3,665 | 1,655 | 1,346 | 320 | | 7,040 | −136 | **6,904** |
| Households | 5,346 | 22,314 | 162,301 | 324,270 | 13,630 | | 527,861 | −18,208 | **509,653** |
| Corporates | 50,360 | 327,093 | 121,898 | 341,048 | 81,278 | | 921,676 | −27,546 | **894,130** |
| **Loans to the public** | **55,760** | **353,072** | **285,854** | **666,663** | **95,228** | | **1,456,577** | **−45,890** | **1,410,687** |
| *of which repos* | | *98,377* | | | | | *98,377* | *−451* | ***97,926*** |
| Debt securities | | 7,443 | 21,074 | 74,137 | 22,648 | | 125,301 | −6,074 | **119,227** |
| *of which eligible debt securities* | | *6,440* | *10,250* | *21,482* | *8,218* | | *46,391* | *−2,021* | ***44,370*** |
| *of which other debt securities* | | *1,002* | *10,823* | *52,655* | *14,429* | | *78,910* | *−4,053* | ***74,857*** |
| Equity instruments | | | | | | 87,646 | 87,646 | | **87,646** |
| Derivatives | | | | | | 113,282 | 113,282 | | **113,282** |
| **Financial assets at fair value** | | **7,443** | **21,074** | **74,137** | **22,648** | **200,928** | **326,230** | **−6,074** | **320,156** |
| **Other** | | **14,408** | **2,222** | **16,997** | **13,821** | **15,615** | **63,063** | **−44** | **63,019** |
| *of which other financial assets* | | *13,143* | *5* | | *558* | *38* | *13,743* | *−44* | ***13,699*** |
| **Total assets** | **243,460** | **442,252** | **323,538** | **772,581** | **132,336** | **216,543** | **2,130,711** | **−52,436** | **2,078,275** |
| *of which accrued interest loans* | | | | | | *1,936* | *1,936* | | ***1,936*** |
| *of which accrued interest debt securities* | | | | | | *729* | *729* | | ***729*** |
| **Deposits by credit institutions** | **36,025** | **89,482** | **25,665** | **8,509** | **944** | | **160,626** | **−604** | **160,022** |
| *of which repos* | | *15* | | | | | *15* | | ***15*** |
| General governments | 1,352 | 7,677 | 4,506 | 725 | 2,812 | | 17,072 | −113 | **16,959** |
| Households | 225,810 | 8,481 | 2,286 | 398 | | | 236,975 | −20 | **236,955** |
| Corporates | 547,548 | 115,335 | 1,711 | 6,021 | 2,976 | | 673,591 | −281 | **673,310** |
| **Deposits and borrowings from the public** | **774,710** | **131,493** | **8,503** | **7,144** | **5,787** | | **927,638** | **−414** | **927,224** |
| *of which deposits* | *774,710* | *127,771* | *8,502* | *7,144* | *5,787* | | *923,915* | *−409* | ***923,506*** |
| *of which borrowing* | | *3,722* | | | | | *3,722* | *−4* | ***3,718*** |
| *of which repos* | | *3,400* | | | | | *3,400* | *−4* | ***3,396*** |
| Certificates | | 33,243 | 107,168 | 3,741 | | | 144,151 | −1,527 | **142,624** |
| Covered bonds | | 2,584 | 46,851 | 271,324 | 27,016 | | 347,775 | −13,531 | **334,244** |
| Other bonds | | 25,562 | 28,970 | 151,756 | 3,811 | | 210,099 | −6,571 | **203,528** |
| **Issued securities** | | **61,388** | **182,989** | **426,821** | **30,827** | | **702,025** | **−21,629** | **680,396** |
| Debt securities | | 70 | | 7,009 | 3,146 | | 10,225 | −579 | **9,646** |
| Equity instruments | | | | | | 13,498 | 13,498 | | **13,498** |
| Derivatives | | | | | | 95,269 | 95,269 | | **95,269** |
| Other liabilities | | 1,283 | 2,006 | 285 | | 48 | 3,623 | −10 | **3,613** |
| **Financial liabilities at fair value** | | **1,353** | **2,006** | **7,294** | **3,146** | **108,815** | **122,614** | **−589** | **122,025** |
| **Other** | | **9,765** | **48** | **205** | **282** | **10,269** | **20,569** | **−31** | **20,538** |
| *of which other financial liabilities* | | *9,574* | *15* | *16* | *170* | | *9,774* | *−31* | ***9,743*** |
| **Subordinated liabilities** | | **0** | **298** | | **42,825** | | **43,123** | **−8,602** | **34,521** |
| **Untaxed reserves** | | | | | | **20,855** | **20,855** | | **20,855** |
| **Equity** | | | | | | **112,695** | **112,695** | | **112,695** |
| **Total Liabilities and Equity** | **810,735** | **293,483** | **219,509** | **449,973** | **83,811** | **252,634** | **2,110,144** | **−31,869** | **2,078,275** |
| *of which accrued interest deposits and borrowing* | | | | | | *873* | *873* | | ***873*** |
| *of which accrued interest issued securities* | | | | | | *3,530* | *3,530* | | ***3,530*** |

**Obligations**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loan commitments | | 47,788 | 44,320 | 258,401 | 15,704 | | 366,213 | | **366,213** |
| Acceptances and other financial facilities | | 24,817 | 30,273 | 32,101 | 47,126 | | 134,317 | | **134,317** |
| Operating lease commitments | | 180 | 541 | 2,080 | 3,307 | | 6,108 | | **6,108** |
| **Total liabilities, equity and obligations** | **810,735** | **366,267** | **294,643** | **742,555** | **149,949** | **252,634** | **2,616,782** | **−31,869** | **2,584,914** |

*Note 41 f continued* *Liquidity risk*

## Parent company, 2017

| **Balance sheet (contractual maturity dates)** | Payable on demand | < 3 months[1] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cash and cash balances at central banks** | **97,741** | | | | | | **97,741** | | **97,741** |
| **Loans to credit institutions** | **74,426** | **87,319** | **20,362** | **16,361** | **591** | | **199,059** | **−278** | **198,781** |
| *of which repos* | | *389* | | | | | *389* | | ***389*** |
| General governments | 9,096 | 664 | 284 | 377 | 170 | | 10,590 | −41 | **10,549** |
| Households | 5,656 | 24,597 | 143,028 | 326,800 | 13,981 | | 514,062 | −16,954 | **497,108** |
| Corporates | 52,137 | 200,717 | 115,844 | 295,698 | 54,271 | | 718,666 | −20,417 | **698,249** |
| **Loans to the public** | **66,888** | **225,978** | **259,155** | **622,875** | **68,421** | | **1,243,318** | **−37,412** | **1,205,906** |
| *of which repos* | | *42,412* | | | | | *42,412* | *−182* | ***42,230*** |
| Debt securities | | 21,245 | 28,874 | 70,767 | 8,713 | | 129,598 | −4,528 | **125,070** |
| *of which eligible debt securities* | | *17,764* | *11,298* | *27,725* | *4,115* | | *60,902* | *−1,895* | ***59,007*** |
| *of which other debt securities* | | *3,481* | *17,575* | *43,042* | *4,598* | | *68,696* | *−2,633* | ***66,063*** |
| Equity instruments | | | | | | 100,665 | 100,665 | | **100,665** |
| Derivatives | | | | | | 104,220 | 104,220 | | **104,220** |
| **Financial assets at fair value** | | **21,245** | **28,874** | **70,767** | **8,713** | **204,885** | **334,484** | **−4,528** | **329,956** |
| **Other** | | **15,711** | **2,015** | **20,580** | **17,411** | **4,346** | **60,064** | **−284** | **59,780** |
| *of which other financial assets* | | *6,479* | | | *1,890* | | *8,369* | *−284* | ***8,085*** |
| **Total assets** | **239,055** | **350,254** | **310,407** | **730,583** | **95,135** | **209,231** | **1,934,665** | **−42,502** | **1,892,163** |
| *of which accrued interest loans* | | | | | | *1,386* | *1,386* | | |
| *of which accrued interest debt securities* | | | | | | *824* | *824* | | |
| **Deposits by credit institutions** | **48,328** | **61,247** | **14,317** | **9,139** | **1,808** | | **134,840** | **−279** | **134,561** |
| *of which repos* | | *731* | | | | | *731* | *−1* | ***730*** |
| General governments | 2,088 | 4,293 | 2 | | 1,428 | | 7,810 | −29 | **7,781** |
| Households | 214,857 | 9,432 | 2,172 | 371 | | | 226,832 | −12 | **226,820** |
| Corporates | 525,890 | 79,110 | 1,823 | 3,305 | 4,919 | | 615,047 | −170 | **614,877** |
| **Deposits and borrowings from the public** | **742,835** | **92,835** | **3,998** | **3,676** | **6,347** | | **849,690** | **−211** | **849,479** |
| *of which deposits* | *742,835* | *86,619* | *3,998* | *3,676* | *6,347* | | *843,474* | *−207* | ***843,267*** |
| *of which borrowing* | | *6,216* | | | | | *6,216* | *−4* | ***6,212*** |
| *of which repos* | | *5,888* | | | | | *5,888* | *−4* | ***5,884*** |
| Certificates | | 46,389 | 28,849 | 8,606 | | | 83,844 | −852 | **82,992** |
| Covered bonds | | 204 | 63,667 | 239,123 | 41,702 | | 344,696 | −14,055 | **330,641** |
| Other bonds | | 18,908 | 17,342 | 163,699 | 3,601 | | 203,550 | −6,891 | **196,659** |
| **Issued securities** | | **65,500** | **109,858** | **411,428** | **45,304** | | **632,090** | **−21,798** | **610,292** |
| Debt securities | | 10 | 86 | 7,408 | 3,930 | | 11,434 | −677 | **10,757** |
| Equity instruments | | | | | | 14,228 | 14,228 | | **14,228** |
| Derivatives | | | | | | 86,990 | 86,990 | | **86,990** |
| Other liabilities | | 1,452 | 2,218 | 231 | | | 3,901 | −7 | **3,894** |
| **Financial liabilities at fair value** | | **1,462** | **2,304** | **7,638** | **3,930** | **101,218** | **116,553** | **−684** | **115,869** |
| **Other** | | **9,962** | **96** | **4,862** | **990** | **7,533** | **23,443** | **−62** | **23,381** |
| *of which other financial liabilities* | | *6,055* | *3* | *4,840* | | | *10,898* | *−62* | ***10,836*** |
| **Subordinated liabilities** | | | **280** | | **41,008** | | **41,288** | **−8,898** | **32,390** |
| **Untaxed reserves** | | | | | | **21,429** | **21,429** | | **21,429** |
| **Equity** | | | | | | **104,762** | **104,762** | | **104,762** |
| **Total Liabilities and Equity** | **791,163** | **231,007** | **130,854** | **436,743** | **99,388** | **234,941** | **1,924,095** | **−31,932** | **1,892,163** |
| *of which accrued interest deposits and borrowing* | | | | | | *826* | *826* | | ***826*** |
| *of which accrued interest issued securities* | | | | | | *7,016* | *7,016* | | ***7,016*** |

### Obligations

| | Payable on demand | < 3 months[1] | 3–12 months | 1–5 years | >5 years | Not distributed | Subtotal | Discount effect | Total |
|---|---|---|---|---|---|---|---|---|---|
| Loan commitments | | 36,566 | 42,616 | 184,404 | 3,818 | | 267,403 | | **267,403** |
| Acceptances and other financial facilities | | 22,256 | 34,846 | 19,859 | 26,098 | | 103,059 | | **103,059** |
| Operating lease commitments | | 198 | 593 | 1,926 | 4,317 | | 7,033 | | **7,033** |
| **Total liabilities, equity and obligations** | **791,163** | **290,027** | **208,909** | **642,931** | **133,619** | **234,941** | **2,301,591** | **−31,932** | **2,269,659** |

1) Includes items available overnight.

| **Average remaining maturity (years)** | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Loans to credit institutions | 0.60 | 0.86 | 0.56 | 0.39 |
| Loans to the public | 2.45 | 2.61 | 2.11 | 2.15 |
| Deposits from credit institutions | 0.24 | 0.37 | 0.38 | 0.45 |
| Deposits from the public | 0.11 | 0.27 | 0.11 | 0.1 |
| Borrowing from the public | 0.38 | 0.34 | 0.13 | 0.13 |
| Certificates | 0.57 | 0.58 | 0.57 | 0.58 |
| Covered bonds | 3.16 | 3.32 | 3.16 | 3.34 |
| Other bonds | 2.42 | 2.63 | 2.42 | 2.63 |

# 42 Capital adequacy

**Capital management**

SEB takes various types of risks in line with the bank's strategy and business plan. In order to sustain these risks and guarantee SEB's long-term survival, the bank must maintain satisfactory capital strength. At the same time, SEB must balance the trade-off between financial reward and overall risk tolerance. In particular, SEB's capital management balances the following dimensions:

1. regulatory: the capital requirements established by the EU regulation and directives through Swedish law on capital adequacy, and by the bank's supervisory authorities,
2. access to debt investors: the capitalisation level required to support a certain rating level in order to reach a debt investor base necessary for conducting SEB's business activities,
3. access to financial products: the capital level required by corporate clients and other counterparties to facilitate the bank's activity in the capital markets, including derivatives and foreign exchange, and
4. optimal return on equity: the balance between the shareholders' expected return on capital and risks taken.

To meet expectations of shareholders, supervisors and market participants, SEB's capitalisation is based on an assessment of all risks incurred in SEB's business, and forward-looking, aligned with long- and short-term business plans and with expected macroeconomic developments. Furthermore, the capitalisation is stress-tested to identify the potential effect of adverse changes to SEB's financial situation.

**Internal capital adequacy assessment process**

The internal capital adequacy assessment process (ICAAP) encompasses SEB's internal views on material risks and their development as well as risk measurement models, risk governance and risk mitigants. It is linked to overall business planning and establishes a strategy for maintaining appropriate capital levels. Together with continuous monitoring and reporting of the capital adequacy to the Board, this ensures that the relationship between shareholders' equity, economic capital, regulatory and rating-based requirements are managed so that the bank's survival is not jeopardised. Thus, the ICAAP is integrated with SEB's business planning, internal governance framework and internal control systems.

SEB's capital plan covers the strategic planning horizon and projects economic and legal capital requirements, as well as available capital resources and relevant ratios. It is forward-looking, taking into account current and planned business volumes as well as strategic initiatives. The capital plan is stress tested to potential down-turns in the macroeconomic environment, to strategic risk factors identified in the business planning, and to other relevant scenarios. The capital plan is established annually, and updated as needs arise during the year.

Economic capital constitutes an important part of capital adequacy assessment. It is an internal measurement of risk, similar to the rules for capital adequacy in that many of the underlying risk components are the same. The economic capital calculation is based on a confidence level of 99.97 per cent, which is equivalent to the capital requirement for a very high rating. The economic capital or internally assessed capital requirement for SEB Group including insurance risk amounted to SEK 67bn (64).

SEB employs an internal capital allocation framework for measuring return on risk, named business equity. It is similar to regulatory capital models including Pillar 2 requirements and is calibrated with SEB's capital targets.

The regulatory supervisors annually assess SEB and its ICAAP in accordance with the parameters of the Supervisory Review and Evaluation Process (SREP). The assessment covers SEB's capital adequacy, risk measurement models and risk governance, among other things, and in the SREP 2018 it was concluded that SEB is sufficiently capitalised and adequately measures and manages risks.

**Regulatory requirements**

The capital adequacy requirements have evolved over the last few years, both in terms of which risks that are covered and in terms of the capital base components. The requirements are split into Pillar 1 (general minimum requirements for all institutions) and Pillar 2 (requirements based on an individual assessment of each institution). Pillar 1 requirements for CET1 is expressed as a REA ratio requirement and consists of the following components:

i) a legal minimum requirement of 4.5 per cent,
ii) a capital conservation buffer of 2.5 per cent,
iii) a systemic risk buffer of 3.0 per cent, and
iv) countercyclical buffers for SEB's credit exposures in Sweden, Norway, Lithuania and UK, together amounting to 1.17%.

As opposed to Pillar 1, the Pillar 2 requirements for CET1 are not calculated as a percentage of the total REA. As a result, the Pillar 2 requirements, expressed as capital ratio requirements (except the systemic risk requirement), are likely to vary in relation to REA over time. The Pillar 2 requirements consist of the following components:

v) specific own funds requirement for systemic risk ("Systemic risk requirement") expressed as a CET1 ratio requirement of 2.0 per cent; and
vi) other specific risks. The risks currently identified by the Swedish FSA that apply to all Swedish banks are a) credit concentration risks, b) interest rate risk in the banking book, c) pension risk, and d) a maturity floor for corporate exposures. In addition to this, SEB-specific requirements for other risks can be added as part of the SREP.

The requirements are specified below.

**Ratio requirement (explicit or implicit)**

| **Pillar 1** | CET1 | AT1 | Tier 2 | Total |
|---|---|---|---|---|
| Minimum requirement | 4.5% | 1.5% | 2.0% | **8.0%** |
| Capital conservation buffer | 2.5% | | | **2.5%** |
| Systemic risk buffer | 3.0% | | | **3.0%** |
| **Subtotal** | **10.0%** | **1.5%** | **2.0%** | **13.5%** |
| Countercyclical buffer | 1.2% | | | **1.2%** |
| **TOTAL** | **11.2%** | **1.5%** | **2.0%** | **14.7%** |

| **Pillar 2** | CET1 | AT1 | Tier 2 | Total |
|---|---|---|---|---|
| Systemic risk requirement | 2.0% | | | **2.0%** |
| Credit concentration risk | 0.3% | 0.0% | 0.1% | **0.4%** |
| Interest rate risk in the banking book | 0.5% | 0.1% | 0.1% | **0.7%** |
| Pension risk | 0.6% | 0.1% | 0.1% | **0.8%** |
| Corporate exposures – maturity floor | 0.3% | 0.0% | 0.1% | **0.4%** |
| **TOTAL** | **3.7%** | **0.3%** | **0.3%** | **4.3%** |
| **Total requirement** | **14.9%** | **1.8%** | **2.3%** | **19.0%** |

*Note 42 continued* *Capital adequacy*

## Capital adequacy analysis

| | Consolidated situation | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Own funds** | | | | |
| Common Equity Tier 1 capital | 125,857 | 118,204 | 108,336 | 101,810 |
| Tier 1 capital | 141,108 | 132,127 | 123,587 | 115,733 |
| Total own funds | 159,331 | 147,849 | 141,904 | 131,328 |
| **Own funds requirement** | | | | |
| Risk exposure amount | 716,498 | 610,819 | 640,442 | 514,328 |
| Expressed as own funds requirement | 57,320 | 48,866 | 51,235 | 41,146 |
| Common Equity Tier 1 capital ratio | 17.6% | 19.4% | 16.9% | 19.8% |
| Tier 1 capital ratio | 19.7% | 21.6% | 19.3% | 22.5% |
| Total capital ratio | 22.2% | 24.2% | 22.2% | 25.5% |
| Own funds in relation to own funds requirement | 2.78 | 3.03 | 2.77 | 3.19 |
| Regulatory Common Equity Tier 1 capital requirement including buffer | 11.2% | 10.9% | 8.3% | 8.2% |
| *of which capital conservation buffer requirement* | *2.5%* | *2.5%* | *2.5%* | *2.5%* |
| *of which systemic risk buffer requirement* | *3.0%* | *3.0%* | | |
| *of which countercyclical capital buffer requirement* | *1.2%* | *0.9%* | *1.3%* | *1.2%* |
| Common Equity Tier 1 capital available to meet buffer[1)] | 13.1% | 14.9% | 12.4% | 15.3% |
| **Transitional floor 80% of capital requirement according to Basel I** | | | | |
| Minimum floor own funds requirement according to Basel I | | 89,774 | | 72,415 |
| Own funds according to Basel I | | 149,030 | | 131,977 |
| Own funds in relation to own funds requirement Basel I | | 1.66 | | 1.82 |
| **Leverage ratio** | | | | |
| Exposure measure for leverage ratio calculation | 2,773,608 | 2,519,532 | | |
| *of which on balance sheet items* | *2,311,250* | *2,140,093* | | |
| *of which off balance sheet items* | *462,358* | *379,439* | | |
| Leverage ratio | 5.1% | 5.2% | | |

1) CET1 ratio less minimum capital requirement of 4.5 per cent excluding buffers. In addition to the CET1 requirements there is a total capital requirement of an additional 3.5 per cent.

