

# PERIODIC INFORMATION CONCERNING LIQUIDITY RISK IN ACCORDANCE WITH FFFS 2007:5



*This report provides information about SEK's liquidity position as of March 31, 2014. The contents of this report conform to the Swedish Financial Supervisory Authority's regulation FFFS 2007:5 (2010:12). The figures presented in this report refer to the SEK group. The information is not required to be, and therefore has not been, subject to external audit. For more information on SEK's liquidity risk management, please see SEK's Annual Report 2013 and Capital Adequacy and risk management report, Pillar 3 2013 (available on [www.sek.se](http://www.sek.se)).*

## 1 Management and measurement of liquidity risks

SEK defines liquidity and funding risk as the risk of not being able to settle payment obligations immediately when due. SEK applies a conservative policy concerning liquidity and funding risks in order to avoid refinancing risk. This policy means that for all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office<sup>1</sup>, as available funding, even though no funds have been drawn under this facility. This means that SEK does not have to raise new borrowings if market conditions are deemed to be disadvantageous throughout life of the credit portfolio. This policy is monitored through the reporting of maturity profiles for lending and borrowing. See chart 1 "Development over time of SEK's available funds".

When managing liquidity risk, different time perspectives are considered:

- In the short term, a deficit is avoided through overnight investments in larger or smaller amounts depending on needs and the market situation in combination with liquidity placements maturing in the short term.
- For all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, as available funding, even though no funds have been drawn under this facility, and this requires large volumes of long-term funding.

The position taken when investing liquid funds is determined with these two time perspectives in mind.

Available funds are defined as equity, borrowing in the financial markets and loan facilities with the Swedish

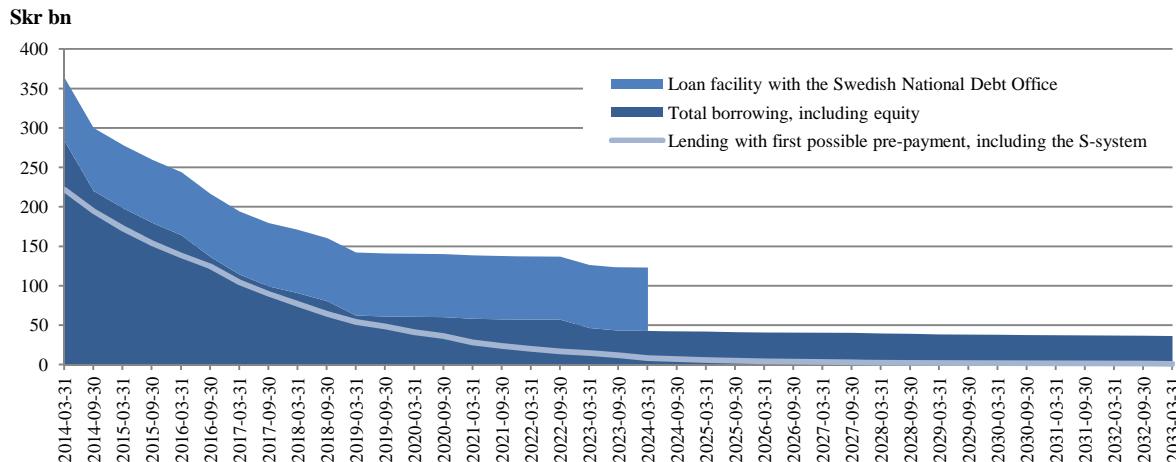
National Debt Office. Excess funds, i.e. the portion of available funds not already used to finance loans, must be invested in assets with good credit quality. The loan facility with the Swedish National Debt Office is valid through to December 31, 2014. A change for 2014 is that the total amount of the facility has, on SEK:s initiative, been reduced to Skr 80 billion and is now 100 percent allocated to the S-system and cannot be used for other purposes. Some of SEK's structured long-term borrowing includes early-redemption clauses that will be triggered if certain market conditions are met. Thus, the actual maturity for such contracts is uncertain. Chart 1 "Development over time of SEK's available funds", assumes that such borrowing is due at the first possible redemption opportunity. This assumption is an expression of the precautionary principle that the company applies concerning liquidity management. In addition, SEK also carries out various sensitivity analyses with regard to such instruments, in which different market conditions are simulated.

<sup>1</sup> The loan facility with the Swedish National Debt Office allows SEK to receive funding with maturities fully matching the underlying credits.



