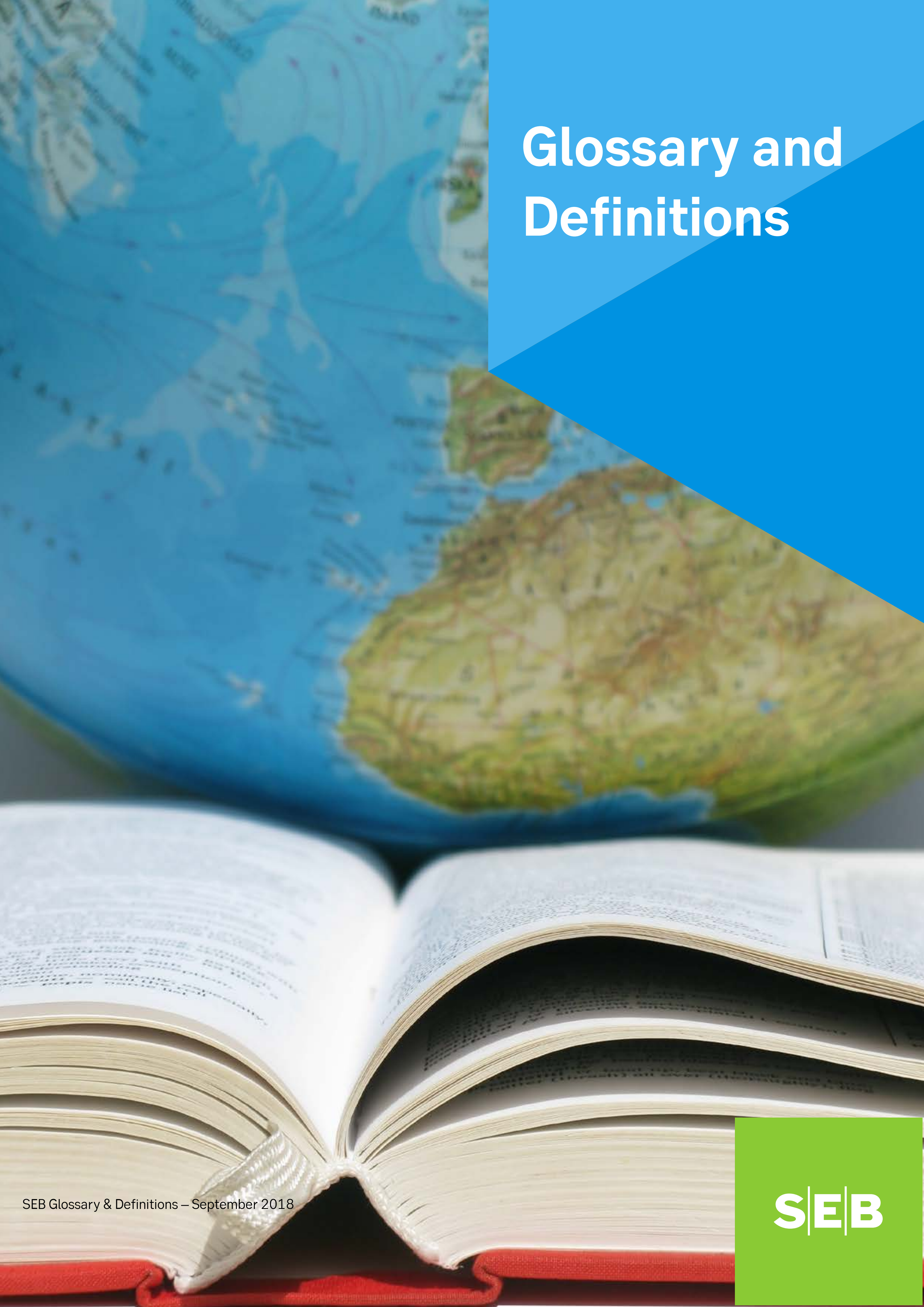
Glossary and Definitions



Asset quality

Based on IFRS9:

Expected Credit losses, ECL

Probability of weighted credit losses with respective risk of a default.

Net ECL level

Net credit impairments as a percentage of the opening balance of debt securities and loans to the public and credit institutions measured at amortised cost, financial guarantees and loan commitments, less ECL allowances.

ECL coverage ratio

ECL allowances as a percentage of underlying gross carrying amounts and nominal amounts of financial guarantees and loan commitments.