## Own funds

| | Consolidated situation | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Total equity according to balance sheet[1)]** | **148,789** | **143,925** | **128,962** | **121,476** |
| Deductions related to the consolidated situation and other foreseeable charges | −14,227 | −14,357 | −14,017 | −12,461 |
| **Common Equity Tier 1 capital before regulatory adjustments[2)]** | **134,562** | **129,568** | **114,944** | **109,016** |
| Additional value adjustments | −868 | −663 | −839 | −283 |
| Intangible assets | −6,467 | −6,225 | −5,134 | −4,955 |
| Deferred tax assets that rely on future profitability | | −75 | | |
| Fair value reserves related to gains or losses on cash flow hedges | −313 | −1,192 | −313 | −1,192 |
| Negative amounts resulting from the calculation of expected loss amounts | −78 | −1,307 | | −648 |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | 8 | 99 | −151 | 66 |
| Defined-benefit pension fund assets | −816 | −1,807 | | |
| Direct and indirect holdings of own CET1 instruments | −172 | −193 | −172 | −193 |
| **Total regulatory adjustments to Common Equity Tier 1** | **−8,705** | **−11,364** | **−6,608** | **−7,205** |
| **Common Equity Tier 1 capital** | **125,857** | **118,204** | **108,336** | **101,810** |
| Additional Tier I instruments | 15,251 | 13,922 | 15,251 | 13,922 |
| **Tier 1 capital** | **141,108** | **132,127** | **123,587** | **115,733** |
| Tier 2 instruments | 18,987 | 18,171 | 18,987 | 18,171 |
| Net provisioning amount for IRB-reported exposures | 436 | 126 | 529 | |
| Holdings of Tier 2 instruments in financial sector entities | −1,200 | −2,575 | −1,200 | −2,575 |
| **Tier 2 capital** | **18,222** | **15,722** | **18,316** | **15,596** |
| **TOTAL** | **159,331** | **147,849** | **141,904** | **131,328** |

1) For the parent company Total equity includes Untaxed reserves net of tax.
2) The Common Equity Tier 1 capital is presented on a consolidated basis, and differs from total equity according to IFRS. The insurance business contribution to equity is excluded and there is a dividend deduction calculated according to Regulation (EU) No 575/2013 (CRR).

*Note 42 continued* *Capital adequacy*

**Risk exposure amount**

| | Consolidated situation | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| **Credit risk IRB approach** | Risk exposure amount | Own funds requirement[1] | Risk exposure amount | Own funds requirement[1] | Risk exposure amount | Own funds requirement[1] | Risk exposure amount | Own funds requirement[1] |
| Exposures to central governments or central banks | 11,602 | 928 | 9,319 | 745 | 6,232 | 499 | 3,725 | 298 |
| Exposures to institutions | 51,033 | 4,083 | 32,838 | 2,627 | 49,759 | 3,981 | 30,757 | 2,461 |
| Exposures to corporates | 342,713 | 27,417 | 326,317 | 26,105 | 275,630 | 22,050 | 218,878 | 17,510 |
| Retail exposures | 63,171 | 5,054 | 62,296 | 4,984 | 37,322 | 2,986 | 36,962 | 2,957 |
| *of which secured by immovable property* | *36,720* | *2,938* | *36,558* | *2,925* | *28,189* | *2,255* | *27,738* | *2,219* |
| *of which retail SME* | *7,027* | *562* | *7,033* | *563* | *498* | *40* | *2,807* | *225* |
| *of which other retail exposures* | *19,424* | *1,554* | *18,704* | *1,496* | *9,133* | *731* | *6,417* | *513* |
| Securitisation positions | 987 | 79 | 838 | 67 | 987 | 79 | 368 | 29 |
| **Total IRB approach** | **469,506** | **37,560** | **431,607** | **34,529** | **369,931** | **29,594** | **290,691** | **23,255** |
| **Credit risk standardised approach** | | | | | | | | |
| Exposures to central governments or central banks | 2,241 | 179 | 4,060 | 325 | | | | |
| Exposures to institutions | 649 | 52 | 844 | 68 | 17,793 | 1,423 | 49,917 | 3,993 |
| Exposures to corporates | 14,539 | 1,163 | 18,197 | 1,456 | 11,072 | 886 | 8,039 | 643 |
| Retail exposures | 13,310 | 1,065 | 12,084 | 967 | 7,881 | 630 | 7,488 | 599 |
| Exposures secured by mortgages on immovable property | 2,184 | 175 | 2,539 | 203 | 614 | 49 | 846 | 68 |
| Exposures in default | 168 | 13 | 112 | 9 | 12 | 1 | 56 | 4 |
| Exposures associated with particularly high risk | 761 | 61 | 866 | 69 | 761 | 61 | 866 | 69 |
| Securitisation positions | | | 222 | 18 | | | | |
| Exposures in the form of collective investment undertakings (CIU) | 45 | 4 | 41 | 3 | | | | |
| Equity exposures | 4,045 | 324 | 1,972 | 158 | 41,586 | 3,327 | 41,436 | 3,315 |
| Other items | 5,885 | 471 | 7,801 | 624 | 4,456 | 356 | 5,946 | 476 |
| **Total standardised approach** | **43,827** | **3,506** | **48,739** | **3,899** | **84,176** | **6,734** | **114,594** | **9,167** |
| **Market risk** | | | | | | | | |
| Trading book exposures where internal models are applied | 25,020 | 2,002 | 24,892 | 1,991 | 24,990 | 1,999 | 24,876 | 1,990 |
| Trading book exposures applying standardised approaches | 7,711 | 617 | 9,881 | 790 | 7,534 | 603 | 9,786 | 783 |
| Foreign exchange rate risk | 2,889 | 231 | 4,022 | 322 | 2,844 | 228 | 3,964 | 317 |
| **Total market risk** | **35,620** | **2,850** | **38,794** | **3,104** | **35,368** | **2,829** | **38,626** | **3,090** |
| **Other own funds requirements** | | | | | | | | |
| Operational risk advanced measurement approach | 47,151 | 3,772 | 48,219 | 3,858 | 35,310 | 2,825 | 35,014 | 2,802 |
| Settlement risk | 9 | 1 | 38 | 3 | 9 | 1 | 38 | 3 |
| Credit value adjustment | 7,605 | 608 | 6,767 | 541 | 7,428 | 594 | 6,095 | 488 |
| Investment in insurance business | 16,633 | 1,331 | 16,633 | 1,331 | 16,633 | 1,331 | 16,633 | 1,331 |
| Other exposures | 4,556 | 365 | 4,219 | 338 | | | | |
| Additional risk exposure amount[2] | 91,591 | 7,327 | 15,802 | 1,264 | 91,587 | 7,327 | 12,637 | 1,011 |
| **Total other own funds requirements** | **167,545** | **13,404** | **91,678** | **7,334** | **150,967** | **12,078** | **70,417** | **5,635** |
| **TOTAL** | **716,498** | **57,320** | **610,819** | **48,866** | **640,442** | **51,235** | **514,328** | **41,146** |

1) The Own funds requirement is 8 per cent of risk exposure amount according to Regulation (EU) No 575/2013 (CRR).
2) At 31 December 2018 an amount of SEK 91,591m in Additional REA was established for SEB consolidated situation in compliance with the change in SFSA's regulatory requirements, according to Article 458, for risk-weight floors in the Swedish mortgage portfolio. At 31 December 2017, Additional REA amounted to SEK 15,802m for SEB consolidated situation, established in 2015 in agreement with the SFSA as a measure of prudence under Capital Requirements Regulation (EU) No 575/2013 (CRR) Article 3. This amount was removed in Q1 2018 following the approval of SEB's recalibrated corporate PD model.

**Average risk-weight**

| | Consolidated situation | | Parent company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Exposures to central governments or central banks | 3.0% | 3.3% | 2.0% | 2.1% |
| Exposures to institutions | 25.4% | 24.0% | 25.5% | 23.9% |
| Exposures to corporates | 31.0% | 31.6% | 27.8% | 26.5% |
| Retail exposures | 10.2% | 10.4% | 7.4% | 7.5% |
| *of which secured by immovable property* | *6.8%* | *7.0%* | *5.8%* | *5.9%* |
| *of which retail SME* | *57.7%* | *59.6%* | *35.5%* | *42.5%* |
| *of which other retail exposures* | *30.8%* | *30.7%* | *37.8%* | *37.2%* |
| Securitisation positions | 9.3% | 10.6% | 9.3% | 12.7% |

The consolidated SEB Group must also comply with capital requirements concerning combined banking and insurance groups, i.e. financial conglomerates. The combined capital requirement for the SEB financial conglomerate was SEK 177,3bn while the Own funds amounted to SEK 207,5bn. In these total figures, SEB Life and Pension Holding AB has contributed with Solvency II figures from September 30, 2018.

# 43 Life insurance operations

| INCOME STATEMENT | Group 2018 | Group 2017 |
|---|---|---|
| Premium income, net | 6,863 | 10,039 |
| Income investment contracts | | |
| – Own fees including risk gain/loss | 1,471 | 1,525 |
| – Commissions from fund companies | 1,899 | 1,928 |
| | 3,371 | 3,453 |
| Net investment income | 747 | 5,103 |
| Other operating income | 420 | 556 |
| **Total income, gross** | **11,401** | **19,151** |
| Claims paid, net | –4,901 | –8,174 |
| Change in insurance contract provisions | –1,984 | –5,649 |
| **Total income, net** | **4,516** | **5,329** |
| *Of which from other units within the SEB group* | *1,483* | *1,595* |
| Direct acquisition costs investment and insurance contracts | –953 | –1,042 |
| Change in deferred acquisition costs | –112 | –122 |
| | –1,065 | –1,164 |
| Commissions received and profit share from ceded reinsurance | 121 | 115 |
| Other expenses | –1,653 | –1,838 |
| **Total expenses** | **–2,596** | **–2,888** |
| Net expected credit losses | –2 | |
| **OPERATING PROFIT** | **1,917** | **2,441** |

| CHANGE IN SURPLUS VALUES IN DIVISION LIFE | 2018 | 2017 |
|---|---|---|
| Present value of new sales[1)] | 1,054 | 1,045 |
| Return on existing policies | 1,557 | 1,856 |
| Realised surplus value in existing policies | –2,665 | –2,999 |
| Actual outcome compared to assumptions[2)] | –1,486 | –39 |
| **Change in surplus values from ongoing business, gross** | **–1,541** | **–136** |
| Capitalisation of acquisition costs | –319 | –316 |
| Amortisation of capitalised acquisition costs | 431 | 439 |
| Change in deferred front end fees | 23 | 21 |
| **Change in surplus values from ongoing business, net[3)]** | **–1,406** | **7** |
| Financial effects due to short-term market fluctuations[4)] | –1,664 | 769 |
| Change in assumptions[5)] | –762 | 134 |
| **TOTAL CHANGE IN SURPLUS VALUES[6)]** | **–3,833** | **910** |

Calculations of surplus value in the life insurance operations are based on assumptions of the future development of existing insurance contracts and a risk-adjusted discount rate. The most important assumptions (Swedish unit-linked – which represent 85 per cent (63) of the total surplus value).

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 7% | 7% |
| Surrender of endowment insurance contracts: contracts signed within 1 year / 1–4 years / 5 years / 6 years / thereafter | 2%/6%/15%/13%/8% | 1%/6%/19%/15%/9% |
| Lapse rate of regular premiums | 8.2% | 8.3% |
| Transfer rate | 3.5% | 3.1% |
| Growth in fund units, gross before fees and taxes | 5% | 5% |
| Inflation CPI / Inflation expenses | 2% / 3% | 2% / 3% |
| Expected return on solvency margin | 3% | 3% |
| Mortality | The Group's experience | The Group's experience |

1) Sales defined as new contracts and extra premiums in existing contracts.
2) The actual outcome of previously signed contracts is compared with previous assumptions and deviations are calculated. Important components are the duration of contracts and cancellations.
3) Acquisition costs are capitalised and amortised according to plan. Certain front end fees are also recorded on the balance sheet and recognized as revenue in the income statement during several years. The reported change in surplus values is adjusted by the net effect of changes in deferred acquisition costs and front end fees during the period.
4) Assumed investment return (growth in fund values) is 5.0 per cent gross before fees and taxes. Actual returns results in positive or negative financial effects.
5) Effect of changes in assumptions such as frequency of surrenders, transfers out and assumed expenses.
6) The calculated surplus value is not included in the SEB Group's consolidated accounts. The surplus value is net of capitalised acquisition costs and deferred front end fees.

## SUMMARISED FINANCIAL INFORMATION FOR GAMLA LIVFÖRSÄKRINGSBOLAGET SEB TRYGG LIV*

| **Income statement, condensed** | 2018 | 2017 |
|---|---|---|
| Life insurance technical result | 4,444 | 8,142 |
| Other costs and appropriations | 16 | 60 |
| Taxes | –291 | –194 |
| **NET RESULT** | **4,169** | **8,008** |

| **Balance sheet, condensed** | 2018 | 2017 |
|---|---|---|
| Total assets | 176,190 | 181,308 |
| **TOTAL ASSETS** | **176,190** | **181,308** |
| Total liabilities | 84,451 | 87,359 |
| Consolidation fund / equity | 91,631 | 93,825 |
| Untaxed reserves | 108 | 124 |
| **TOTAL LIABILITIES AND EQUITY** | **176,190** | **181,308** |

* SEB owns all shares of Gamla Livförsäkringsbolaget SEB Trygg Liv except for a golden share owned by Trygg-Stiftelsen. Gamla Livförsäkringsbolaget SEB Trygg Liv is not consolidated as subsidiary of the group, since the ownership of SEB in Gamla Livförsäkringsbolaget SEB Trygg Liv does not result in control. Current year figures are unaudited.

# 44 Assets in unit-linked operations

Within the unit-linked business SEB holds, for its customers' account, a share of more than 50 per cent in 43 (26) funds, where SEB is the investment manager. The total value of those funds amounted to SEK 124,353m (129,759) of which SEB, for its customers' account, holds SEK 89,547m (90,167).

# 45 Interest in unconsolidated structured entities

| | Group | | | Parent company | | |
|---|---|---|---|---|---|---|
| **Assets, 2018** | Special purpose entities | Asset management[1] | Total | Special purpose entities | Asset management[1] | Total |
| Loans to the public | 9,778 | 184 | **9,962** | 9,778 | 184 | **9,962** |
| Financial assets | 3 | 249,894 | **249,897** | 3 | 1,081 | **1,084** |
| *of which: derivatives* | *3* | *3* | ***6*** | *3* | *3* | ***6*** |
| **TOTAL** | **9,781** | **250,078** | **259,859** | **9,781** | **1,265** | **11,046** |
| **Liabilities** | | | | | | |
| Deposits and borrowings from the public | 375 | 230 | **605** | 375 | 230 | **605** |
| Financial liabilities | 0 | 0 | **0** | 0 | 0 | **0** |
| *of which: derivatives* | *0* | *0* | ***0*** | *0* | *0* | ***0*** |
| **TOTAL** | **376** | **230** | **606** | **376** | **230** | **606** |
| **Obligations** | **341** | | **341** | **341** | | **341** |
| **The Group's maximum exposure to loss** | **10,122** | **5,939** | **16,060** | **10,122** | **1,265** | **11,387** |

1) Investments in SEB- and non-SEB managed funds

| | Group | | | Parent company | | |
|---|---|---|---|---|---|---|
| **Assets, 2017** | Special purpose entities | Asset management[1] | Total | Special purpose entities | Asset management[1] | Total |
| Loans to the public | 8,434 | 343 | **8,777** | 7,244 | 343 | **7,587** |
| Financial assets | 2 | 277,606 | **277,608** | 2 | 1,012 | **1,013** |
| *of which: derivatives* | *2* | *5* | ***7*** | *2* | *5* | ***7*** |
| **TOTAL** | **8,435** | **277,949** | **286,384** | **7,246** | **1,355** | **8,600** |
| **Liabilities** | | | | | | |
| Deposits and borrowings from the public | 216 | 77 | **292** | −87 | −77 | **−164** |
| Financial liabilities | 1 | 52 | **53** | −1 | −52 | **−53** |
| *of which: derivatives* | *1* | *52* | ***53*** | *−1* | *−52* | ***−53*** |
| **TOTAL** | **217** | **129** | **346** | **−88** | **−129** | **−217** |
| **Obligations** | **577** | | **577** | **577** | | **577** |
| **The Group's maximum exposure to loss** | **9,012** | **20,638** | **29,650** | **7,823** | **1,355** | **9,177** |

1) Investments in SEB- and non-SEB managed funds

Interests in unconsolidated structured entities refers to cases when the group has interests in structured entities which it does not control. A structured entity is an entity that is designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The group enters into transactions with structured entities in the normal cause of business for various reasons. Depending on the type of structured entity the purpose is to support customer transactions, to engage in specific investment opportunities and to facilitate the start-up of certain entities.