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Chart 1: Development over time of SEK's available funds as of March 31, 2014



## 2 Funding

For the purpose of ensuring access to funding, SEK has several funding programs for maturities up to one year. Short-term funding programs include a US Commercial Paper program (UCP) with maturities of up to 9 months, and a European Commercial Paper program (ECP) with maturities of up to one year. The latter of these programs allows borrowing in multiple currencies. The total volume of short-term funding programs was USD 7.0 billion, of which USD 0.0 billion had been utilized as of March 31, 2014. SEK also has a swing line that functions as back-up facility for the commercial paper programs.

SEK's funding policy is aimed at achieving an adequate diversification of funding sources spread across products, markets and currencies. To secure access to large volumes of funding, and to ensure that insufficient liquidity in individual funding sources does not pose an obstacle to operations, SEK issues bonds with different structures, currencies and maturities. In addition, SEK also carries out issues in many different geographical markets. As a general rule, by using derivatives, SEK converts the issue proceeds from foreign currency bonds to EUR or USD. This policy will ensure access to several markets around the world as well as access to various categories of investors. Charts 2, 3 and 4 illustrate some of the aspects of the diversification of SEK's funding. For further details on SEK's funding, see Table 1 in section 4 Appendix.

Chart 2: Long-term funding as of March 31, 2014 by issue currency

Net total long-term funding amount when swaps are taken into account:  
Skr 264.6 billion as of March 31, 2014

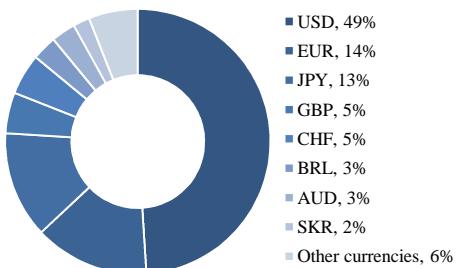


Chart 3: Long-term funding as of March 31, 2014 by structure type  
Net total long-term funding amount, when swaps are taken into account:  
Skr 264.6 billion as of March 31, 2014

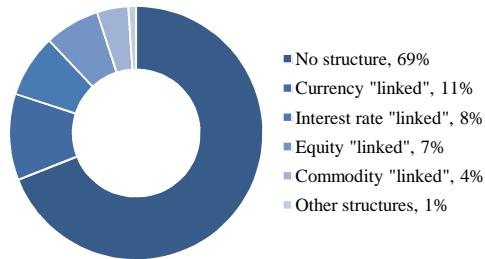
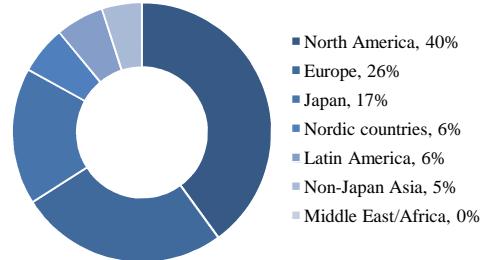


Chart 4: Long-term funding in 2014 by market  
Total long-term funding amount in 2014: Skr 13.1 billion



### 3 Liquidity

The size of SEK's liquidity placements is determined based on the size of different building blocks. As part of its liquidity placements, SEK requires a liquidity buffer to ensure that SEK can fulfill payments related to collateral agreements that the company has with its derivative counterparties in order to reciprocally manage counterparty risk in derivative transactions. As a result of the business model used by SEK, which entails dependence on the capital markets, funds reserved for agreed but undisbursed credits are invested in such a way that the maturity profile is matched against the planned disbursements of these credits. Hence, a substantial proportion of total liquidity placements is associated with these agreed but undisbursed credits. Furthermore, the liquidity placements also strives to ensure that SEK maintains readiness for at least 6 months to meet its assessed new lending requirements, enabling SEK to continue for a certain period to grant new credits to the normal extent, even if funding markets were entirely or partly closed. At March 31, 2014 this capacity amounted to 13 months' new lending capacity. A change in calculation methodology was introduced in 2013, which increased lending capacity compared with 2012. The high lending capacity is also partly due to large amounts of maturing debt already having been refinanced via measures such as a new benchmark bond. It is the company's assessment that the liquidity placements will be held to maturity. Instead of selling assets as funds are needed, the maturity profile of the liquidity placements is matched against funds expected to be paid out. Liquidity placements shall be made in assets of good credit quality. Furthermore, the duration of the assets shall be in accordance with defined guidelines.