Pre IFRS9 implementation:

Credit loss level

Net credit losses as a percentage of the opening balance of loans (each year) to the public, loans to credit institutions and loan guarantees less specific, collective and off-balance sheet reserves.

Gross level of impaired loans

Individually assessed impaired loans, gross, as a percentage of loans to the public and loans to credit institutions before reduction of reserves.

Net level of impaired loans

Individually assessed impaired loans, net (less specific reserves) as a percentage of net loans to the public and loans to credit institutions less specific reserves and collective reserves.

Specific reserve ratio for individually assessed impaired loans

Specific reserves as a percentage of individually assessed impaired loans.

Total reserve ratio for individually assessed impaired loans

Total reserves (specific reserves and collective reserves for individually assessed loans) as a percentage of individually assessed impaired loans.

Reserve ratio for portfolio assessed loans

Collective reserves for portfolio assessed loans as a percentage of portfolio assessed loans past due more than 60 days or restructured.

Non-Performing Loans

Loans deemed to cause probable credit losses including individually assessed impaired loans, portfolio assessed loans past due more than 60 days and restructured portfolio assessed loans.

NPL coverage ratio

Total reserves (specific, collective and off balance sheet reserves) as a percentage of non-performing loans.

NPL per cent of lending

Non-performing loans as a percentage of loans to the public and loans to credit institutions before reduction of reserves.

Credit risk measurement

EAD (Exposure at Default)

Credit exposure X Credit Conversion Factor (CCF) = Exposure at Default (EAD)

Credit Conversion Factor

A weighting (1-99%) applied to committed facilities and other off balance sheet items to reflect probability of being drawn, i.e. end up on the balance sheet (100% weighting)

REA (Risk Exposure Amount)

Credit exposure weighted according to its perceived risk (risk weight)

REA = {CCF , PD , LGD , maturity , asset correlation}

Standardised approach

Predetermined risk weights applied

IRB Foundation approach

Use of own PD scale in risk weight calculations – LGD, CCF and maturities set by regulator

IRB Advanced approach

Use of own PD scale, LGD and CCF models and actual maturities in risk weight calculations

Authorities and Regulations

AML 4+5 (Anti-Money Laundering directives)

EU's Anti-Money Laundering directives 4 and 5 take account of changes introduced by FATF, and strengthen the fight against terrorist financing and money laundering. This is achieved by measures facilitating the work and cooperation of Member States' Financial Intelligence Units (FIUs), establishing common policies towards high risk non-EU countries, and improving traceability of funds transfers.

Basel II

International regulatory framework for financial institutions that mainly regulates banks' capital adequacy, i.e. how much capital a bank must hold in relation to the risk it takes. The regulations also stipulate requirements concerning the banks' risk management and the disclosure of public information. Basel II was implemented in Sweden in 2007.

Basel III

International regulations for financial institutions that replace the Basel II regulations on the banks' capital adequacy. Compared to Basel II, Basel III entails increased capital requirements and regulations on capital buffers and leverage. Basel III also regulates banks' liquidity management. The Basel III Accord will be progressively phased in by 2019. Implementation in Sweden will take place as early as possible and include stricter rules for capital and liquidity, referred to as "the Swedish finish", than the Basel Accord prescribes.

Basel IV (Finalisation of Basel lll, post crisis reform)

Basel IV includes i.e. a revised standardised approach for credit risk, revisions to IRB-models, a revised standardised approach for operational risk, which will replace the existing standardised approaches and the advanced measurement approaches and last but not least an aggregate output floor, which will ensure that banks' risk-weighted assets (RWAs) generated by internal models are no lower than 72.5% of RWAs as calculated by the Basel III framework's standardised approaches.

CRR/CRD IV, Capital Requirements Regulation/Capital Requirements Directive IV

EU regulation and directive that implement the Basel III Accord. The regulations include stipulations on the banks' capital adequacy, leverage and liquidity, as well as remunerations.

BRRD (Bank Recovery and Resolution Directive)

Proposed EU regulation with directives in the event of bank failures including preemptive recovery plans, bail-in tools and resolution funds.

EBA (European Banking Authority)

The European Banking Authority establishes joint regulatory and supervisory standards in the EU and conducts stress tests of European banks. The 28 National FSAs constitute its main decision making body.

ECB (European Central Bank)

Monetary policy with the primary objective of price stability, and supervisory authority for significant institutions in the Euro area.