The group has interests in the following types of structured entities:

**Interests in funds**

The group establishes and manages funds to provide customers with investment opportunities, SEB is considered to be the sponsor of those funds. Total assets under management represent the size of a fund. Total assets under management of funds managed by SEB are SEK 622bn (569). The total assets of Non-SEB managed funds are not publically available and not considered meaningful for understanding related risks, and have therefore not been presented. In some cases the group facilitates the start-up of funds by holding units and it may hold units in funds managed by the group or by a third party for investment purposes within the life business. The funds managed by the group generate income in the form of management fees and performance fees based on the assets under management. The income from asset management is presented in note 5. The maximum exposure to loss is limited to the carrying amount of units held by the group. This amount does not reflect the probable loss.

**Interests in other structured entities**

The group has had a role in establishing structured entities to support customer transactions. The purpose of these entities is to provide alternative funding and liquidity improvement to the sellers and investment opportunities to investors by purchasing assets and obtain funding for the purchases with the assets as collateral. The group provides senior revolving credit facilities and administrative services to the entities and earn fee and interest income on market based conditions.

The group holds the most senior investments in debt instruments issued by banks, through securitisation vehicles (SPV) whose purpose is to provide alternative funding to the issuers and investment opportunities to investors. The SPVs purchase pools of asset from the originating banks balance sheet, e.g. credit card loans, residential mortgage loans, loans to small and medium sized enterprises and fund these purchases by issuing debt securities with the assets as collateral. The securities have multiple tranches of subordination.

The maximum exposure to loss regarding investments in other structured entities is limited to the carrying amount of the investments and may occur only after losses by creditors with junior exposures. The maximum exposure to loss does not reflect the probability of loss and hedging or collateral arrangements are not considered. The total assets for these entities are not considered meaningful information for the purpose of understanding the related risks and therefore have not been presented.

# 46 Related parties

| Group, 2018 | Group | | | | | |
|---|---|---|---|---|---|---|
| | Associated companies | | Key management | | Other related parties | |
| | Assets/ Liabilities | Interest | Assets/ Liabilities | Interest | Assets/ Liabilities | Interest |
| Loans to the public | 830 | 18 | 246 | 4 | 71 | 1 |
| Notional amount of derivatives | | | | | 2,837 | |
| Deposits and borrowings from the public | 51 | | 38 | | 717 | |
| **2017** | | | | | | |
| Loans to the public | 960 | 13 | 227 | 3 | 30 | |
| Notional amount of derivatives | | | | | 1,575 | |
| Deposits and borrowings from the public | 105 | | 38 | | 260 | |

| Parent company, 2018 | Parent company | | | |
|---|---|---|---|---|
| | Associated companies | | Group companies | |
| | Assets/ Liabilities | Interest | Assets/ Liabilities | Interest |
| Loans to credit institutions | | | 39,575 | 106 |
| Loans to the public | 830 | 17 | 6,638 | 56 |
| Interest-bearing securities | | | 1,233 | 32 |
| Positive replacement values of derivatives | | | 580 | |
| Other assets | 5 | | 726 | 5 |
| **TOTAL** | **835** | **17** | **48,752** | **199** |
| Deposits from credit institutions | | | 28,955 | −470 |
| Deposits and borrowings from the public | 51 | 1 | 13,884 | −19 |
| Negative replacement values of derivatives | | | 1,641 | |
| Other liabilities | 1 | | 147 | −4 |
| **TOTAL** | **52** | **1** | **44,627** | **−493** |
| **2017** | | | | |
| Loans to credit institutions | | | 138,931 | 126 |
| Loans to the public | | | 11,887 | 68 |
| Interest-bearing securities | 875 | 9 | 2,605 | 53 |
| Positive replacement values of derivatives | | | 3,862 | |
| Other assets | | | 24,092 | |
| **TOTAL** | **875** | **9** | **181,377** | **247** |
| Deposits from credit institutions | | | 46,490 | −415 |
| Deposits and borrowings from the public | 4 | | 10,359 | −52 |
| Negative replacement values of derivatives | | | 6,228 | |
| Other liabilities | | | 240 | |
| **TOTAL** | **4** | | **63,317** | **−467** |

Key management above refers to the Board of Directors and the Group Executive Committee. Entities with significant influence or significantly influenced by key management in the group, and post-employment benefit plans are presented as other related parties. Investor AB and the pension foundation SEB-stiftelsen are within this category as well as close family members to key management. In addition the group has insurance administration and asset management agreements with Gamla Livförsäkringsbolaget SEB Trygg Liv based on conditions on the market. SEB has received SEK 120m (120) under the insurance administration agreement and SEK 402m (381) under the asset management agreement. For more information on Gamla Livförsäkringsbolaget SEB Trygg Liv, see note 43.

The parent company is a related party to its subsidiaries and associates. See note 22 Investments in associates and subsidiaries for disclosures of investments.

# 47 Financial assets and liabilities subject to offsetting or netting arrangements

| Group, 2018 | Financial assets and liabilities subject to offsetting or netting arrangements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Related arrangements | | | Other instruments in balance sheet not subject to netting arrangements | Total in balance sheet |
| | Gross amounts | Offset | Net amounts in balance sheet | Master netting arrangements | Collaterals received/ pledged | Net amounts | | |
| Derivatives | 119,346 | −4,593 | **114,753** | −59,473 | −32,842 | **22,439** | 710 | **115,463** |
| Reversed repo receivables | 158,494 | −60,367 | **98,127** | −2,892 | −95,235 | | 1,258 | **99,385** |
| Securities borrowing | 28,690 | | **28,690** | | −28,497 | **193** | 208 | **28,898** |
| Client receivables | 190 | −190 | | | | | 12,826 | **12,826** |
| **ASSETS** | **306,720** | **−65,150** | **241,570** | **−62,364** | **−156,574** | **22,632** | **15,002** | **256,572** |
| Derivatives | 100,059 | −4,593 | **95,467** | −59,473 | −25,894 | **10,100** | 1,406 | **96,872** |
| Repo payables | 63,433 | −60,367 | **3,066** | −2,892 | | **175** | 522 | **3,588** |
| Securities lending | 26,059 | | **26,059** | | −25,388 | **670** | 3 | **26,062** |
| Client payables | 190 | −190 | | | | | 9,572 | **9,572** |
| **LIABILITIES** | **189,742** | **−65,150** | **124,591** | **−62,364** | **−51,283** | **10,945** | **11,502** | **136,094** |
| 2017 | | | | | | | | |
| Derivatives | 111,634 | −7,826 | **103,808** | −58,922 | −29,374 | **15,512** | 1,060 | **104,868** |
| Reversed repo receivables | 104,354 | −61,735 | **42,620** | −6,613 | −36,007 | | | **42,620** |
| Securities borrowing | 3,782 | | **3,782** | −3,165 | −512 | **105** | 12,955 | **16,736** |
| Client receivables | | | | | | | 11,817 | **11,817** |
| **ASSETS** | **219,770** | **−69,560** | **150,210** | **−68,701** | **−65,892** | **15,617** | **25,832** | **176,042** |
| Derivatives | 92,496 | −7,826 | **84,670** | −58,922 | −18,293 | **7,455** | 763 | **85,434** |
| Repo payables | 68,348 | −61,735 | **6,613** | −6,613 | | | | **6,613** |
| Securities lending | 9,604 | | **9,604** | −3,165 | −6,152 | **287** | 911 | **10,515** |
| Client payables | | | | | | | 10,894 | **10,894** |
| **LIABILITIES** | **170,448** | **−69,560** | **100,888** | **−68,701** | **−24,445** | **7,742** | **12,569** | **113,456** |

| Parent company, 2018 | Financial assets and liabilities subject to offsetting or netting arrangements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Related arrangements | | | Other instruments in balance sheet not subject to netting arrangements | Total in balance sheet |
| | Gross amounts | Offset | Net amounts in balance sheet | Master netting arrangements | Collaterals received/ pledged | Net amounts | | |
| Derivatives | 113,282 | | **113,282** | −58,486 | −32,642 | **22,154** | | **113,282** |
| Reversed repo receivables | 158,494 | −60,367 | **98,127** | −2,892 | −95,235 | | | **98,127** |
| Securities borrowing | 28,700 | | **28,700** | −6,966 | −21,733 | | | **28,700** |
| Client receivables | 190 | −190 | | | | | 12,429 | **12,429** |
| **ASSETS** | **300,666** | **−60,557** | **240,109** | **−68,344** | **−149,610** | **22,154** | **12,429** | **252,538** |
| Derivatives | 95,269 | | **95,269** | −58,486 | −25,894 | **10,888** | | **95,269** |
| Repo payables | 63,259 | −60,367 | **2,892** | −2,892 | | | 519 | **3,411** |
| Securities lending | 25,388 | | **25,388** | −6,966 | −18,422 | | | **25,388** |
| Client payables | 190 | −190 | | | | | 8,509 | **8,509** |
| **LIABILITIES** | **184,106** | **−60,557** | **123,548** | **−68,344** | **−44,316** | **10,888** | **9,029** | **132,577** |
| 2017 | | | | | | | | |
| Derivatives | 104,220 | | **104,220** | −57,904 | −29,155 | **17,161** | | **104,220** |
| Reversed repo receivables | 104,354 | −61,735 | **42,620** | −6,613 | −36,007 | | | **42,620** |
| Securities borrowing | 3,468 | | **3,468** | −3,165 | −303 | | 35,153 | **38,621** |
| Client receivables | | | | | | | 11,620 | **11,620** |
| **ASSETS** | **212,043** | **−61,735** | **150,308** | **−67,682** | **−65,465** | **17,161** | **46,773** | **197,081** |
| Derivatives | 86,990 | | **86,990** | −57,904 | −18,293 | **10,793** | | **86,990** |
| Repo payables | 68,349 | −61,735 | **6,614** | −6,614 | | | | **6,614** |
| Securities lending | 8,505 | | **8,505** | −3,165 | −5,340 | | 35,254 | **43,759** |
| Client payables | | | | | | | 9,843 | **9,843** |
| **LIABILITIES** | **163,844** | **−61,735** | **102,110** | **−67,683** | **−23,633** | **10,793** | **45,097** | **147,207** |

The table shows financial assets and liabilities that are presented net in the balance sheet or with potential rights to off-set associated with enforceable master netting arrangements or similar arrangements, together with related collateral.

Financial assets and liabilities are presented net in the balance sheet when SEB has legally enforceable rights to set-off, in the ordinary cause of business and in the case of bankruptcy, and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Repos with central counterparty clearing houses that SEB has agreements with and client receivables and client payables are examples of instruments that are presented net in the balance sheet.

Financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements that are not presented net in the balance sheet are arrangements that are usually enforceable in the case of bankruptcy or default but not in the ordinary course of business or arrangements where SEB does not have the intention to settle the instruments simultaneously.

Assets and liabilities that are not subject to offsetting or netting arrangements, i.e those that are only subject to collateral agreements, are presented as Other instruments in balance sheet not subject to netting arrangements.

# 48 Pledged assets

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Pledged assets and comparable securities for own liabilities | 510,424 | 477,220 | 489,784 | 447,925 |
| Pledged assets for own liabilities to insurance policyholders | 292,402 | 436,890 | | |
| Other pledged assets and comparable securities | 97,713 | 136,998 | 82,072 | 114,494 |
| **TOTAL** | **900,539** | **1,051,109** | **571,856** | **562,419** |

**Pledged assets and comparable securities for own liabilities***

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Repos | 31,531 | 77,646 | 31,356 | 77,426 |
| Assets collateralised for issued mortgage covered bonds | 342,758 | 346,057 | 332,889 | 331,073 |
| Assets collateralised for issued public covered bonds | 7,042 | 9,530 | | |
| Other collateral | 129,093 | 43,986 | 125,539 | 39,425 |
| *of which group internal* | | | *22* | *23* |
| **TOTAL** | **510,424** | **477,220** | **489,784** | **447,925** |

* Transfers that do not qualify for derecognition.

**Pledged assets for own liabilities to insurance policyholders**

| | Group 2018 | Group 2017 |
|---|---|---|
| Assets pledged for insurance contracts | 21,846 | 114,578 |
| Assets pledged for investment contracts[1] | 270,556 | 322,312 |
| **TOTAL** | **292,402** | **436,890** |

1) Shares in funds.

**Other pledged assets and comparable collateral**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Bonds[1] | 58,652 | 57,390 | 58,652 | 57,390 |
| Securities lending | 15,641 | 59,443 | | 36,939 |
| Other | 23,419 | 20,166 | 23,419 | 20,166 |
| **TOTAL** | **97,713** | **136,998** | **82,072** | **114,494** |

1) Pledged but unencumbered bonds.

**Transferred financial assets entirely recognized[1]**

| | Transferred assets | | | | Associated liabilities | | | | Associated collateral received[2] |
|---|---|---|---|---|---|---|---|---|---|
| **Group, 2018** | Securities lending | Repurchase agreements | Other[3] | Total | Securities lending | Repurchase agreements | Other[3] | Total | Securities lending |
| Equity instruments | 13,255 | | 1,211 | **14,467** | 3,734 | | 939 | **4,674** | 8,852 |
| Debt securities | 6,420 | 307 | 3,656 | **10,383** | 182 | 305 | 2,690 | **3,177** | 6,528 |
| **Financial assets held for trading** | **19,676** | **307** | **4,867** | **24,850** | **3,916** | **305** | **3,630** | **7,850** | **15,380** |
| 2017 | | | | | | | | | |
| Equity instruments | 16,564 | | 617 | **17,181** | 1,073 | | 150 | **1,223** | 14,005 |
| Debt securities | 13,276 | 5,743 | 200 | **19,220** | 149 | 5,736 | 2 | **5,886** | 12,748 |
| **Financial assets held for trading** | **29,841** | **5,743** | **817** | **36,401** | **1,222** | **5,736** | **152** | **7,109** | **26,753** |

| | Transferred assets | | | | Associated liabilities | | | | Associated collateral received[2] |
|---|---|---|---|---|---|---|---|---|---|
| **Parent company, 2018** | Securities lending | Repurchase agreements | Other[3] | Total | Securities lending | Repurchase agreements | Other[3] | Total | Securities lending |
| Equity instruments | 13,170 | | 1,211 | **14,381** | 3,710 | | 898 | **4,608** | 8,794 |
| Debt securities | 6,420 | 307 | 732 | **7,459** | 177 | 305 | | **481** | 5,940 |
| **Financial assets held for trading** | **19,590** | **307** | **1,943** | **21,840** | **3,886** | **305** | **898** | **5,089** | **14,734** |
| 2017 | | | | | | | | | |
| Equity instruments | 16,492 | | 617 | **17,109** | 1,041 | | | **1,041** | 13,916 |
| Debt securities | 13,276 | 5,743 | 200 | **19,220** | 134 | 5,736 | | **5,869** | 11,976 |
| **Financial assets held for trading** | **29,768** | **5,743** | **817** | **36,329** | **1,174** | **5,736** | | **6,910** | **25,892** |

1) Carrying amount and fair value are the same.
2) Other than cash collateral.
3) Assets provided as collateral for derivatives trading, clearing etc.

**Pledged assets**

Assets are transferred for repurchase agreements and securities lending agreements. The counterpart has the right to sell or repledge the assets. Other transferred assets refer to assets provided as collateral for derivatives trading, clearing etc., where the title to the instrument has been transferred to the counterparty. The assets continue to be recognised on SEB's balance sheet since SEB is still exposed to changes in the fair value of the assets. The carrying value and fair value of the assets transferred as collateral for liabilities or contingent liabilities are shown in the table above.

SEB issues covered bonds secured by mortgage loans pledged as security according to the local legislation. The pledged securities are mainly residential mortgages in single family homes, tenant owned homes or other residential apartment buildings. The loan-to-value ratio does not exceed 75 per cent. In the event of SEB's insolvency, the holders of the covered bonds have priority to the assets registered as collateral.

**Obtained collateral**

SEB obtains collateral under reverse repurchase agreements and securities borrowing agreements. Under the terms of standard financial market agreements SEB has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transactions.

More information about the accounting of repurchase agreements and securities lending can be found in the accounting principles.

# 49 Obligations

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Contingent liabilities | 136,435 | 122,896 | 134,317 | 103,059 |
| Commitments | 589,032 | 563,181 | 535,168 | 435,488 |
| **TOTAL** | **725,467** | **686,077** | **669,486** | **538,547** |

**Contingent liabilities**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| **Own acceptances** | **1,297** | **2,122** | **1,232** | **2,096** |
| Financial guarantees given[1)] | 19,932 | 22,145 | 22,546 | 30,742 |
| *of which group internal* | | | *11,912* | *11,402* |
| Other guarantees given | 115,206 | 98,629 | 110,539 | 70,221 |
| *of which group internal* | | | *3,129* | *7,760* |
| **Guarantees given** | **135,138** | **120,774** | **133,085** | **100,962** |
| **TOTAL** | **136,435** | **122,896** | **134,317** | **103,059** |

1) SEB does not regularly securitise its assets and has no outstanding own issues.

**Other contingent liabilities**
The parent company has undertaken to the Monetary Authority of Singapore to ensure that its subsidiary in Luxembourg's branch in Singapore is able to fulfil its commitments.

The parent company has issued a deposit guarantee for DSK Hyp AG (former SEB AG) in Germany to the Bundesverband deutscher Banken e.V.

**Legal proceedings**
Within the ordinary course of business SEB is engaged in various legal proceedings, both in Sweden and in other jurisdictions. SEB does not expect these current legal proceedings to have a significant adverse effect on the financial position of the group.

**Risks and uncertainties**
The German Federal Ministry of Finance issued a circular on 17 July 2017 with administrative guidance in relation to withholding taxes on dividends in connection with certain cross-border securities lending and derivative transactions; so-called cum-cum transactions. The circular states an intention to examine transactions executed prior to the change in tax legislation that was enacted 1 January 2016. Ongoing audits by the local tax administration have to date resulted in preliminary minor reclaims on selected tax years. SEB has requested that these reclaims should be revoked.

Following a review, SEB is of the opinion that the cross-border securities lending and derivative transactions of SEB in Germany up until 1 January 2016 were conducted in compliance with then prevailing rules. Hence, to date no provisions have been made. Nevertheless, it cannot be ruled out that the outcome of potential future tax claims may have a negative financial effect on SEB.