EFSF (European Financial Stability Facility)

A temporary crisis management fund set up to safeguard financial stability in Europe by offering financial support to euro-area countries. Has been replaced by the ESM.

EFSM (European Financial Stabilisation Mechanism)

The European Financial Stabilisation Mechanism is an emergency funding programme reliant upon funds raised on the financial markets and guaranteed by the European Commission. It runs under the supervision of the Commission and aims at preserving financial stability in Europe by providing financial assistance to member states of the European Union in economic difficulty.

EIOPA (European Insurance and Occupational Pensions Authority)

EIOPA – togheter with EBA and ESMA – aims to support EU's financial system. The agency focuses on insurance issues, pension schemes, policyholders and beneficiaries. EIOPA is commissioned to monitor and identify trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors.

EMIR (European Market Infrastructure Regulation)

EU's Market Infrastructure Regulation aims to make derivatives markets and central clearing services safer, and to reduce systemic risks. EMIR mandates the central clearing of standardised and liquid OTC derivatives contracts and sets out prudential and operational requirements for derivatives transactions, incuding reporting, clearing and margins. It implements several of the commitments made by G20 leaders to reform derivatives markets after the financial crisis 2007-2009.

ESM (European Stability Mechanism)

The EU's permanent stability mechanism which is to provide financial support to euro countries in order to secure financial stability in the eurozone. The ESM was started up in October 2012 and will take over after the two provisional crisis funds the EFSM and the EFSF.

ESMA (European Securities and Markets Authority)

ESMA aims to improve the EU's financial system by enhancing investor protection and promoting stable and orderly financial markets. The authority establishes joint regulatory and supervisory standards, thereby being a key player in establishing a single rulebook for EU financial markets. ESMA also promotes supervisory convergence and directly supervises specific financial entities.

IMD (Insurance Mediation Directive)

EU directive regarding insurance mediation.

ESRB (European Systemic Risk Board)

The European Systemic Risk Board is responsible for the macroprudential supervision of the financial system within the

EU.

EMIR (European Market Infrastructure Regulation)

The EU regulation which came into effect in August 2012 and which requires OTC derivatives to be cleared by a central counterparty to a greater extent, and places new requirements on central counterparties.

FATF (Financial Action Task Force)

FATF is an inter-governmental body that sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

GDPR (General Data Protection Regulation)

EU's General Data Protection Regulation strengthens the protection of personal data through stricter requirements. It applies to all businesses, but affects banking especially since the financial sector involves large volumes of personal data. Requirements are subject to sanctions with fines up to four per cent of a company's global annual turnover.

IDD (Insurance Distribution Directive)

EU's revised directive to upgrade consumer protection in the insurance sector. It governs insurance distribution, conflicts of interest, sales commissions, remuneration, investment advice and requirements for independent advice, product supervision, documentation and skill requirements.

MAD/MAR

EU's revised Market Abuse Directive and new Market Abuse Regulation. It sets common rules regarding insider dealing, market manipulation (market abuse), certain aspects of investment recommendations and sanctions linked to such issues.

MiFID (Markets in Financial Instruments Directive)

EU Directive regarding markets in financial instruments. Contains regulations about the operations of trading venues and transparency requirements for securities transactions.

Solvency II

The Solvency II Directive codifies and harmonises the EU insurance regulation. Primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Implementation date 1 January 2016.

SRB (Single Resolution Board)

The SRB is the European Banking Union's resolution authority. It is a key element of the Banking Union and its Single Resolution Mechanism. Its mission is to ensure the orderly resolution of failing banks, with as little impact as possible on the real economy and public finances of the participating EU countries and others.

SSM (Single Supervisory Mechanism)

The SSM refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries. Its main aims are to ensure the safety and soundness of the European banking system, ensure consistent supervision and increase financial integration and stability. The SSM is one of the two pillars of the EU banking union, along with the Single Resolution Mechanism.

PD (Probability of Default)

The probability of default is an estimate of the likelihood that the default event will occur. It applies to a particular assessment horizon, usually one year.

LGD (Loss Given Default)

LGD is the share of an asset that is lost when a borrower defaults.

AIFMD (Alternative Investment Fund Managers Directive)

The Directive 2011/61/EU on Alternative Investment Fund Managers (AIFMs) set regulatory standards for AIFM within scope and enhance the transparency of the activities of AIFM and the funds they manage towards investors and public authorities. It covers the management, administration and marketing of alternative investment funds (AIFs). An AIF is a collective investment undertaking that is not a UCITS (e.g. hedge funds, private equity funds, investment companies and real estate funds).

UCITS V (Undertakings for the Collective Investment in Transferable Securities)

"UCITS" or "undertakings for the collective investment in transferable securities" are investment funds regulated at EU level. The legislative instrument covering these funds is Directive 2014/91/EU (UCITS V) (amending Directive 2009/65/EC (UCITS IV)). The UCITS V directive introduces new rules on UCITS depositaries, such as the entities eligible to assume this role, their tasks, delegation arrangements and the depositaries' liability. It further covers general remuneration principles that apply to fund managers and sanctions regime.

IFRS (International Financial Reporting Standards)

SEB's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU Commission. IFRS is a single set of accounting standards, developed and maintained by the IASB with the intention of those standards being capable of being applied on a globally consistent basis thus providing investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers.

PFE (Potential Future Exposure)

The maximum expected credit exposure over a specified period of time calculated at some level of confidence

Dodd-Frank Act

The "Dodd–Frank Wall Street Reform and Consumer Protection Act" is the US law implementing the commitment made by G20 leaders in 2009 to regulatory reform the OTC derivatives markets. There are 16 Titles of the Act in total, for instance; Title VI encompasses the Volcker rule, and Title VII relates to

"Wall Street Transparency and Accountability" encompassing the Swap Dealer associated rules.

PAD (Payment Account Directive)

EU's Payment Account Directive concerns comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. PAD provides the framework for EU Member States to introduce measures to allow all consumers to have access to a payment account with 'basic features'.

PRIIP (Packaged Retail and Insurance-Based Investment Products)

The EU regulation requires manufacturers of a PRIIPs product to produce a standardised document to present the main features of an investment product in a consumer-friendly manner, allowing consumers to compare investment-linked insurance policies, investment funds and investment products.

PSD 2 (Payment Services Directive 2)

The EU-based PSD legislation provides the legal foundation for an EU single market for payments. The objective of the revised rules (PSD 2) is to make payments easier, more efficient and more secure – for both domestic and cross-border payments. It also opens the electronic payment market to new participants (third party providers).

Shareholder's Equity and Capital

Risk exposure amount (REA)

Total assets and off balance sheet items, weighted in accordance with capital adequacy regulation 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 items deducted from own funds. Referred to as RWA in the Basel III framework.

Risk-weight

Credit risk is the main risk type in determning capital requirements. In simplified terms, to calculate a bank's risk exposure amount, the bank's exposure to a customer or counterpart through financing or financial commitments is multiplied by a risk-weight. The risk-weights can be standardised for a certain type of counterpart in which case regulation prescribes the percentage applied, or based on banks' internal models. Risk-weights in internal models are determined on the basis of how likely it is that the counterpart will be unable to fulfil its loan commitment. The likelihood of non-fulfilment varies from one counterpart to another. A high risk weight implies a greater risk than a low risk-weight. Also, the value of the collateral and loss experience in the past plays a key role.

Risk-weights for market risk and operational risks are based on either highly standardised methodology relating to the size of positions, business volumes or revenues, or internal models that can be used after supervisory approval.

AMA (Advanced Measurement Approach)

Advanced Measurement Approach, an advanced method to calculate capital requirement for operational risk.

Tier 1 capital

Shareholders' equity excluding proposed dividend, deferred tax assets, intangible assets (e.g. bank-related goodwill), 50% of investments in insurance companies and certain other adjustments. Tier 1 capital can also include qualifying forms of subordinated loans.

CET 1 (Common Equity Tier 1 Capital)

Stricter version of the core Tier 1 capital, in accordance with the Basel III Accord.

Hybrid capital

A cross between equity and debt. In the event of a bank becoming bankrupt, hybrid capital has higher priority than share capital, but lower priority than senior bonds. Hybrid capital is also known as Tier 1 capital contribution.

Tier 2 capital

Mainly subordinated debt not qualifying as Tier 1 capital contribution. In the event of a bank becoming bankrupt, Tier 2 capital has higher priority than Tier 1 capital but lower priority than senior bonds.

Capital base

The sum of Tier 1 and Tier 2 capital.

Tier 1 capital ratio

Tier 1 capital as a percentage of risk exposure amount.

Core Tier 1 capital ratio

Core Tier 1 capital as a percentage of risk exposure amount.