**Commitments**

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Granted undrawn credit facilities | 377,440 | 333,917 | 361,371 | 266,966 |
| *of which group internal* | | | *169* | *339* |
| Unutilised part of overdraft facilities | 104,027 | 132,161 | 66,183 | 75,802 |
| *of which group internal* | | | *9,643* | *7,333* |
| Repledged collaterals | 99,239 | 90,160 | 99,289 | 90,237 |
| *of which group internal* | | | *247* | *286* |
| Other commitments given | 8,325 | 6,944 | 8,325 | 2,484 |
| **Other commitments** | **589,032** | **563,181** | **535,168** | **435,488** |
| **TOTAL** | **589,032** | **563,181** | **535,168** | **435,488** |

**Discretionary managed assets**
Discretionary managed assets in the parent company amounted to SEK 385bn (498).

# 50 Future minimum lease payments for operational leases*

| | Group 2018 | Group 2017 | Parent company 2018 | Parent company 2017 |
|---|---|---|---|---|
| Year 2018 | | 1,042 | | 791 |
| Year 2019 | 994 | 836 | 721 | 606 |
| Year 2020 | 888 | 694 | 645 | 486 |
| Year 2021 | 758 | 584 | 566 | 439 |
| Year 2022 | 629 | 514 | 479 | 394 |
| Year 2023 and later | 3,948 | 4,523 | 3,695 | 4,317 |
| **TOTAL** | **7,217** | **8,193** | **6,108** | **7,033** |

* Leases for premises and other operational leases where SEB is the lessee.

# 51 Finance leases*

| | Group | |
|---|---|---|
| | **2018** | **2017** |
| Book value | 63,240 | 62,107 |
| Gross investment | 67,710 | 66,694 |
| Present value of minimum lease payment receivables | 62,337 | 61,904 |
| Unearned finance income | 4,254 | 4,391 |
| The unguaranteed residual value | 684 | 480 |
| Reserve for impaired uncollectable minimum lease payments | | –176 |
| Expected credit losses allowances | –178 | |

* Financial leases where SEB is the lessor.

| | Group 2018 | | | Group 2017 | | |
|---|---|---|---|---|---|---|
| | Book value | Gross investment | Present value | Book value | Gross investment | Present value |
| Remaining maturity | | | | | | |
| – maximum 1 year | 7,503 | 7,994 | 7,668 | 8,097 | 8,377 | 8,113 |
| – more than 1 year but maximum 5 years | 33,581 | 37,689 | 35,210 | 28,663 | 30,073 | 28,817 |
| – more than 5 years | 22,156 | 22,027 | 19,459 | 25,347 | 28,244 | 24,974 |
| **TOTAL** | **63,240** | **67,710** | **62,337** | **62,107** | **66,694** | **61,904** |

The leased assets mainly comprise transport vehicles, machinery and facilities. The largest lease engagement amounts to SEK 5.6 billion (6.6).

# 52 Non-current assets and disposal groups classified as held for sale

| | Group | |
|---|---|---|
| **Non-current assets and disposal groups classified as held for sale** | **2018** | **2017** |
| Financial assets at fair value through profit or loss | | 175,506 |
| Other assets | | 8,505 |
| **TOTAL** | | **184,011** |
| **Liabilities of disposal groups classified as held for sale** | | |
| Liabilities to policyholders | | 133,688 |
| Financial liabilities at fair value through profit or loss | | 34,469 |
| Other liabilities | | 10,553 |
| **TOTAL** | | **178,710** |

In December 2017 SEB signed an agreement to sell all shares in SEB Pensionsforsikring A/S and SEB Administration A/S (SEB Pension) to Danica Pension Livsforsikringsaktieselskab (Danica, a subsidiary to Danske Bank). SEB Pension consists of a portfolio of life and pension contracts and approximately 275 employees. All conditions for the sale have been fulfilled and the business including employees, customer contracts and systems were transferred from SEB to Danica on 7 June 2018. SEB Pension was reported in the Life & Investment Management division.

During the second quarter 2018 the Baltic division completed the divestment of investment properties.

# 53 IFRS 9 and 15 transition disclosures – SEB Group

The transition disclosures outline the changes to SEB's financial statements as of 1 January 2018 from primarily three areas: (1) the effects of IFRS 15 Revenue from Contracts with Customers and the restatement of the income statement and the balance sheet, (2) a change in the presentation of SEB's balance sheet to better reflect the new requirements under IFRS 9 Financial Instruments and (3) the effects of transition from IAS 39 to IFRS 9 as of 1 January 2018. Additional information about SEB's adoption of IFRS 15 and IFRS 9 is available in note 1 Acccounting policies.

**IFRS 15:** The main effect from IFRS 15 is the change in the treatment of contract costs for investment contracts within Life where a smaller part of deferred acquisition costs (DAC) is now recognised as an asset. This change has resulted in a decrease of the deferred acquisition cost in the balance sheet of SEK 2,640m. The effect was recognised in the first quarter 2018, as a reduction of the opening balance of retained earnings as of 1 January 2017. Similarly, net fees and commissions in the 2017 income statement were restated reducing income by SEK 47m.

**IFRS 9:** As of 1 January 2018, IFRS 9 introduced new requirements for classification and measurement, impairment and hedge accounting. SEB's balance sheet has been adjusted to better reflect the measurement categories and accounting policies under IFRS 9. The new balance sheet applies from 1 January 2018. In order to facilitate comparison, the balance sheet per 31 December 2017 is presented in both the new and old format. The new balance sheet and more detailed information about the differences between IAS 39 and IFRS 9 are presented in note 53a and 53b.

The new requirements implied a change in the classification and measurement of financial assets and liabilities which reduced the 2018 opening balance for retained earnings by SEK 2,396m. The available-for-sale category under IAS 39, where fair value changes were reported in Other comprehensive income, ceased and valuations of fair value are reported in Net financial income. Certain holdings in Treasury that were classified as available-for-sale are now classified as amortised cost and some equity instrument's reclassifications resulted in a posititve of SEK 884m. As a result, a net positive fair value in the amount of SEK 620m was recognised. Regarding the classification and measurement of financial liabilities, the rules entail a change of reporting the own credit risk adjustment (OCA). Under IAS 39, the change in OCA was reported in Net financial income and is now reported in Other comprehensive income. The classification of bonds issued by SEB AG (renamed to DSK Hyp AG) maturing beyond the year 2020 changed to fair value through profit or loss from amortised cost. This reduced the opening balance of retained earnings by SEK 1,847m. An aggregate overview of the transitional effects from classification and measurement under IFRS 9, along with a detailed description for each portfolio, is presented in note 53c and 53d.

The impairment model for credit losses was changed from an incurred loss model to an expected loss model which resulted in an increase of allowances amounting to SEK 1,578m. The net effect after tax is a SEK 1,170m reduction of retained earnings. The increase in allowances was driven by three main factors: First, all items in scope were each assigned a reserve. Second, there was an increase of allowances for off-balance sheet commitments mainly in the retail portfolios. Third, a forward-looking view of the macroeconomic development was incorporated in the calculation of expected credit losses. There are three different scenarios that reflect SEB's view on macroeconomic development. Further information on expected credit losses and gross carrying amounts is provided in note 53f.

Under the current Capital Requirements Regulation (CRR), any shortfall between accounting provisions and regulatory expected losses is deducted from Common Equity Tier 1 (CET1) capital, while any excess is added back to Tier 2 capital. The first time application of the new expected credit loss model had a positive effect on SEB's CET1 capital amounting to SEK 30m. The negative effect on equity from increased provisions was offset by a reduction in the shortfall deduction. Further, the total risk exposure amount (REA) decreased by SEK 5bn due to lower capital requirements for defaulted exposures.

The net effect from IFRS 9 following shortfall adjustments and reduced REA reduced SEB's CET1 ratio with 18 bps.

## 53 a Transition disclosures – change in presentation of balance sheet – SEB Group

IFRS 15 Revenue from Contracts with Customers is applicable as of 1 January 2018. The main effect from IFRS 15 on SEB relates to the treatment of contract costs for investment contracts within Life that has changed so that a smaller part of deferred acquisition costs (DAC) is recognised as an asset. The change has resulted in a decrease of the deferred acquisition cost in the balance sheet of SEK 2,640m. The effect has been recognised in the first quarter 2018 as a reduction of the opening balance of retained earnings as of 1 January 2017. Similarly, net fees and commissions in the 2017 income statement has been restated reducing income by SEK 47m. These changes are included in the restated balance sheet.

As of 1 January 2018, SEB has changed its presentation of the balance sheet in order to better reflect the measurement categories and accounting principles under IFRS 9. The table demonstrates the remapping of SEB Group's balance sheet, where the closing balances under IAS 39 (previous presentation layout) has been restated with respect to IFRS 15, and then presented under the new balance sheet structure in order to facilitate for an efficient reconciliation between closing balances under IAS 39 and the opening balances under IFRS 9. The table also provides information on the amounts that have been moved between the balance sheet items under the previous presentation structure to the balance sheet items under the new presentation structure.

| SEB (previous presentation) | Restated Closing balance[1] 31 December 2017 | Change in presentation | New presentation of Closing balance 31 December 2017 | SEB (new presentation) |
|---|---|---|---|---|
| Cash and cash balances at central banks | 177,222 | | 177,222 | Cash and cash balances at central banks |
| Other lending to central banks | 12,778 | | 12,778 | Loans to central banks |
| Loans to credit institutions | 34,715 | 4,002 | 38,717 | Loans to credit institutions |
| Loans to the public | 1,484,803 | 1,962 | 1,486,765 | Loans to the public |
| *Securities held for trading* | *157,885* | *–157,885* | | |
| *Derivatives held for trading* | *98,281* | *–98,281* | | |
| *Derivatives held for hedging* | *6,587* | *–6,587* | | |
| *Financial assets – designated at fair value through profit or loss* | *313,203* | *–313,203* | | |
| Financial assets at fair value through profit or loss | 575,955 | –575,955 | | |
| Available-for-sale financial assets | 27,776 | –27,776 | | |
| | | 169,269 | 169,269 | Debt securities |
| | | 59,204 | 59,204 | Equity instruments |
| | | 283,420 | 283,420 | Financial assets for which the customers bear the investment risk |
| | | 104,868 | 104,868 | Derivatives |
| Fair value changes of hedged items in a portfolio hedge | 93 | | *93* | *Fair value changes of hedged items in a portfoliohedge of interest rate risk* |
| *Investment accounted for using the equity method* | *472* | | | |
| *Other investments in associates* | *842* | | | |
| Investments in subsidiaries and associates | 1,314 | | *1,314* | *Investments in subsidiaries and associates* |
| *Intangible assets[1]* | *8,030* | | *8,030* | *Intangible assets* |
| *Property and equipment* | *1,130* | | *1,130* | *Properties and equipment* |
| *Investment properties* | *203* | | *203* | *Investment properties* |
| Tangible and intangible assets[1] | 9,364 | | | |
| *Current tax assets* | *5,255* | | *5,255* | *Currrent tax assets* |
| *Deferred tax assets* | *260* | | *260* | *Deferred tax assets* |
| Tax assets | 5,515 | | | |
| *Trade and client receivables* | *13,040* | *–13,040* | | |
| *Other financial assets* | *19,007* | *–19,007* | | |
| *Other non-financial assets* | *11,316* | *–11,316* | | |
| Other assets | 43,362 | | | |
| | | *5,280* | *5,280* | *Retirement benefit assets* |
| | | *16,856* | *16,856* | *Other assets* |
| | | *2,232* | *2,232* | *Prepaid expenses and accrued income* |
| Non-current assets and disposal groups classified as held for sale | 184,011 | | *184,011* | *Non-current assets and disposal groups classified as held for sale* |
| Other assets[1] | 243,659 | –18,994 | 224,664 | Other assets |
| **TOTAL ASSETS** | **2,556,908** | **0** | **2,556,908** | **TOTAL ASSETS** |

1) IFRS 15 Revenue from Contracts with Customers is applied retrospectively from 1 January 2018.

*Note 53 a continued* *Transition disclosures – change in presentation of balance sheet – SEB Group*

| SEB (previous presentation) | Restated Closing balance[1] 31 December 2017 | Change in presentation | New presentation of Closing balance 31 December 2017 | SEB (new presentation) |
|---|---|---|---|---|
| Deposits from central banks and credit institutions | 89,076 | 6,413 | 95,489 | Deposits from central banks and credit institutions |
| Deposits and borrowing from the public | 1,004,721 | 27,327 | 1,032,048 | Deposits and borrowings from the public |
| *Liabilities to policyholders – investment contracts* | *284,291* | | 284,291 | Financial liabilities for which the customers bear the investment risk |
| *Liabilities to policyholders – insurance contracts* | *18,911* | | 18,911 | Liabilities to policyholders |
| Liabilities to policyholders | 303,202 | | | |
| Debt securities issued | 614,033 | | 614,033 | Debt securities issued |
| *Liabilities held for trading* | *28,879* | *–28,879* | | |
| *Derivatives held for trading* | *84,571* | *–84,571* | | |
| *Derivatives held for hedging* | *863* | *–863* | | |
| Financial liabilities at fair value through profit or loss | 114,313 | –114,313 | | |
| | | 24,985 | 24,985 | Short positions |
| | | 85,434 | 85,434 | Derivatives |
| | | 3,894 | 3,894 | Other financial liabilities |
| Fair value changes of hedged items in a portfolio hedge | 1,046 | | *1,046* | *Fair value changes of hedged items in a portfolio hedge of interest rate risk* |
| *Current tax liabilities* | *1,463* | | *1,463* | *Current tax liabilities* |
| *Deferred tax liabilities* | *8,079* | | *8,079* | *Deferred tax liabilities* |
| Tax liabilities | 9,542 | | | |
| *Trade and client payables* | *13,142* | *–13,142* | | |
| *Other financial liabilities* | *33,766* | *–33,766* | | |
| *Other non-financial liabilities* | *18,720* | *–18,720* | | |
| Other liabilities | 65,629 | | | |
| | | *26,572* | *26,572* | *Other liabilities* |
| | | *5,316* | *5,316* | *Accrued expenses and prepaid income* |
| Provisions | 3,009 | –1,325 | *1,684* | *Provisions* |
| | | 1,325 | *1,325* | *Retirement benefit liabilities* |
| Subordinated liabilities | 32,390 | | *32,390* | *Subordinated liabilities* |
| Liabilities included in disposal groups classified as held for sale | 178,710 | | *178,710* | *Liabilities included in disposal groups classified as held for sale* |
| Other liabilities | 290,325 | –33,740 | 256,585 | Other liabilities |
| **Total liabilities** | **2,415,671** | **0** | **2,415,671** | **Total liabilities** |
| *Share capital* | *21,942* | | *21,942* | *Share capital* |
| *Other reserves* | *4,403* | | *4,403* | *Other reserves* |
| *Retained earnings[1]* | *114,893* | | *114,893* | *Retained earnings* |
| Shareholders' equity[1] | 141,237 | | 141,237 | Shareholders' equity |
| **Total equity[1]** | **141,237** | **0** | **141,237** | **Total equity** |
| **TOTAL LIABILITIES AND EQUITY** | **2,556,908** | **0** | **2,556,908** | **TOTAL LIABILITIES AND EQUITY** |

1) IFRS 15 Revenue from Contracts with Customers is applied retrospectively from 1 January 2018.

## 53 b Transition disclosures – from IAS 39 to IFRS 9 – SEB Group

The tables show the transition effects of IFRS 9 on SEB's balance sheet as a result of new measurement categories and ECL allowance under the new balance sheet structure, reconciling the closing balances under IAS 39 as of 31 December 2017 with the opening balances under IFRS 9 as of 1 January 2018.

| SEK m | New presentation of Closing balance 31 December 2017 | IFRS 9 Financial instruments: Change of classifications | IFRS 9 Financial instruments: Change in ECL allowances | Opening balance 1 January 2018 |
|---|---|---|---|---|
| Cash and cash balances at central banks | 177,222 | | | 177,222 |
| Loans to central banks | 12,778 | | | 12,778 |
| Loans to credit institutions | 38,717 | | –2 | 38,715 |
| Loans to the public | 1,486,765 | 14 | –972 | 1,485,808 |
| Debt securities | 169,269 | –341 | –1 | 168,928 |
| Equity instruments | 59,204 | 884 | | 60,087 |
| Financial assets for which the customers bear the investment risk | 283,420 | | | 283,420 |
| Derivatives | 104,868 | | | 104,868 |
| *Fair value changes of hedged items in a portfolio hedge of interest rate risk* | *93* | | | *93* |
| *Investments in subsidiaries and associates* | *1,314* | | | *1,314* |
| *Intangible assets* | *8,030* | | | *8,030* |
| *Properties and equipment* | *1,130* | | | *1,130* |
| *Investment properties* | *203* | | | *203* |
| *Currrent tax assets* | *5,255* | | | *5,255* |
| *Deferred tax assets* | *260* | | | *260* |
| *Retirement benefit assets* | *5,280* | | | *5,280* |
| *Other assets* | *16,856* | | *–2* | *16,854* |
| *Prepaid expenses and accrued income* | *2,232* | | | *2,232* |
| *Non-current assets and disposal groups classified as held for sale* | *184,011* | | | *184,011* |
| Other assets | 224,664 | | –2 | 224,662 |
| **TOTAL ASSETS** | **2,556,908** | **557** | **–977** | **2,556,489** |

| SEK m | New presentation of Closing balance 31 December 2017 | IFRS 9 Financial instruments: Change of classifications | IFRS 9 Financial instruments: Change in ECL allowances | Opening balance 1 January 2018 |
|---|---|---|---|---|
| Deposits from central banks and credit institutions | 95,489 | 15 | | 95,504 |
| Deposits and borrowings from the public | 1,032,048 | 2,656 | | 1,034,704 |
| Financial liabilities for which the customers bear the investment risk | 284,291 | | | 284,291 |
| Liabilities to policyholders | 18,911 | | | 18,911 |
| Debt securities issued | 614,033 | 54 | | 614,087 |
| Short positions | 24,985 | | | 24,985 |
| Derivatives | 85,434 | | | 85,434 |
| Other financial liabilities | 3,894 | | | 3,894 |
| *Fair value changes of hedged items in a portfolio hedge of interest rate risk* | *1,046* | *–868* | | *178* |
| *Current tax liabilities* | *1,463* | *–72* | *–413* | *978* |
| *Deferred tax liabilities* | *8,079* | *–2* | *5* | *8,082* |
| *Other liabilities* | *26,572* | | | *26,572* |
| *Accrued expenses and prepaid income* | *5,316* | | | *5,316* |
| *Provisions* | *1,684* | | *601* | *2,285* |
| *Retirement benefit liabilities* | *1,325* | | | *1,325* |
| *Subordinated liabilities* | *32,390* | | | *32,390* |
| *Liabilities held for sale* | *178,710* | | | *178,710* |
| Other liabilities[1) 2)] | 256,585 | –942 | 193 | 255,836 |
| **Total liabilities** | **2,415,671** | **1,783** | **193** | **2,417,647** |
| *Share capital* | *21,942* | | | *21,942* |
| *Other reserves* | *4,403* | *–1,236* | | *3,167* |
| *Retained earnings[1)]* | *114,893* | *9* | *–1,170* | *113,732* |
| Shareholders' equity | 141,237 | –1,227 | –1,170 | 138,841 |
| **Total equity** | **141,237** | **–1,227** | **–1,170** | **138,841** |
| **TOTAL LIABILITIES AND EQUITY** | **2,556,908** | **557** | **–977** | **2,556,489** |

1) Remeasurement of portfolio hedges (SEK –868m), current tax liabilities (SEK –72m) and deferred tax liabilities (SEK –2m).
2) ECL allowance (SEK 601m), current tax liabilities (SEK –413m) and deferred tax liabilities (SEK 5m).

## 53c Transition disclosures – overview of changes to measurement categories on transition to IFRS 9 – SEB Group

These tables provides a complete overview of the transition from measurement categories and carrying amounts under IAS 39 as of 31 December 2017 to the measurement categories and carrying amounts under IFRS 9 as of 1 January 2018. The change in carrying amounts following transition is a result of new measurement categories for financial assets and liabilities and ECL allowance (expected credit losses) for financial assets valued at amortised cost and off-balance sheet exposures under IFRS 9. For more details on the change in classification and measurement, see the detailed classification and measurement tables in note 53d.

| **Assets** SEK m | Closing balance 2017-12-31 under IAS 39 measurement categories | | | | | | Opening balance 2018-01-01 under IFRS 9 measurement categories | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HFT | FVO | AFS | LaR | Other[1] | Total | FVHFT | FVMPL | FVDPL | AmC | Other[1] | Total |
| Cash and cash balances at central banks | | | | 177,222 | | **177,222** | | | | 177,222 | | **177,222** |
| Loans to central banks | | | | 12,778 | | **12,778** | 334 | | | 12,444 | | **12,778** |
| Loans to credit institutions | | | | 38,717 | | **38,717** | 56 | | | 38,659 | | **38,715** |
| Loans to the public | | | | 1,486,765 | | **1,486,765** | 42,250 | 1,012 | | 1,442,546 | | **1,485,808** |
| Debt securities | 109,513 | 20,902 | 25,824 | 13,030 | | **169,269** | 33,983 | 108,135 | 7,647 | 19,162 | | **168,928** |
| Equity instruments | 48,371 | 8,880 | 1,952 | | | **59,204** | 48,371 | 11,716 | | | | **60,087** |
| Financial assets for which the customers bear the investment risk | | 283,420 | | | | **283,420** | | 283,420 | | | | **283,420** |
| Derivatives | 98,281 | | | | 6,587 | **104,868** | 98,281 | | | | 6,587 | **104,868** |
| Other assets | | | | 13,041 | 211,623 | **224,664** | | | | 13,039 | 211,623 | **224,662** |
| **TOTAL** | **256,165** | **313,203** | **27,776** | **1,741,554** | **218,211** | **2,556,908** | **223,275** | **404,283** | **7,647** | **1,703,072** | **218,211** | **2,556,489** |

| **Liabilities** SEK m | Closing balance 2017-12-31 under IAS 39 measurement categories | | | | | Opening balance 2018-01-01 under IFRS 9 measurement categories | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | HFT | FVO | AmC | Other[1] | Total | FVHFT | FVDPL | AmC | Other[1] | Total |
| Deposits from central banks and credit institutions | | | 95,489 | | **95,489** | 731 | 63 | 94,710 | | **95,504** |
| Deposits and borrowings from the public | | | 1,032,048 | | **1,032,048** | 5,893 | 11,831 | 1,016,980 | | **1,034,704** |
| Financial liabilities for which the customers bear the investment risk | | 284,291 | | | **284,291** | | 284,291 | | | **284,291** |
| Liabilities to policyholders | | | | 18,911 | **18,911** | | | | 18,911 | **18,911** |
| Debt securities issued | | 24,388 | 589,645 | | **614,033** | | 24,630 | 589,457 | | **614,087** |
| Short positions | 24,985 | | | | **24,985** | 24,985 | | | | **24,985** |
| Derivatives | 84,571 | | | 863 | **85,434** | 84,571 | | | 863 | **85,434** |
| Other financial liabilities | 3,894 | | | | **3,894** | 3,894 | | | | **3,894** |
| Other liabilities | | | 13,142 | 243,443 | **256,585** | | | 13,142 | 242,694 | **255,836** |
| Equity | | | | 141,237 | **141,237** | | | | 138,841 | **138,841** |
| **TOTAL** | **113,450** | **308,679** | **1,730,325** | **404,455** | **2,556,908** | **120,074** | **320,815** | **1,714,289** | **401,310** | **2,556,489** |

1) Refers to non-financial assets and liabilities, equity and hedge accounting derivatives measured at fair value through profit and loss.

## 53d Transition disclosures – detailed presentation of changes to measurement categories on transition to IFRS 9 – SEB Group

The following tables reconcile the previous classification categories under IAS 39 as of 31 December 2017 with the classification categories under IFRS 9 as of 1 January 2018.

### Assets

| **Loans,** SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Loans and receivables** | **1,538,260** | –1,538,260 | | | | |
| Reclassified to FVTPL held for trading | | 42,625 | 14 | | **42,640** | **FVTPL held for trading** |
| Reclassified to FVTPL mandatorily | | 1,012 | | | **1,012** | **FVTPL mandatorily** |
| To Amortised cost | | 1,494,623 | | –974 | **1,493,649** | **Amortised cost** |
| **TOTAL** | **1,538,260** | **0** | **14** | **–974** | **1,537,300** | |

As part of the business model assessment, SEB's repurchase agreement portfolio (reverse repos) has been assessed to meet the criteria for a 'held for trading' business model. As such, these instruments have been reclassified from loans & receivables to fair value through profit or loss held for trading as of 1 January 2018. The effect of this reclassification amounts to SEK 14m which has been recorded in retained earnings as of 1 January 2018.

As part of the business model assessment, a portion of loans within the loan syndication business has been assessed to meet the criteria for a 'hold to sell' business model. As such, these instruments have been reclassified from loans & receivables to fair value through profit or loss mandatorily.

*Note 53 d continued* *Transition disclosures – detailed presentation of changes to measurement categories on transition to IFRS 9 – SEB Group*

| Debt securities, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **109,513** | –109,513 | | | | |
| Reclassified to FVTPL mandatorily | | 75,530 | | | **75,530** | **FVTPL mandatorily** |
| To FVTPL held for trading | | 33,983 | | | **33,983** | **FVTPL held for trading** |
| **TOTAL** | **109,513** | **0** | | | **109,513** | |

As of 1 January 2018, SEB has reclassified SEK 76bn of securities held for trading as fair value through profit or loss mandatorily. The portfolio is managed and evaluated on a fair value basis and is no longer considered to meet the definition of trading assets.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Fair value option** | **20,902** | –20,902 | | | | |
| Reclassified to FVTPL mandatorily | | 13,255 | | | **13,255** | **FVTPL mandatorily** |
| To FVTPL designated | | 7,647 | | | **7,647** | **FVTPL designated** |
| **TOTAL** | **20,902** | **0** | | | **20,902** | |

As of 1 January 2018, SEB will no longer apply fair value option for a portion of its debt instruments. These instruments are managed and evaluated on a fair value basis and are therefore mandatorily measured at fair value through profit or loss under IFRS 9.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Available-for-sale** | **25,824** | –25,824 | | | | |
| Reclassified to FVTPL mandatorily | | 19,350 | | | **19,350** | **FVTPL mandatorily** |
| Reclassified to Amortised cost | | 6,474 | –341 | –1 | **6,132** | **Amortised cost** |
| **TOTAL** | **25,824** | **0** | **–341** | **–1** | **25,482** | |

As part of the business model assessment, a portion of SEB's debt securities previously classified as available-for-sale has been assessed to meet the criteria for FVTPL mandatorily as these bonds are managed and evaluated on a fair value basis. As such, these instruments have been reclassified from available-for-sale to fair value through profit or loss mandatorily. The accumulated OCI for these debt instruments was SEK 1m as of 31 December 2017 and has been recognised in retained earnings as of 1 January 2018.

As of 1 January 2018, SEB has measured a portion of its portfolio previously classified as available-for-sale as debt securities at amortised cost. These instruments are held in a "hold to collect" business model and meet the IFRS 9 (SPPI) criteria. The fair value of these instruments 31 December 2017 was SEK 6 474m. The accumulated OCI for the debt securities was SEK 402m as of 31 of December 2017 and where a positive market valuation of SEK has been removed as of 1 January 2018. The effect on equity from remeasurement (SEK 341m), accumulated OCI and tax adjustment was SEK 264m.

As of 31 December 2018 the fair value of the debt securities at amortised cost, but previously classified as available-for-sale, was SEK 6,239m. A fair value loss of SEK 158m would have been recognised if the financial assets had not been reclassified.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Loans and receivables** | **13,030** | –13,030 | | | | |
| To Amortised cost | | 13,030 | | 0 | **13,030** | **Amortised cost** |
| **TOTAL** | **13,030** | **0** | | **0** | **13,030** | |

| Equity instruments, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **48,371** | –48,371 | | | | |
| To FVTPL held for trading | | 48,371 | | | **48,371** | **FVTPL held for trading** |
| **TOTAL** | **48,371** | **0** | | | **48,371** | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Fair value option** | **8,880** | –8,880 | | | | |
| Reclassified to FVTPL mandatorily | | 8,880 | | | **8,880** | **FVTPL mandatorily** |
| **TOTAL** | **8,880** | **0** | | | **8,880** | |

As of 1 January 2018, SEB will no longer apply fair value option for a portion of its equity instruments. Equity instruments are mandatorily measured at fair value through profit or loss in line with IFRS 9 criteria.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Avalable-for-sale** | **1,952** | –1,952 | | | | |
| Reclassified to FVTPL mandatorily | | 1,952 | 884 | | **2,836** | **FVTPL mandatorily** |
| **TOTAL** | **1,952** | **0** | **884** | | **2,836** | |

Equity instruments are mandatorily measured at fair value through profit or loss in line with IFRS 9. The accumulated OCI for these equity instruments was SEK 212m as of 31 December 2017 and this amount has been recognised into retained earnings as of 1 January 2018.

*Note 53 d continued* *Transition disclosures – detailed presentation of changes to measurement categories on transition to IFRS 9 – SEB Group*

| Financial assets – policyholders bearing the investment risk, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Fair value option** | **283,420** | –283,420 | | | | |
| Reclassified to FVTPL mandatorily | | 283,420 | | | **283,420** | **FVTPL mandatorily** |
| **TOTAL** | **283,420** | **0** | | | **283,420** | |

Financial assets where the policyholder bears the investment risk are managed based on fair value. Under IAS 39 fair value option was applied for these instruments, but under IFRS 9 these are mandatorily measured at fair value through profit or loss.

| Derivatives, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **98,281** | –98,281 | | | | |
| To FVTPL held for trading | | 98,281 | | | **98,281** | **FVTPL held for trading** |
| **TOTAL** | **98,281** | **0** | | | **98,281** | |

| Other financial assets, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Loans and receivables** | **13,041** | –13,041 | | | | |
| To Amortised cost | | 13,041 | | –2 | **13,039** | **Amortised cost** |
| **TOTAL** | **13,041** | **0** | | **–2** | **13,039** | |

**Liabilities**

| Deposits, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Amortised cost** | **1,127,538** | –1,127,538 | | | | |
| Reclassified to FVTPL held for trading | | 6,613 | 11 | | **6,624** | **FVTPL held for trading** |
| Reclassified to FVTPL designated | | 9,234 | 2,660 | | **11,894** | **FVTPL designated** |
| To Amortised cost | | 1,111,690 | | | **1,111,690** | **Amortised cost** |
| **TOTAL** | **1,127,538** | **0** | **2,671** | | **1,130,208** | |

SEB has assessed that its repurchase agreement portfolio (repos) meets the criteria for held for trading liabilities. As such, these instruments have been reclassified from amortised cost to fair value through profit or loss as of 1 January 2018.

As of 1 January 2018, SEB has elected to apply the fair value option for a portion of its deposit portfolio in order to avoid accounting mismatch.

| Debt securities issued, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Fair value option** | **24,388** | –24,388 | | | | |
| To FVTPL designated | | 24,388 | | | **24,388** | **FVTPL designated** |
| **TOTAL** | **24,388** | **0** | | | **24,388** | |
| **Amortised cost** | **589,645** | –589,645 | | | | |
| Reclassified to FVTPL designated | | 188 | 54 | | **242** | **FVTPL designated** |
| To Amortised cost | | 589,457 | | | **589,457** | **Amortised cost** |
| **TOTAL** | **589,645** | **0** | **54** | | **589,699** | |

As of 1 January 2018, SEB has elected to apply the fair value option for a portion of the issued debt securities previously valued at amortised cost in order to avoid an accounting mismatch.

## 53e Transition disclosures – impairment provisions – IAS 39 and IFRS 9 – SEB Group

The table reconciles the closing period's impairment allowance measured in accordance with the IAS 39 incurred loss model and the provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018. For each asset class the new measurement category under IFRS 9 is compared to the previous measurement category under IAS 39 and demonstrating the change in allowances between IAS 39 and IFRS 9. The increase in the allowances is driven by three main factors: Firstly, all items in scope are each assigned a reserve. Secondly, an increase of allowances for off-balance sheet commitments mainly in the retail portfolios. Thirdly, the incorporation of a forward-looking view of the macroeconomic development (based on three different scenarios reflecting SEB's view on macroeconomic developments) in the calculation of expected credit losses.

| **Financial assets,** SEK m | Classification IAS 39 | Classification IFRS 9 | Provision for impairment IAS 39 31 Decembr 2017 | Changes in allowances | ECL allowance IFRS 9 1 January 2018 |
|---|---|---|---|---|---|
| Cash and cash balances at central banks | Loans and receivables | Amortised cost | | | |
| Other lending to central banks | Loans and receivables | Amortised cost | | | |
| Loans to credit institutions | Loans and receivables | Amortised cost | | –2 | –2 |
| Loans to the public | Loans and receivables | Amortised cost | –4,476 | –972 | –5,448 |
| Debt securities | Loans and receivables | Amortised cost | | –1 | –1 |
| Debt securities | Available for sale | Amortised cost | | | |
| Other assets | Loans and receivables | Amortised cost | | –2 | –2 |
| **TOTAL** | | | **–4,476** | **–977** | **–5,453** |

| **Loan commitments and Financial guarantees,** SEK m | Provision for impairment IAS 37 31 December 2017 | Changes in allowances | ECL allowance IFRS 9 1 January 2018 |
|---|---|---|---|
| **TOTAL** | **–75** | **–601** | **–676** |

## 53f Transition disclosures – exposure and expected credit loss (ECL) allowances by stage – SEB Group

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

**Group, opening balance 1 January, 2018**

| **Stage 1 (12-month ECL)** | Gross carrying amounts/Nominal amounts | ECL allowances | Carrying amounts/ Net amounts | ECL coverage ratio, % |
|---|---|---|---|---|
| Debt securities | 19,166 | –1 | 19,165 | |
| Loans[1] | 1,410,243 | –623 | 1,409,620 | |
| Financial assets | 1,429,409 | –624 | 1,428,785 | |
| Financial guarantees and Loan commitments | 471,674 | –164 | 471,510 | |
| **Total** | **1,901,083** | **–787** | **1,900,296** | **0.04** |
| **Stage 2 (lifetime ECL)** | | | | |
| Loans[1) 2)] | 84,466 | –1,142 | 83,324 | |
| Financial assets | 84,466 | –1,142 | 83,324 | |
| Financial guarantees and Loan commitments | 16,561 | –283 | 16,278 | |
| **Total** | **101,027** | **–1,425** | **99,602** | **1.41** |
| **Stage 3 (credit impaired/lifetime ECL)** | | | | |
| Loans[1) 3)] | 10,225 | –3,688 | 6,537 | |
| Financial assets | 10,225 | –3,688 | 6,537 | |
| Financial guarantees and Loan commitments | 1,212 | –229 | 983 | |
| **Total** | **11,437** | **–3,917** | **7,520** | **34.25** |
| **Total** | | | | |
| Debt securities | 19,166 | –1 | 19,165 | |
| Loans[1] | 1,504,934 | –5,453 | 1,499,481 | |
| Financial assets | 1,524,100 | –5,453 | 1,518,646 | |
| Financial guarantees and Loan commitments | 489,447 | –676 | 488,772 | |
| **TOTAL** | **2,013,547** | **–6,129** | **2,007,418** | **0.30** |

1) Excluding demand deposits credit institutions and including trade and client receivables presented as other assets.
2) Whereof gross carrying amounts SEK 1,223m and ECL allowances SEK 2m under Lifetime ECLs -simplified approach for trade receivables.
3) Whereof gross carrying amounts SEK 0m and ECL allowances SEK 0m for Purchased or originated credit impaired loans.

| | |
|---|---|
| Stage 3 loans / Total loans, gross, % | 0.68 |
| Stage 3 loans / Total loans, net, % | 0.44 |

## 53 g Transition disclosures – change in presentation of balance sheet – Skandinaviska Enskilda Banken

As of 1 January 2018, SEB has changed its presentation of the balance sheet in order to better reflect the measurement categories and accounting principles under IFRS 9. The table demonstrates the remapping of SEB AB's balance sheet, where the closing balances under IAS 39 (previous presentation layout) has been presented under the new balance sheet structure in order to facilitate for an efficient reconciliation between closing balances under IAS 39 and the opening balances under IFRS 9. The table also provides information on the amounts that have been moved between the balance sheet items under the previous presentation structure to the balance sheet items under the new presentation structure.