Total capital ratio

The capital base as a percentage of risk exposure amount.

Total capital requirements

Is the sum of Pillar 1 and Pillar 2 capital requirements.

Pillar 1 capital requirements

Consist of a minimum capital requirement of 8 per cent, a capital conservation buffer of 2.5 per cent, any applicable countercyclical buffer and for large Swedish banks also a systemic risk buffer of 3.0 per cent. The minimum requirement is subdivided into a CET 1 requirement of 4.5 per cent, an Additional Tier 1 capital requirement of 1.5 per cent and a Tier 2 capital requirement of 2 per cent. Capital buffer requirements shall be fully met with CET 1.

Pillar 2 capital requirements

Consist of capital requirements in addition to Pillar 1 requirements for risks to which the institutions are or might be exposed, risks that an institution poses to the financial system and risks revealed by stress testing. Currently large Swedish banks are subject to 1) a CET1 requirement for systemic risk of 2.0 per cent, 2) a risk weight floor for Swedish residential mortgages of 25 per cent and 3) a requirement for other specific pillar 2 risks. The requirement for other specific pillar 2 risks is generally related to credit related concentration risk, interest rate risk in the banking book, pension risk and a corporate maturity floor. In addition further requirements can be imposed as a result of the yearly Supervisory Review and Evaluation Process (SREP)." The main part, 74-79 per cent, of the pillar 2 requirements shall be met with CET1 capital.

Leverage ratio

Equity, core Tier 1 capital or Tier 1 capital in relation to total assets, including certain off-balance sheet items and with or without netting of repos, derivatives and securites lending on the balance sheet. Different jurisdictions have historically used different definitions. Basel III will require banks to hold Tier 1 capital equal to 3 percent of adjusted total assets, known as a leverage ratio.

CCB (Counter-cyclical buffer)

The countercyclical capital buffer (CCB) is a pre-emptive measure in the Basel III framework that requires banks to build-up capital gradually as imbalances in the credit market develop. It has two main objectives. First, it aims to protect the banking sector from the consequences of excessive credit growth by increasing its loss-absorbing capacity. Second, it increases the cost of providing credit thereby reducing the build-up of excesses. The CCB can maximum constitute 2.5 per cent of risk exposure amount and will only be activated when imbalances appear to be building up. In Sweden, a 2.5 per cent buffer will apply from September 2019.

EAD

Exposure at default

Capital conservation buffer

A requirement for a capital buffer consisting of Common Equity Tier 1. If the buffer is not complete, the bank must retain a portion of its profit to improve its capital ratio. The buffer requirement must be fully implemented by January 2019.

Basic/diluted earnings per share

Net profit attributable to shareholders in relation to the weighted average (diluted) number of shares outstanding.

Equity per share

Shareholders' equity in relation to the number of shares outstanding.

Net worth per share

Shareholders' equity plus the equity portion of any surplus values in the holdings of interest-bearing securities and surplus value in life insurance operations in relation to the number of shares outstanding.

Return on equity

Net profit attributable to shareholders in relation to average shareholders' equity.

Return on business equity

Operating profit by division, reduced by a standard tax rate, in relation to the divisions' business equity.

Return on total assets

Net profit attributable to shareholders, in relation to average total assets.

Return on risk exposure amount

Net profit attributable to shareholders in relation to average risk exposure amount.

Banking structural reform (follow-up to the Liikanen report)

Proposal of the European Commission for a regulation to stop the biggest banks from engaging in proprietary trading. The proposed rules would also give supervisors the power to require those banks to separate certain potentially risky trading activities from their deposit-taking business if the pursuit of such activities compromises financial stability.

Bail-in

A resolution tool which allows resolution authorities to write-down and convert all or parts of a bank's unsecured and uninsured liabilities into equity.

MREL (Minimum Requirement of Eligible Liabilities)

Minimum requirement for the capital base and 'bail-inable' liabilities, calculated as a percentage of the size of the balance sheet.

TLAC (Total Loss Absorbing Capital)

A minimum requirement for 'Total Loss Absorbing Capacity' over and above minimum regulatory capital requirements. The TLAC minimum requirement is proposed to be in the range of 16-20% of RWA with regulatory capital buffers coming on top of this requirement. The minimum TLAC requirement must also be at least twice the quantum of the leverage ratio. The TLAC requirement applies, in the first instance, to Global Systemically Important Banks and could be met with the capital base and other subordinated liabilities.