| SEB (previous presentation) | Closing balance 31 December 2017 | Change in presentation | New presentation of Closing balance 31 December 2017 | SEB (new presentation) |
|---|---|---|---|---|
| Cash and cash balances at central banks | 97,741 | | 97,741 | Cash and cash balances at central banks |
| | | 8,832 | 8,832 | Loans to central banks |
| Loans to credit institutions | 192,591 | −2,643 | 189,949 | Loans to credit institutions |
| Loans to the public | 1,196,824 | 9,082 | 1,205,906 | Loans to the public |
| *Securities held for trading* | *157,628* | *−157,628* | | |
| *Derivatives held for trading* | *97,640* | *−97,640* | | |
| *Derivatives held for hedging* | *6,580* | *−6,580* | | |
| *Other financial assets at fair value through profit and loss* | *9* | *−9* | | |
| Financial assets at fair value through profit or loss | 261,857 | −261,857 | | |
| Fair value changes of hedged items in a portfolio hedge | 32 | −32 | | |
| Available-for-sale financial assets | 10,521 | −10,521 | | |
| | | 125,070 | 125,070 | Debt securities |
| | | 50,098 | 50,098 | Equity instruments |
| | | 104,220 | 104,220 | Derivatives |
| | | *32* | *32* | *Fair value changes of hedged items in a portfolio hedge of interest rate risk* |
| Investments in associates | 1,032 | −1,032 | | |
| Shares in subsidiaries | 50,567 | −50,567 | | |
| | | *51,599* | *51,599* | *Investments in subsidiaries and associates* |
| *Intangible assets* | *1,597* | | *1,597* | *Intangible assets* |
| *Property and equipment* | *34,487* | | *34,487* | *Properties and equipment* |
| Tangible and intangible assets | 36,084 | | | |
| *Current tax assets* | *1,999* | | *1,999* | *Currrent tax assets* |
| Tax assets | 1,999 | | | |
| *Trade and client receivables* | *12,871* | *−12,871* | | |
| *Other financial assets* | *22,282* | *−22,282* | | |
| *Other non-financial assets* | *7,761* | *−7,761* | | |
| Other assets | 42,914 | | | |
| | | *18,151* | *18,151* | *Other assets* |
| | | *2,481* | *2,481* | *Prepaid expenses and accrued income* |
| Other assets | 132,597 | −22,250 | 110,347 | Other assets |
| **TOTAL ASSETS** | **1,892,163** | | **1,892,163** | **TOTAL ASSETS** |
| Deposits from central banks and credit institutions | 127,539 | 7,022 | 134,561 | Deposits from central banks and credit institutions |
| Deposits and borrowing from the public | 822,151 | 27,327 | 849,479 | Deposits and borrowings from the public |
| Debt securities issued | 610,292 | | 610,292 | Debt securities issued |
| *Liabilities held for trading* | *28,879* | *−28,879* | | |
| *Derivatives held for trading* | *86,127* | *−86,127* | | |
| *Derivatives held for hedging* | *863* | *−863* | | |
| Financial liabilities at fair value through profit or loss | 115,869 | −115,869 | | |
| | | 24,985 | 24,985 | Short positions |
| | | 86,990 | 86,990 | Derivatives |
| | | 3,894 | 3,894 | Other financial liabilities |
| *Current tax liabilities* | *684* | | *684* | *Current tax liabilities* |
| *Deferred tax liabilities* | *336* | | *336* | *Deferred tax liabilities* |
| Tax liabilities | 1,021 | | | |
| *Trade and client payables* | *11,782* | *−11,782* | | |
| *Other financial liabilities* | *34,350* | *−34,350* | | |
| *Other non-financial liabilities* | *10,466* | *−10,466* | | |
| Other liabilities | 56,597 | | | |
| | | *19,467* | *19,467* | *Other liabilities* |
| | | *2,781* | *2,781* | *Accrued expenses and prepaid income* |
| Provisions | 113 | | *113* | *Provisions* |
| Subordinated liabilities | 32,390 | | *32,390* | *Subordinated liabilities* |
| Other liabilities | 90,121 | −34,350 | 55,772 | Other liabilities |
| **Total liabilities** | **1,765,973** | **0** | **1,765,973** | **Total liabilities** |
| **Untaxed reserves** | **21,429** | | **21,429** | **Untaxed reserves** |
| *Share capital* | *21,942* | | *21,942* | *Share capital* |
| *Restricted reserves* | *13,425* | *−13,425* | | |
| | | *12,260* | *12,260* | *Statutory reserve* |
| | | *1,166* | *1,166* | *Development cost reserve* |
| *Other reserves* | *1,476* | | *1,476* | *Fair value fund* |
| *Retained earnings* | *50,108* | | *50,108* | *Retained earnings* |
| *Net profit* | *17,811* | | *17,811* | *Net profit* |
| **Total equity** | **104,762** | **0** | **104,762** | **Total equity** |
| **TOTAL LIABILITIES AND EQUITY** | **1,892,163** | **0** | **1,892,163** | **TOTAL LIABILITIES AND EQUITY** |

## 53h Transition disclosures – from IAS 39 to IFRS 9 – Skandinaviska Enskilda Banken

The tables show the transition effects of IFRS 9 on SEB's balance sheet as a result of new measurement categories and ECL allowance under the new balance sheet structure, reconciling the closing balances under IAS 39 as of 31 December 2017 with the opening balances under IFRS 9 as of 1 January 2018.

| | | IFRS 9 Financial instruments | | |
|---|---|---|---|---|
| SEK m | New presentation of Closing balance 31 December 2017 | Change of classifications | Change in ECL allowances | Opening balance 1 January 2018 |
| Cash and cash balances at central banks | 97,741 | | | 97,741 |
| Loans to central banks | 8,832 | | | 8,832 |
| Loans to credit institutions | 189,949 | 0 | | 189,949 |
| Loans to the public | 1,205,906 | 14 | –1,159 | 1,204,761 |
| Debt securities | 125,070 | –338 | 0 | 124,732 |
| Equity instruments | 50,098 | 884 | | 50,981 |
| Derivatives | 104,220 | | | 104,220 |
| *Fair value changes of hedged items in a portfolio hedge of interest rate risk* | *32* | | | *32* |
| *Investments in subsidiaries and associates* | *51,599* | | | *51,599* |
| *Intangible assets* | *1,597* | | | *1,597* |
| *Properties and equipment* | *34,487* | | | *34,487* |
| *Currrent tax assets* | *1,999* | | | *1,999* |
| *Other assets* | *18,151* | | *–2* | *18,149* |
| *Prepaid expenses and accrued income* | *2,481* | | | *2,481* |
| Other assets | 110,347 | | –2 | 110,345 |
| **TOTAL ASSETS** | **1,892,163** | **559** | **–1,161** | **1,891,561** |
| Deposits from central banks and credit institutions | 134,561 | 1 | | 134,562 |
| Deposits and borrowings from the public | 849,479 | 9 | | 849,488 |
| Debt securities issued | 610,292 | | | 610,292 |
| Short positions in securities | 24,985 | | | 24,985 |
| Derivatives | 86,990 | | | 86,990 |
| Other financial liabilities | 3,894 | | | 3,894 |
| *Current tax liabilities* | *684* | *–74* | *–333* | *278* |
| *Deferred tax liabilities* | *336* | | | *336* |
| *Other liabilities* | *19,467* | | | *19,467* |
| *Accrued expenses and prepaid income* | *2,781* | | | *2,781* |
| *Provisions* | *113* | | *352* | *466* |
| *Subordinated liabilities* | *32,390* | | | *32,390* |
| Other liabilities | 55,772 | –74 | 19 | 55,717 |
| **Total liabilities** | **1,765,973** | **–63** | **19** | **1,765,929** |
| **Untaxed reserves** | **21,429** | | | **21,429** |
| *Share capital* | *21,942* | | | *21,942* |
| *Statutory reserve* | *12,260* | | | *12,260* |
| *Development cost reserve* | *1,166* | | | *1,166* |
| *Fair value fund* | *1,476* | *–580* | | *896* |
| *Retained earnings* | *50,108* | *1,202* | *–1,181* | *50,130* |
| *Net profit* | *17,811* | | | *17,811* |
| **Total equity** | **104,762** | **622** | **–1,181** | **104,204** |
| **TOTAL LIABILITIES AND EQUITY** | **1,892,163** | **559** | **–1,161** | **1,891,561** |

## 53i Transition disclosures – overview of changes to measurement categories on transition to IFRS 9 – Skandinaviska Enskilda Banken

These tables provides a complete overview of the transition from measurement categories and carrying amounts under IAS 39 as of 31 December 2017 to the measurement categories and carrying amounts under IFRS 9 as of 1 January 2018. The change in carrying amounts following transition is a result of new measurement categories for financial assets and liabilities and ECL allowance (expected credit losses) for financial assets valued at amortised cost and off-balance sheet exposures under IFRS 9. For more details on the change in classification and measurement, see the detailed classification and measurement tables in note 53j.

| **Assets** | Closing balance 2017-12-31 under IAS 39 measurement categories | | | | | | Opening balance 2018-01-01 under IFRS 9 measurement categories | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | HFT | FVO | AFS | LaR | Other[1)] | Total | FVHFT | FVMPL | AmC | Other[1)] | Total |
| Cash and cash balances at central banks | | | | | 97,741 | **97,741** | | | | 97,741 | **97,741** |
| Loans to central banks | | | | 8,832 | | **8,832** | 334 | | 8,498 | | **8,832** |
| Loans to credit institutions | | | | 161,402 | 28,546 | **189,949** | 56 | | 161,347 | 28,546 | **189,949** |
| Loans to the public | | | | 1,205,906 | | **1,205,906** | 42,250 | 1,012 | 1,161,499 | | **1,204,761** |
| Debt securities | 109,258 | | 6,197 | 9,615 | | **125,070** | 33,727 | 75,530 | 15,474 | | **124,732** |
| Equity instruments | 48,370 | 9 | 1,719 | | | **50,098** | 48,370 | 2,611 | | | **50,981** |
| Derivatives | 97,640 | | | | 6,580 | **104,220** | 97,640 | | | 6,580 | **104,220** |
| Other assets | | | | 12,871 | 97,475 | **110,347** | | | 12,869 | 97,475 | **110,345** |
| **TOTAL** | **255,268** | **9** | **7,916** | **1,398,627** | **228,080** | **1,892,163** | **222,377** | **79,153** | **1,359,688** | **230,343** | **1,891,561** |

| **Liabilities** | Closing balance 2017-12-31 under IAS 39 measurement categories | | | | | Opening balance 2018-01-01 under IFRS 9 measurement categories | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| SEK m | HFT | FVO | AmC | Other[1)] | Total | FVHFT | FVDPL | AmC | Other[1)] | Total |
| Deposits from central banks and credit institutions | | | 134,561 | | **134,561** | 730 | | 133,832 | | **134,562** |
| Deposits and borrowings from the public | | | 849,479 | | **849,479** | 5,884 | | 843,604 | | **849,488** |
| Debt securities issued | | 23,356 | 586,936 | | **610,292** | | 23,356 | 586,936 | | **610,292** |
| Short positions in securities | 24,985 | | | | **24,985** | 24,985 | | | | **24,985** |
| Derivatives | 86,127 | | | 863 | **86,990** | 86,127 | | | 863 | **86,990** |
| Other financial liabilities | 3,894 | | | | **3,894** | 3,894 | | | | **3,894** |
| Other liabilities | | | 11,782 | 43,990 | **55,772** | | | 11,782 | 43,935 | **55,717** |
| Untaxed reserves | | | | 21,429 | **21,429** | | | | 21,429 | **21,429** |
| Equity | | | | 104,762 | **104,762** | | | | 104,204 | **104,204** |
| **TOTAL** | **115,006** | **23,356** | **1,582,758** | **171,043** | **1,892,163** | **121,620** | **23,356** | **1,576,154** | **170,431** | **1,891,561** |

1) Refers to non-financial assets and liabilities, equity and hedge accounting derivatives measured at fair value through profit and loss.

## 53j Transition disclosures – detailed presentation of changes to measurement categories on transition to IFRS 9 – Skandinaviska Enskilda Banken

The following tables reconcile the previous classification categories under IAS 39 as of 31 December 2017 with the classification categories under IFRS 9 as of 1 January 2018.

### Assets

| Loans, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Loans and receivables** | **1,376,141** | –1,376,141 | | | | |
| Reclassified to Held for trading | | 42,625 | 14 | | **42,640** | **FVTPL held for trading** |
| Reclassified to FVTPL mandatorily | | 1,012 | | | **1,012** | **FVTPL mandatorily** |
| To Amortised cost | | 1,332,504 | | –1,159 | **1,331,344** | **Amortised cost** |
| **TOTAL** | **1,376,141** | **0** | **14** | **–1,159** | **1,374,996** | |

As part of the business model assessment, SEB's repurchase agreement portfolio (reverse repos) have been assessed to meet the criteria of 'held for trading' business model. As such, these instruments have been reclassified from loans & receivables to fair value through profit or loss as of 1 January 2018. The effect of this reclassification amounts to 14 SEK m which has been recorded in retained earnings as of 1 January 2018.

As part of the business model assessment, a portion of loans related to the loan syndication business have been assessed to meet the criteria of 'hold to sell' business model. As such, these instruments have been reclassified from loans & receivables to fair value through profit or loss mandatorily. The reclassification has not resulted in any change in the valuation of the assets.

| Debt securities, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **109,258** | –109,258 | | | | |
| To Held for trading | | 33,727 | | | **33,727** | **FVTPL held for trading** |
| Reclassified to FVTPL mandatorily | | 75,530 | | | **75,530** | **FVTPL mandatorily** |
| **TOTAL** | **109,258** | **0** | | | **109,258** | |

As of 1 January 2018, SEB has reclassified SEK 76m of held for trading securities as fair value through profit or loss mandatorily. The portfolio is managed and evaluated on a fair value basis and is no longer considered to meet the definitions of trading assets.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Available-for-sale** | **6,197** | –6,197 | | | | |
| Reclassified to Amortised cost | | 6,197 | –338 | 0 | **5,859** | **Amortised cost** |
| **TOTAL** | **6,197** | **0** | **–338** | **0** | **5,859** | |

As of 1 January 2018, SEB has measured a portion of its portfolio previously classified as available-for-sale as debt securities at amortised cost. These instruments are held in a "hold to collect" business model and meet the IFRS 9 (SPPI) criteria. The fair value of these instruments 31 December 2017 was SEK 6,197m. The accumulated OCI for the debt securities was SEK 402m as of 31 of December 2017 and where a positive market valuation of SEK has been removed as of 1 January 2018. The effect on equity from remeasurement (SEK 338m), accumulated OCI and tax adjustment was SEK 74m.

As of 31 December 2018 the fair value of the debt securities at amortised cost, but previously classified as available-for-sale, was SEK 6,239m. A fair value loss of SEK 158m would have been recognised if the financial assets had not been reclassified.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Loans and receivables** | **9,615** | –9,615 | | | | |
| To Amortised cost | | 9,615 | | 0 | **9,614** | **Amortised cost** |
| **TOTAL** | **9,615** | **0** | | **0** | **9,614** | |

*Note 53 j continued* *Transition disclosures – detailed presentation of changes to measurement categories on transition to IFRS 9 – Skandinaviska Enskilda Banken*

| Equity instruments, SEK m | | Classification & Measurement | | ECL allowances | IFRS 9 | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **48,370** | –48,370 | | | | |
| To Held for trading | | 48,370 | | | **48,370** | **FVTPL held for trading** |
| **TOTAL** | **48,370** | **0** | | | **48,370** | |
| **Fair value option** | **9** | –9 | | | | |
| Reclassified to FVTPL mandatorily | | 9 | | | **9** | **FVTPL mandatorily** |
| **TOTAL** | **9** | **0** | | | **9** | |

As of 1 January 2018, SEB will no longer apply fair value option for a portion of its equity instruments. Equity instruments have been classified at fair value through profit or loss in line with IFRS 9 criteria.

| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
|---|---|---|---|---|---|---|
| **Avalable-for-sale** | **1,719** | –1,719 | | | | |
| Reclassified to FVTPL mandatorily | | 1,719 | 884 | | **2,602** | **FVTPL mandatorily** |
| **TOTAL** | **1,719** | **0** | **884** | | **2,602** | |

Equity instruments have been classified to fair value through profit or loss in line with IFRS 9 criteria. The accumulated OCI reserve for these equity instruments was SEK 178m as of 31 December 2017 and these amount has been reversed into retained earnings as of 1 January 2018.

| Derivatives, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Held for trading** | **97,640** | –97,640 | | | | |
| To Held for trading | | 97,640 | | | **97,640** | **FVTPL held for trading** |
| **TOTAL** | **97,640** | **0** | | | **97,640** | |

| Other financial assets, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Loans and receivables** | **12,871** | –12,871 | | | | |
| To Amortised cost | | 12,871 | | –2 | **12,869** | **Amortised cost** |
| **TOTAL** | **12,871** | **0** | | **–2** | **12,869** | |

**Liabilities**

| Deposits, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Amortised cost** | **984,039** | –984,039 | | | | |
| Reclassified to Held for trading | | 6,604 | 11 | | **6,614** | **FVTPL held for trading** |
| To Amortised cost | | 977,436 | | | **977,436** | **Amortised cost** |
| **TOTAL** | **984,039** | **0** | **11** | | **984,050** | |

SEB has assessed that its repurchase agreement portfolio (repos) meets the criteria for held for trading liabilities. As such, these instruments have been reclassified from amortised cost to fair value through profit or loss as of 1 January 2018.

| Debt securities issued, SEK m | | Classification & Measurement | | ECL allowances | | |
|---|---|---|---|---|---|---|
| IAS 39 Classification | Carrying amount 31 December 2017 | Change | Remeasurement | Impairment | Carrying amount 1 January 2018 | IFRS 9 Classification |
| **Fair value option** | **23,356** | –23,356 | | | | |
| To FVTPL designated | | 23,356 | | | **23,356** | **FVTPL designated** |
| **TOTAL** | **23,356** | **0** | | | **23,356** | |
| **Amortised cost** | **586,936** | –586,936 | | | | |
| To Amortised cost | | 586,936 | | | **586,936** | **Amortised cost** |
| **TOTAL** | **586,936** | **0** | | | **586,936** | |

As of 1 January 2018, SEB has elected to apply the fair value option for a portion of the issued debt securities previously valued at amortised cost in order to avoid an accounting mismatch.