Liquidity and Funding

LCR (Liquidity Coverage Ratio)

Short-term liquidity measure defined by the Basel Committee that measures a bank's ability to deal with a stressed net outflow of liquidity for 30 days. In simple terms, an LCR of 100 per cent means that a bank's liquidity reserves are adequate to enable the bank to manage an unexpected liquidity outflow for 30 days. In EU, the LCR regulationhas been fully in force since 2018.

NSFR (Net Stable Funding Ratio)

Structural liquidity measure defined by the Basel Committee that measures whether a bank has enough stable funding in relation to illiquid assets. The metric is expected to be introduced in the EU as part of the CRR2 in 2021.

Core Gap

SEB's internal definition of structural liquidity risk measuring the extent to which the Group is funding illiquid assets with long-term and stable funds.

Bonds

Covered bond

A bond issued by a bank whose holder has a special priority right to a pool of collateralised (secured) assets consisting of typically residential mortgage loans but the pool of assets could also contain commercial real estate loans and public loans in the event of a bankruptcy of the issuer. Covered bonds normally carry a lower risk for the holder compared to senior (unsecured) bonds, which means that the yield for the holder is lower or the borrowing cost for the issuer is lower compared to senior bonds.

OC (Overcollateralisation)

Overcollateralisation is the excess value of collateral pledged to secure debt. The more collateral pledged in excess of the debt, the lesser becomes the risk of the debt not being repaid. Thus, a high overcollateralization improves the rating of the debt and reduces the cost of issuing such debt instruments.

Senior bonds

Bonds issued on an unsecured basis whose holder does not have a special priority right in the event of the issuer's bankruptcy. The holder has higher priority than investors in subordinated bonds.

Subordinated bonds

Unsecured bonds whose holder does not have a special benefit right in the event of a bankruptcy. The holder has lower priority than investors in senior bonds.

Equity trading

Dark pools

Order books without visible volume, where large orders are placed in order to limit the impact on price. Can be organised by both MTFs/regulated markets and broker crossing systems.

DMA (Direct market access)

Client trading that occurs via direct access to the stock exchange's order books via an exchange member. An order only passes through the exchange member's risk control system before it is forwarded to the market place.

OTC (Over the Counter)

Trade that occurs directly between a buyer and seller, but outside a market place. OTC derivatives are derivatives that are traded between two parties without using a market place and with fully or partly concealed order information.

Market making

To continuously provide buy and sell orders for a certain trading volume in a financial instrument. In its traditional meaning, this term also includes a commitment to a trading venue or company to execute the transaction.

MTF (Multilateral Trading Facility)

Alternative trading venues for the trading of securities admitted for trading on regulated market. Operated by an investment firm or a stock exchange, for example Chi-X and Burgundy. MTF can also be trading venues for smaller companies' shares that are not admitted for trading on a regulated market, for example First North, Aktietorget and Nordic MTF.

Tick size

The smallest possible change in price for a financial instrument.

Mortgages

Loan-to-value ratio

A borrower's debt in relation to the market value of the collateral for the loan. For example, a household's loan-to-value ratio for its home corresponds to the household's mortgage divided by the market value of the home.

Mortgage cap

The Swedish FSA's (Finansinspektionen's) general guideline for a maximum loan-to-value ratio of 85 per cent of a property's value.

Second mortgage

The Swedish banks' definition of the portion of the mortgage loan that exceeds the limit for the first mortgage which is typically between 75 and 85 per cent of the market value of the residential property, is called second mortgage.

Other

CVA (Credit Value Adjustment)

Credit Value Adjustment is an adjustment to the fair value of derivative assets to reflect the default risk of the counterparty. CVA adjustment is relevant for OTC derivatives where market value builds up with time and thus SEB estimates an expected future exposure on the counterparty. The CVA charge represents the cost of hedging counterparty risk inherent to the derivative transaction and is determined by the expected future exposure of the transaction and the credit spread reflecting the counterparty's creditworthiness.

DVA (Debt Value Adjustment)

Debt Value Adjustment is an adjustment to the fair value of derivative liabilities to reflect SEB's own creditworthiness.

OCA (Own Credit risk Adjustment)

OCA is an adjustment to the fair value of issued index linked bonds.

Custody

Custody is the safekeeping, clearing and settlement of domestic and global securities by taking the legal responsibilities for the securities of another legal entity or private individual.