## 53k Transition disclosures – impairments – IAS 39 and IFRS 9 – Skandinaviska Enskilda Banken

The table reconciles the closing period's impairment allowance measured in accordance with the IAS 39 incurred loss model and the provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018. For each asset class the new measurement category under IFRS 9 is compared to the previous measurement category under IAS 39 and demonstrating the change in allowances between IAS 39 and IFRS 9. The increase in the allowances is driven by three main factors: Firstly, all items in scope are each assigned a reserve. Secondly, an increase of allowances for off-balance sheet commitments mainly in the retail portfolios. Thirdly, the incorporation of a forward-looking view of the macroeconomic development (based on three different scenarios reflecting SEB's view on macroeconomic developments) in the calculation of expected credit losses.

| Financial assets, SEK m | Classification | | Provision for impairment IAS 39 31 Decembr 2017 | Changes in allowances | ECL allowance IFRS 9 1 January 2018 |
|---|---|---|---|---|---|
| | IAS 39 | IFRS 9 | | | |
| Cash and cash balances at central banks | Loans and receivables | Amortised cost | | | |
| Other lending to central banks | Loans and receivables | Amortised cost | | | |
| Loans to credit institutions | Loans and receivables | Amortised cost | | | |
| Loans to the public | Loans and receivables | Amortised cost | −2,108 | −1,159 | −3,267 |
| Debt securities | Loans and receivables | Amortised cost | | 0 | |
| Debt securities | Available for sale | Amortised cost | | | |
| Other assets | Loans and receivables | Amortised cost | | −2 | −2 |
| **TOTAL** | | | **−2,108** | **−1,161** | **−3,269** |

| Loan commitments and Financial guarantees, SEK m | Provision for impairment IAS 37 31 December 2017 | Changes in allowances | ECL allowance IFRS 9 1 January 2018 |
|---|---|---|---|
| **TOTAL** | **−47** | **−324** | **−371** |

## 53l Transition disclosures – exposure and expected credit loss (ECL) allowances by stage – Skandinaviska Enskilda Banken

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

**Parent company, opening balance 1 January, 2018**

| Stage 1 (12-month ECL) | Gross carrying amounts/Nominal amounts | ECL allowances | Carrying amounts/ Net amounts | ECL coverage ratio, % |
|---|---|---|---|---|
| Debt securities | 12,869 | | 12,869 | |
| Loans[1)] | 1,158,422 | −389 | 1,158,033 | |
| Financial assets | 1,171,291 | −389 | 1,170,902 | |
| Financial guarantees and Loan commitments | 407,088 | −128 | 406,960 | |
| **Total** | **1,578,378** | **−517** | **1,577,861** | **0.03** |
| **Stage 2 (lifetime ECL)** | | | | |
| Loans[1) 2)] | 65,495 | −868 | 64,627 | |
| Financial assets | 65,495 | −868 | 64,627 | |
| Financial guarantees and Loan commitments | 8,728 | −109 | 8,620 | |
| **Total** | **74,223** | **−976** | **73,247** | **1.32** |
| **Stage 3 (credit impaired/lifetime ECL)** | | | | |
| Loans[1) 3)] | 6,392 | −2,013 | 4,379 | |
| Financial assets | 6,392 | −2,013 | 4,379 | |
| Financial guarantees and Loan commitments | 1,079 | −134 | 945 | |
| **Total** | **7,471** | **−2,147** | **5,324** | **28.74** |
| **Total** | | | | |
| Debt securities | 12,869 | | 12,869 | |
| Loans[1)] | 1,230,308 | −3,269 | 1,227,039 | |
| Financial assets | 1,243,177 | −3,269 | 1,239,908 | |
| Financial guarantees and Loan commitments | 416,895 | −371 | 416,524 | |
| **TOTAL** | **1,660,072** | **−3,641** | **1,656,432** | **0.22** |

1) Excluding demand deposits credit institutions and including trade and client receivables presented as other assets.
2) Whereof gross carrying amounts SEK 1,251m and ECL allowances SEK 2m under Lifetime ECLs -simplified approach for trade receivables.
3) Whereof gross carrying amounts SEK 0m and ECL allowances SEK 0m for Purchased or originated credit impaired loans.

| | |
|---|---|
| Stage 3 loans / Total loans, gross, % | 0.52 |
| Stage 3 loans / Total loans, net, % | 0.36 |

# 54 IFRS 16 transition disclosures – SEB Group

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

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

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

The new standard also introduces new estimates and judgements that affect the measurement of lease liabilities. SEB measures the lease liability at the commencement date and may be required to revise it, e.g. the assessment of whether an option is reasonably certain to be exercised. As this will increase financial statement volatility, this is revised and monitored by the group continuously. The new standard will not be applied in the legal entity reporting for the parent company.

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

| SEK m | Closing balance 31 December 2018 | IFRS 16 transition | Opening balance 1 January 2019 |
|---|---|---|---|
| Cash and cash balances at central banks | 209,115 | | 209,115 |
| Loans to central banks | 33,294 | | 33,294 |
| Loans to credit institutions | 44,287 | | 44,287 |
| Loans to the public | 1,644,825 | | 1,644,825 |
| Debt securities | 156,128 | | 156,128 |
| Equity instruments | 50,434 | | 50,434 |
| Financial assets for which the customers bear the investment risk | 269,613 | | 269,613 |
| Derivatives | 115,463 | | 115,463 |
| Other assets[1)] | 44,357 | 5,939 | 50,296 |
| **TOTAL ASSETS** | **2,567,516** | **5,939** | **2,573,455** |

| SEK m | Closing balance 31 December 2018 | IFRS 16 transition | Opening balance 1 January 2019 |
|---|---|---|---|
| Deposits from central banks and credit institutions | 135,719 | | 135,719 |
| Deposits and borrowings from the public | 1,111,390 | | 1,111,390 |
| Financial liabilities for which the customers bear the investment risk | 270,556 | | 270,556 |
| Liabilities to policyholders | 21,846 | | 21,846 |
| Debt securities issued | 680,670 | | 680,670 |
| Short positions | 23,144 | | 23,144 |
| Derivatives | 96,872 | | 96,872 |
| Other financial liabilities | 3,613 | | 3,613 |
| Other liabilities[2)] | 74,916 | 6,183 | 81,099 |
| **Total liabilities** | **2,418,727** | **6,183** | **2,424,910** |
| **Total equity** | **148,789** | **–244** | **148,545** |
| **TOTAL LIABILITIES AND EQUITY** | **2,567,516** | **5,939** | **2,573,455** |

1) Increase in Other assets comes from increases in Right-of-use assets SEK 5,747m, Deferred tax assets SEK 51m and Other assets SEK 141m.
2) Increase in Other liabilities comes from an increase in Lease liabilities SEK 6,337m offset by decreases in Provisions SEK 122m and Other liabilities SEK 32m.

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

| SEK m | |
|---|---|
| Future minimum payments for operational leases per 31 December 2018[1)] | 7,217 |
| Discounting[2)] | –727 |
| **Present value for lease liabilities previously classified as operating leases applying IAS 17** | **6,490** |
| Short-term leases expensed on a straight-line basis over the lease term | –43 |
| Leases for which the underlying assets is of low-value expensed on a straight-line basis | –109 |
| Other | –1 |
| **Lease liabilities as of 1 January 2019 applying IFRS16** | **6,337** |

1) Applying IAS 17, see note 50.
2) The weighted average incremental borrowing rate is 1.53 per cent.

# The SEB Group

## Income Statement

| SEK m | 2018 | 2017[3] | 2016[2] | 2015[1] [2] | 2014[1] [2] |
|---|---|---|---|---|---|
| Net interest income | 21,022 | 19,893 | 18,738 | 19,020 | 19,943 |
| Net fee and commission income | 18,364 | 17,677 | 16,628 | 18,345 | 17,547 |
| Net financial income | 6,079 | 6,880 | 7,056 | 6,298 | 4,473 |
| Net other income | 402 | 1,112 | 829 | 1,002 | 1,549 |
| **Total operating income** | **45,868** | **45,561** | **43,251** | **44,665** | **43,512** |
| Staff costs | −14,004 | −14,025 | −14,422 | −14,436 | −13,760 |
| Other expenses | −7,201 | −6,947 | −6,619 | −6,355 | −6,815 |
| Depreciation, amortisation and impairment of tangible and intangible assets | −735 | −964 | −771 | −1,011 | −1,129 |
| **Total operating expenses** | **−21,940** | **−21,936** | **−21,812** | **−21,802** | **−21,704** |
| Gains less losses on disposals of tangible and intangible assets | 18 | −162 | −150 | −213 | −121 |
| Net expected credit losses[4] | −1,166 | | | | |
| Net credit losses[5] | | −808 | −993 | −883 | −1,324 |
| **Operating profit before items affecting comparability** | **22,779** | **22,655** | **20,296** | **21,767** | **20,363** |
| Items affecting comparability | 4,506 | −1,896 | −5,429 | −902 | 2,985 |
| **Operating profit** | **27,285** | **20,759** | **14,867** | **20,865** | **23,348** |
| Income tax expense | −4,152 | −4,562 | −4,249 | −4,284 | −4,129 |
| **NET PROFIT** | **23,134** | **16,197** | **10,618** | **16,581** | **19,219** |
| Attributable to non-controlling interests | | | | | 1 |
| Attributable to shareholders | 23,134 | 16,197 | 10,618 | 16,581 | 19,218 |

1) Comparable figures for 2015 and 2014 restated in line with changed reporting of life insurance business.
2) Items affecting comparability restated.
3) The 2017 income statement has been restated for the transition to IFRS 15. For transition disclosures, see note 53.
4) IFRS 9 expected loss model
5) IAS 39 incurred loss model.

## Balance sheet

| SEK m | 2018 | 2017[1] [2] | 2016[1] | 2015[1] | 2014[1] |
|---|---|---|---|---|---|
| Cash and cash balances and loans to central banks | 242,408 | 190,000 | 217,808 | 133,651 | 119,915 |
| Loans to credit institutions | 44,287 | 38,717 | 50,527 | 58,542 | 90,945 |
| Loans to the public | 1,644,825 | 1,486,765 | 1,467,960 | 1,359,092 | 1,368,808 |
| Other financial assets | 606,584 | 629,907 | 842,817 | 894,161 | 1,011,338 |
| Other assets | 29,412 | 211,520 | 41,534 | 50,518 | 50,240 |
| **TOTAL ASSETS** | **2,567,516** | **2,556,908** | **2,620,646** | **2,495,964** | **2,641,246** |
| Deposits from central banks and credit institutions | 135,719 | 95,489 | 119,864 | 118,506 | 115,186 |
| Deposits and borrowing from the public | 1,111,390 | 1,032,048 | 991,950 | 911,829 | 968,375 |
| Other financial liabilities | 1,120,487 | 1,059,241 | 1,230,863 | 1,187,794 | 1,278,323 |
| Other liabilities | 51,131 | 228,892 | 136,993 | 135,037 | 144,786 |
| Total equity | 148,789 | 141,237 | 140,976 | 142,798 | 134,576 |
| **TOTAL LIABILITIES AND EQUITY** | **2,567,516** | **2,556,908** | **2,620,646** | **2,495,964** | **2,641,246** |

1) 2017–2014 have been restated for changes in the presentation of the balance sheet, see note 53a.
2) 2017 has been restated for the transition to IFRS 15. For transition disclosures, see note 53.

## Key figures

| | 2018 | 2017[2] | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Return on equity, % | 16.34 | 11.70 | 7.80 | 12.24 | 15.25 |
| Return on equity excluding items affecting comparability, % | 13.36 | 12.86 | 11.30 | 12.85 | 13.07 |
| Basic earnings per share, SEK | 10.69 | 7.47 | 4.88 | 7.57 | 8.79 |
| Cost/Income ratio | 0.48 | 0.48 | 0.50 | 0.49 | 0.50 |
| Net ECL level, % | 0.06 | | | | |
| Credit loss level, % | | 0.05 | 0.07 | 0.06 | 0.09 |
| Common Equity Tier 1 capital ratio[1], % | 17.6 | 19.4 | 18.8 | 18.8 | 16.3 |
| Tier 1 capital ratio[1], % | 19.7 | 21.6 | 21.2 | 21.3 | 19.5 |
| Total capital ratio[1], % | 22.2 | 24.2 | 24.8 | 23.8 | 22.2 |

1) Basel III.
2) 2017 has been restated for the transition to IFRS 15. For transition disclosures, see note 53.

# Skandinaviska Enskilda Banken

## Income Statement

| SEK m | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net interest income | 21,860 | 20,017 | 19,242 | 19,488 | 19,783 |
| Net fee and commission income | 10,064 | 9,557 | 8,843 | 9,200 | 9,235 |
| Net financial income | 4,574 | 4,493 | 4,642 | 3,428 | 2,121 |
| Other income | 10,900 | 8,323 | 7,398 | 9,165 | 5,089 |
| **Total operating income** | **47,398** | **42,390** | **40,125** | **41,281** | **36,228** |
| Administrative expenses | –15,263 | –14,252 | –15,039 | –13,458 | –13,909 |
| Depreciation, amortisation and impairment of tangible and intangible assets | –5,512 | –6,377 | –5,775 | –5,447 | –5,157 |
| **Total operating costs** | **–20,775** | **–20,629** | **–20,814** | **–18,905** | **–19,066** |
| **Profit before credit losses** | **26,623** | **21,761** | **19,311** | **22,376** | **17,162** |
| Net expected credit losses | –1,020 | | | | |
| Net credit losses | | –749 | –789 | –520 | –1,065 |
| Impairment of financial assets | –2,928 | –1,497 | –3,841 | –775 | –2,721 |
| **Operating profit** | **22,675** | **19,515** | **14,681** | **21,081** | **13,376** |
| Appropriations including pension compensation | 2,716 | 1,885 | 2,437 | 781 | 966 |
| Taxes | –3,671 | –3,590 | –2,740 | –3,817 | –2,053 |
| **NET PROFIT** | **21,720** | **17,811** | **14,378** | **18,045** | **12,289** |

## Balance sheet

| SEK m | 2018 | 2017[1] | 2016[1] | 2015[1] | 2014[1] |
|---|---|---|---|---|---|
| Cash and cash balances at central banks | 164,081 | 97,741 | 70,671 | 55,712 | 59,170 |
| Loans to credit institutions | 120,333 | 198,781 | 287,059 | 164,852 | 190,631 |
| Loans to the public | 1,410,687 | 1,205,906 | 1,192,569 | 1,090,488 | 1,069,896 |
| Other financial assets | 334,801 | 343,890 | 401,831 | 508,072 | 614,485 |
| Other assets | 48,373 | 45,845 | 47,714 | 47,480 | 51,960 |
| **TOTAL ASSETS** | **2,078,275** | **1,892,163** | **1,999,844** | **1,866,605** | **1,986,142** |
| Deposits from central banks and credit institutions | 160,022 | 134,561 | 168,852 | 134,816 | 144,776 |
| Deposits and borrowing from the public | 927,224 | 849,479 | 812,506 | 718,345 | 731,713 |
| Other financial liabilities | 846,685 | 770,333 | 885,528 | 877,577 | 977,501 |
| Other liabilities | 10,794 | 11,599 | 9,823 | 14,621 | 17,587 |
| Total equity and untaxed reserves | 133,550 | 126,191 | 123,135 | 121,246 | 114,565 |
| **TOTAL LIABILITIES, UNTAXED RESERVES AND EQUITY** | **2,078,275** | **1,892,163** | **1,999,844** | **1,866,605** | **1,986,142** |

1) 2017–2014 have been restated for changes in the presentation of the balance sheet, see note 53g.

## Key figures

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Return on equity, % | 18.1 | 16.3 | 12.6 | 16.5 | 11.8 |
| Cost/Income ratio | 0.44 | 0.49 | 0.52 | 0.46 | 0.53 |
| Net ECL level, % | 0.07 | | | | |
| Credit loss level, % | | 0.05 | 0.06 | 0.04 | 0.09 |
| Common Equity Tier 1 capital ratio[1], % | 16.9 | 19.8 | 18.8 | 19.2 | 16.2 |
| Tier 1 capital ratio[1], % | 19.3 | 22.5 | 21.7 | 22.1 | 20.0 |
| Total capital ratio[1], % | 22.2 | 25.5 | 26.1 | 25.0 | 23.1 |

1) Basel III.

# Proposal for the distribution of profit

Standing at the disposal of the Annual General Meeting in accordance with the balance sheet of Skandinaviska Enskilda Banken AB:

| | SEK |
|---|---|
| Other reserves | 4,997,940 |
| Retained earnings | 55,729,423,340 |
| Net profit for the year | 21,720,056,940 |
| **Total[1)]** | **77,454,478,220** |

The Board proposes that, following approval of the balance sheet of Skandinaviska Enskilda Banken AB for the financial year 2018, the Annual General Meeting should distribute the earnings as follows:

| | SEK |
|---|---|
| Dividend to shareholders: | |
| – SEK 6.50 per Class A share | 14,105,125,411 |
| – SEK 6.50 per Class C share | 156,991,302 |
| To be carried forward to: | |
| – retained earnings | 63,192,361,507 |
| **Total** | **77,454,478,220** |

It is the assessment of the Board of Directors that the proposed dividend is justifiable considering the demands which are imposed by the nature, scope, and risks associated with the business and the size of the parent company's and the group's equity and need for consolidation, liquidity and financial position in general.

1) The parent company's equity would have been SEK 10,515m lower if assets and liabilities had not been measured at fair value in accordance with Chapter 4, Section 14 of the Swedish Annual Accounts Act.

# Signatures of the Board of Directors and the President

The Board of Directors and the President declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a relevant and faithful representation of the group's financial position and results of operations.

The financial statements of the parent company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the parent company's financial position and results of operations.

The Report of the Directors for the group and the parent company provides a fair review of the development of the group's and the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and companies included in the group.

Stockholm 19 February 2019

Marcus Wallenberg
*Chair*

Sven Nyman
*Vice Chair*

Jesper Ovesen
*Vice Chair*

Johan H. Andresen
*Director*

Signhild Arnegård Hansen
*Director*

Samir Brikho
*Director*

Winnie Fok
*Director*

Tomas Nicolin
*Director*

Helena Saxon
*Director*

Anna-Karin Glimström
*Director*
*Appointed by the employees*

Håkan Westerberg
*Director*
*Appointed by the employees*

Johan Torgeby
*President and Chief Executive Officer*
*Director*

# Auditor's report

To the general meeting of the shareholders of Skandinaviska Enskilda Banken AB (publ), Corporate Identity Number 502032-9081

## Report on the annual accounts and consolidated accounts

*Opinions*

We have audited the annual accounts and consolidated accounts of Skandinaviska Enskilda Banken AB (publ) for the year 2018 with the exception of the sustainability report on pages 67–73. The annual accounts and consolidated accounts of the company are included on pages 32–182 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies.

A corporate governance report has been prepared. The report of the directors and the corporate governance report are consistent with the other parts of the annual accounts and consolidated accounts and the corporate governance report is consistent with the annual accounts act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content of the supplementing report that has been presented to the audit committee of the parent company and the group in accordance with the audit regulation (537/2014) article 11.

*Basis for Opinions*

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

*Our audit approach*

**Audit scope**

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

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

The SEB group has centralized service centers, systems and processes and has a centralized finance function for its Swedish entities and branches in the Nordic countries and the UK. We have organized the audit work by having our central audit team to carry out the testing of all centralized systems and processes and the local audit teams to carry out additional testing based on our instructions.

Full scope audit and reporting is performed at entities with high significance and risk to the group. The audit is carried out in accordance with International Standards on Audit and local audit requirements. The procedures applied generally include an assessment and testing of controls over key business processes, analytical procedures of individual account balances, tests of accounting records through inspection, observation or confirmation, and obtaining corroborating evidential matter in response to inquiries.

For some entities, even though not considered to have high significance or risk, it is required from a group audit perspective to obtain assurance on certain accounting areas. In these cases, local audit teams are instructed to perform certain procedures and report back to us. The procedures applied generally include a detailed analytical review, reconciliation to underlying sub-ledgers, substantive testing for specific processes, areas and accounts, discussion with management regarding accounting, tax and internal control as well as follow-ups on known issues from previous periods.

As part of our audit we place reliance on internal controls for the applications/systems and related platforms that support SEB's accounting and financial reporting. Therefore, we perform audit procedures to determine that systems and processes are designed, maintained, operated and kept secure in such a way as to provide assurance that the risk of error is minimised. The audit procedures include walk-throughs of processes and evaluation of design and test of effectiveness of controls. Substantive testing has also been performed. Where possible we have relied on management's own evaluation activities and audits performed by SEB Internal Audit.

Our audit is carried out continuously during the year with special attention at each quarter end. In connection with the SEB group's issuance of interim reports, we report our observations to the audit committee of the Board of Directors and issue interim review reports. At the end of the year, we also report our main observations to the full Board of Directors.

**Materiality**

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

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

*Key audit matters*

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

## Key audit matter

### Impairment of loans to customers

Accounting for impairment of loans to customers require subjective judgement over both timing of recognition of impairment and the size of any such impairment.

SEB makes provisions for expected credit losses (ECL) in accordance with IFRS 9. Our work in relation to the implementation of IFRS 9 is described in a separate Key audit matter. IFRS 9 categorise loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. Stage 1 representing a probable 12 month ECL applies to all loans unless there is a significant increase in credit risk since initial recognition. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime ECL is calculated.

The ECL is calculated as a function of the probability of default,the exposure at default and the loss given default, as well as the timing of the loss.

IFRS 9 also allow for expert credit judgement to be applied to loan loss provisioning.

*Refer to the Annual Report Note 41a – Credit risk and Note 18 – Loans.*

### *How our audit addressed the Key audit matter*

*Our audit included a combination of testing of internal controls over financial reporting and substantive testing. The testing of internal controls included procedures relating to the governance structure, segregation of duties and key controls in the lending processes.*

*In addition, our quantitative modelling experts have performed detailed recalculations for a sample of loans and model outputs in order for us to obtain comfort that the ECL is calculated correctly and that it is in line with our expectations.*

*We have also audited adjustments related to expert credit judgement. We have assessed that rationale exists to have these adjustments accounted for at year end and we have reviewed minutes of credit committee and risk committee meetings to ensure that the correct governance procedures have been performed over these expert credit judgement adjustments.*

*Based on our work, we had no material observations for the overall audit on the level of loan loss provisions as at 31 December 2018.*

## Key audit matter

### Valuation of financial instruments held at fair value

The valuation of financial instruments held at fair value was an area of audit focus due to their significance in presenting both financial position and performance.

Determining fair value of financial instruments is inherently complex as many instruments are complex and as input values to valuation models such as risks and market prices are ever changing. For some instruments there is also limited availability of observable prices or rates. Because of these factors, the valuation of some instruments involves significant management judgment.

The majority of SEB's assets and liabilities measured at fair value are held for client facilitation, liquidity or hedging purposes. Between 98–99% of the positions are fair valued based on observable prices or rates traded in active markets. The remaining 1–2% of the positions are valued based on models and are mainly venture capital holdings, strategic investments and certain derivatives held for hedging purposes.

*Refer to the Annual Report Note 19 – Debt securities, Note 20 Equity instruments, Note 21 – Derivatives and hedge accounting, Note 22 – Investments in subsidiaries and associates Note 30 – Debt securities issued, Note 31 – Short positions.*

### *How our audit addressed the Key audit matter*

*In our audit, we assessed the design and tested the operating effectiveness of key controls supporting the identification, measurement and oversight of valuation risk of financial instruments.*

*In addition to test appropriate segregation of duties, we examined SEB's independent price verification process, model validation and approval processes, controls over data feeds and valuation inputs as well as SEB's governance and reporting processes and controls. We paid particular attention to controls relating to complex instruments.*

*For valuations dependent on unobservable inputs or models which involved a higher degree of judgement for other reasons, we used our valuation specialists to evaluate the assumptions, methodologies and models used by SEB. We performed independent valuations of a sample of positions.*

*Based on our work, we had no material observations for the overall audit on the valuation of financial instruments held at market value as at 31 December 2018.*

## Key audit matter

### IFRS 9 implementation

IFRS 9, the new accounting standard for financial instruments came into effect on 1 January 2018. The standard replaces the previous IAS 39 standard. The new standard had significant effects on SEB's opening balance for 2018. The two main areas affecting SEB are:

- Classification and measurement: How different types of financial instruments are to be classified and measured and accounted for. Valuation and accounting is determined based on the underlying business model.
- Impairment: The methodology for loan loss provisioning. The new model requires companies to use forward looking information in an expected loss model instead of the currently used incurred loss model.

*Refer to the Annual Report Note 53– IFRS 9 and 15 transition disclosures.*

### *How our audit addressed the Key audit matter*

*We have audited the financial effects and disclosures related to the transition from IAS 39 to IFRS 9. We have also audited overall governing documents and the overall governance in SEB to ensure adherence to IFRS 9.*

*For Classification and measurement, we have examined SEB's business model assessments for a large number of contracts to validate the classifications made are in accordance with IFRS 9.*

*For Impairment, we have reviewed definitions made, data sources used and methodology in models used to validate adherence to IFRS 9. We have also tested a sample of impairment models to ensure that the model calculator is working as described in the model documentation. The sample selected was risk based addressing either significant volumes or complex products.*

*Based on our work, we had no material observations for the overall audit on the IFRS 9 implementation as at 1 January 2018.*

## Key audit matter

### Provision for uncertain tax positions

SEB is subject to taxation in many jurisdictions and, in many cases, the final tax treatment is not determined until resolved with the relevant tax authority. Consequently, SEB makes judgements about the probability and amount of tax liabilities which are subject to assessments by tax authorities and potentially associated with legal processes.

Additionally, tax legislation is under significant and rapid change which, when becoming effective, affect both current period tax costs and the valuation of tax assets.

*Refer to the Annual Report Note 15 – Taxes and Note 32 – Other liabilities.*

### *How our audit addressed the Key audit matter*

*In our audit of tax costs and valuation of tax assets and liabilities, we have tested internal controls and performed substantive testing. The testing of internal controls included procedures relating to the governance structure, segregation of duties and key controls in the tax process.*

*In the substantive testing we have used our tax specialists to examine potential implications of ongoing tax audits and legal processes. We have followed correspondence with tax authorities and opinions SEB received from its external legal advisers. We have also independently examined the matters in dispute and the provisions made by SEB.*

*Based on our work, we had no material observations for the overall audit on the level of provisions for uncertain tax positions as at 31 December 2018.*

### *Other Information than the annual accounts and consolidated accounts*

This document also contains other information than the annual accounts and consolidated accounts that is found on pages 1–31. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU and the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### *Auditor's responsibility*

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

## Report on other legal and regulatory requirements

### *Opinions*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Skandinaviska Enskilda Banken AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### *Auditor's responsibility*

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

*A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/rn/showdocument/documents/*rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

### Report on the statutory sustainability report

The Board of Directors is responsible for the preparation of the sustainability report included on pages 67–73 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A sustainability report has been prepared.

PricewaterhouseCoopers AB was appointed as the auditor of Skandinaviska Enskilda Banken AB (publ) by the annual general meeting 2018, and has been SEB's auditor since 2000.

Stockholm the 19 February 2019
PricewaterhouseCoopers AB

Peter Nyllinge
*Authorized Public Accountant*
*Partner in charge*

Martin By
*Authorized Public Accountant*

---

# Auditor's limited assurance report on the statutory sustainability report

*To the general meeting of the shareholders in Skandinaviska Enskilda Banken AB, corporate identity number 502032-9081*

### Introduction

We have been engaged by Skandinaviska Enskilda Banken AB (publ) (SEB) to undertake a limited assurance engagement of the SEB Sustainability Report for the year 2018 on pages 67–73, including the Sustainability Fact Book & GRI Index 2018 on SEB's website (www.sebgroup.com). We refer to these publications collectively as the "Sustainability Report".

### Responsibilities of the Board and Management

The Board of Directors and the Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria. The criteria are explained on page 67, and are the parts of the *GRI Sustainability Reporting Standards,* which are applicable to the Sustainability Report, and the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

### Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board (IAASB). A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

The audit firm applies ISQC 1 (*International Standard on Quality Control*) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We confirm that we are independent of SEB in accordance with the rules of professional ethics for accountants in Sweden, and have fulfilled our professional ethics requirements according to these rules.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

### Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

Stockholm, 19 February 2019
PricewaterhouseCoopers AB

Peter Nyllinge
*Authorized Public Accountant*

Fredrik Ljungdahl
*Sustainability Assurance Specialist*

# Definitions

*Alternative Performance Measures (APMs) 1)*

**Items affecting comparability**
To facilitate the comparison of operating profit between current and previous periods, items with significant impact that management considers affect the comparability or are relevant for the understanding of the financial result, are identified and presented separately, for example impairment of goodwill, restructuring, gains and losses from divestments and other income or costs that are not recurring.

**Operating profit**
Total profit before tax.

**Operating profit before items affecting comparability**
Total profit before items affecting comparability and tax.

**Net profit**
Total profit after tax.

**Return on equity**
Net profit attributable to shareholders in relation to average 2) shareholders' equity.

**Return on equity excluding items affecting comparability**
Net profit attributable to shareholders, excluding items affecting comparability and their related tax effect, in relation to average 2) shareholders' equity.

**Return on business equity**
Operating profit by division, reduced by a standard tax rate, in relation to the divisions' average 2) business equity (allocated capital).

**Return on total assets**
Net profit attributable to shareholders, in relation to average 2) total assets.

**Return on risk exposure amount**
Net profit attributable to shareholders in relation to average 2) risk exposure amount.

**Cost/income ratio**
Total operating expenses in relation to total operating income.

**Basic earnings per share**
Net profit attributable to shareholders in relation to the weighted average 3) number of shares outstanding before dilution.

**Diluted earnings per share**
Net profit attributable to shareholders in relation to the weighted average 3) diluted number of shares. The calculated dilution is based on the estimated economic value of the long-term equity-based programmes.

**Net worth per share**
The total of shareholders' equity, the equity portion of any surplus values in the holdings of debt securities and the surplus value in life insurance operations in relation to the number of shares outstanding.

**Equity per share**
Shareholders' equity in relation to the number of shares outstanding.

**Core Gap ratio**
Structural liquidity risk measure defined as total liabilities deemed to mature beyond one year in relation to total assets deemed to mature beyond one year.

**Expected credit losses, ECL**
Probability weighted credit losses with the respective risk of a default.

**ECL allowances**
The allowance for expected credit losses on financial assets, contract assets, loan commitments and financial guarantee contracts.

**Net ECL level**
Net credit impairments in relation to the opening balance of the year of debt securities, loans to the public and loans to credit institutions measured at amortised cost, financial guarantees and loan commitments, net of ECL allowances.

**ECL coverage ratio**
ECL allowances in relation to underlying gross carrying amounts for loans and debt securities as well as nominal amounts of financial guarantees and loan commitments.

**Stage 3 loans / Total loans, gross**
Gross carrying amount for stage 3 loans (credit-impaired loans) in relation to gross carrying amount for total loans measured at amortised cost (excluding demand deposits credit institutions and including trade and client receivables presented as other assets).

**Stage 3 loans / Total loans**
Carrying amount for stage 3 loans (credit-impaired loans) in relation to carrying amounts for total loans measured at amortised cost (excluding demand deposits, credit institutions and including trade and client receivables presented as other assets).

*See sebgroup.com/ir for the excel file entitled Alternative Performance Measures which includes information on the calculation of alternative performance measures.*

1) Alternative Performance Measures, APMs, are financial measures of historical or future financial performance, financial position, or cash flows, other than those defined in the applicable financial reporting framework (IFRS) or in the EU Capital Requirements Regulation and Directive CRR/CRD IV. APMs are used by SEB when relevant to assess and describe SEB's financial situation and provide additional relevant information and tools to enable analysis of SEB's performance. APMs on basic earnings per share, diluted earnings per share, net worth per share, equity per share, return on equity, return on total assets and return on risk exposure amount provide relevant information on SEB's performance in relation to different investment measurements. The cost/income ratio provides information on SEB's cost efficiency. APMs related to lending provide information on provisions in relation to credit risk. All these measures may not be comparable to similarly titled measures used by other companies.

2) Average for the year, calculated on month-end figures.

3) Average, calculated on a daily basis.

# Definitions

*According to the EU Capital Requirements Regulation no 575/2013 (CRR)*

**Risk exposure amount**
Total assets and off balance sheet items, risk-weighted in accordance with capital adequacy regulations for credit risk and market risk. The operational risks are measured and added as risk exposure amount. Risk exposure amounts are only defined for the consolidated situation, excluding insurance entities and exposures deducted from own funds.

**Common Equity Tier 1 capital**
Shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets and certain other regulatory adjustments defined in EU Regulation no 575/2013 (CRR).

**Tier 1 capital**
Common Equity Tier 1 capital plus qualifying forms of subordinated loans liabilities, so-called additional tier 1 instruments.

**Tier 2 capital**
Mainly subordinated loans liabilities not qualifying as Tier 1 capital contribution.

**Own funds**
The sum of Tier 1 and Tier 2 capital.

**Common Equity Tier 1 capital ratio**
Common Equity Tier 1 capital as a percentage of risk exposure amount.

**Tier 1 capital ratio**
Tier 1 capital as a percentage of risk exposure amount.

**Total capital ratio**
Total own funds as a percentage of risk exposure amount.

**Leverage ratio**
Tier 1 capital as a percentage of total assets including off-balance sheet items with conversion factors according to the standardised approach.

**Liquidity Coverage Ratio (LCR)**
High-quality liquid assets in relation to the estimated net cash outflows over the next 30 calendar days.

# Abbreviations

**IFRS 9 abbreviations:**

| | |
|---|---|
| FVTPL | Fair Value Through Profit or Loss |
| FVHFT | Fair Value Through Profit or Loss Held for Trading |
| FVMPL | Fair Value Through Profit or Loss Mandatorily |
| FVDPL | Fair Value Through Profit or Loss Designated |
| FVOCI | Fair Value Through Other Comprehensive Income |
| AmC | Amortised Cost |

**IAS 39 abbreviations:**

| | |
|---|---|
| HFT | Held for Trading |
| FVO | Fair Value Option |
| AFS | Available-for-sale |
| LaR | Loans and Receivables |
| AmC | Amortised Cost |
| HTM | Held to Maturity |

# Calendar

| | |
|---|---|
| 2018 Annual Accounts | 30 January 2019 |
| Annual Report | 5 March 2019 |
| Annual General Meeting | 26 March 2019 |
| Interim report January – March | 30 April 2019 |
| Interim report January – June | 12 July 2019 |
| Interim report January – September | 23 October 2019 |

**SEB corporate website**

Financial information, publications and other information regarding SEB is available at ▶▶ *sebgroup.com*

# Financial information and publications


**Annual Report**
Information on SEB's business, strategy, risk management and corporate governance. Detailed information on SEB's financial position and results. Includes SEB's Sustainability Report.


**Annual Review**
An abbreviated version of the Annual Report.



**Interim reports and Fact Books**
Quarterly reports on SEB's financial performance. Detailed information on SEB's financial position and results in Fact Books.


**Capital Adequacy and Risk Management Report (Pillar 3)**
Disclosure on capital adequacy and risk management in accordance with regulatory requirements.


**Sustainability Fact Book & GRI Index**
Detailed information on sustainability matters and a GRI (Global Reporting Initiative) Index.

New shareholders are automatically offered a subscription of the Annual Report or the Annual Review.
Order printed copies of the Annual Report and the Annual Review on ▶▶ *sebgroup.com/ir*
Subscribe to the interim reports (pdf) and the Fact Book (pdf) on ▶▶ *sebgroup.com/press*

FSC MIX Paper from responsible sources FSC® C011209 www.fsc.org

Please recycle me!

3041 0242 PRINTED MATTERS

# Annual General Meeting

The Annual General Meeting will be held on Tuesday 26 March 2019 at 1 pm (CET) at Stockholm Concert Hall, Hötorget, Stockholm, Sweden.

A notice convening the Annual General Meeting, including an agenda, is available on sebgroup.com

Shareholders who wish to attend the Annual General Meeting shall at the latest on Wednesday 20 March 2019:

- be registered in the shareholders' register kept by Euroclear Sweden AB, and
- have notified the bank in either of the following ways:
  - by telephone 0771 23 18 18 (+46 771 23 18 18 from outside Sweden) between 9 am and 4.30 pm (CET) or
  - at sebgroup.com or
  - in writing to the following address: Skandinaviska Enskilda Banken c/o Euroclear Sweden, Box 191, 101 23 Stockholm, Sweden

# Dividend

The Board proposes a total dividend of SEK 6.50 per share (consisting of an ordinary dividend of SEK 6.00 per share and an extraordinary dividend of SEK 0.50 per share) for 2018.

Thursday 28 March 2019 is proposed as record date for the dividend payments. If the Annual General Meeting resolves in accordance with the proposal, the share will be traded ex-dividend on Wednesday 27 March 2019 and dividend payments are expected to be distributed by Euroclear Sweden AB on Tuesday 2 April 2019.

# Head office


| | |
|---|---|
| Postal address | SEB, SE-106 40 Stockholm, Sweden |
| Visiting address | Kungsträdgårdsgatan 8, Stockholm, Sweden |
| Telephone | +46 771 62 10 00 |


# Contacts


**Masih Yazdi**
Finance Director
Telephone: +46 771 62 10 00
E-mail: masih.yazdi@seb.se

**Frank Hojem**
Head of Media Relations
Tel: +46 707 63 99 47
E-mail: frank.hojem@seb.se

**Christoffer Geijer**
Head of Investor Relations
Telephone: +46 707 62 10 06
E-mail: christoffer.geijer@seb.se

**Malin Schenkenberg**
Financial Information Officer
Telephone: +46 8 763 95 31
E-mail: malin.schenkenberg@seb.se


Skandinaviska Enskilda Banken AB (publ) – Corporate registration number 502032-9081

Production: SEB and Intellecta • Photos: Johnér, Shutterstock, Hans-Erik Nygren, Andreas Lind, Joachim Lundgren, Joel Sherwood and others • Printing: Elanders • SEGR0157 2019.02