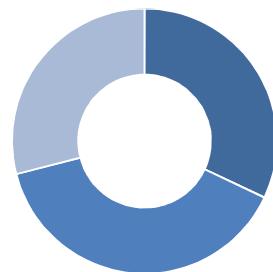
The liquidity reserve is a part of SEK's liquidity placements. SEK's liquidity reserve comprises highly-liquid assets including overnight deposits in banks. All assets are either confirmed or assumed to be eligible as collateral at the Riksbank (the Central Bank of Sweden) and/or confirmed to be eligible as collateral at the ECB. Assets that are assumed to be eligible in the Riksbank are

not explicitly listed by the Riksbank but meet its criteria for central bank eligible assets. Chart 5 provides a breakdown of SEK's liquidity reserve by exposure type. For further details on SEK's liquidity placements, see Tables 2, 3 and 4 in section 4 Appendix.

As of January 1 2013, the quantitative liquidity risk standard Liquidity Coverage Ratio (LCR) is binding in Sweden. Not just on an aggregate currency level but also for Euro and US-dollars separately. As of March 31, 2014, SEK complied with these new rules by having a LCR ratio at an aggregate level of 1295 percent, a ratio for euro of 181 percent and a ratio for US dollar of 331 percent.

**Chart 5: SEK's liquidity reserve as of March 31, 2014 by exposure class/type**

Total amount of SEK's liquidity reserve: Skr 18.9 billion, as of March 31, 2014



- Balances with other banks and National Debt Office, overnight, 32%
- Securities issued or guaranteed by sovereigns, central banks or multilateral development banks, 39%
- Covered bonds issued by other institutions, 29%

## 4 Appendix

**Table 1: Net long-term market funding amount, as of March 31, 2014 by country and structure type**

Net total long-term funding amount when swaps are taken into account: Skr 264.6 billion as of March 31, 2014

| Skr bn<br>Market   | No structure | Currency<br>"linked" | Interest rate<br>"linked" | Equity<br>"linked" | Commodity<br>"linked" | Credit<br>"linked" | Fund<br>"linked" | Total        |
|--------------------|--------------|----------------------|---------------------------|--------------------|-----------------------|--------------------|------------------|--------------|
| Europe             | 80.4         | 1.3                  | 11.2                      | 0.5                | 0.2                   | 0.1                | -                | 93.8         |
| North America      | 47.1         | -                    | 1.1                       | 3.2                | 10.1                  | -                  | -                | 61.5         |
| Japan              | 16.5         | 28.3                 | 1.1                       | 11.2               | 0.3                   | 0.1                | 0.1              | 57.6         |
| Non-Japan Asia     | 19.3         | 0.6                  | 7.2                       | -                  | 0.1                   | 0.8                | 0.0              | 28.1         |
| Nordic countries   | 8.6          | 0.0                  | 1.0                       | 3.6                | 0.1                   | 0.2                | 0.1              | 13.5         |
| Middle East/Africa | 8.7          | -                    | 0.3                       | -                  | -                     | -                  | -                | 9.0          |
| Latin America      | 0.8          | 0.1                  | 0.0                       | 0.0                | -                     | -                  | -                | 1.0          |
| Oceania            | 0.1          | -                    | -                         | -                  | -                     | -                  | -                | 0.1          |
| <b>Total</b>       | <b>181.6</b> | <b>30.3</b>          | <b>22.1</b>               | <b>18.6</b>        | <b>10.7</b>           | <b>1.2</b>         | <b>0.2</b>       | <b>264.6</b> |

For the long-term market funding, 16 percent (18 percent Q4 2013) of the outstanding volume includes early-redemption clauses as of March 31, 2014.

**Table 2: Liquidity reserve<sup>1</sup> as of March 31, 2014**

| Market values  | Total         | SKR          | EUR          | USD          | Other    |
|--|---------------|--------------|--------------|--------------|----------|
| Skr mn   |               |              |              |              |          |
| Balances with other banks and National Debt Office, overnight                                  | 5,975         | 5,975        | -            | -            | -        |
| Securities issued or guaranteed by sovereigns, central banks or multilateral development banks | 7,372         | 52           | 5,447        | 1,873        | -        |
| Covered bonds issued by other institutions   | 5,510         | 2,757        | 2,232        | 521          | -        |
| <b>Total Liquidity Reserve</b>   | <b>18,857</b> | <b>8,784</b> | <b>7,679</b> | <b>2,395</b> | <b>-</b> |

<sup>1</sup> The liquidity reserve is a part of SEK's liquidity placements

**Table 3: Liquidity placements as of March 31, 2014 by country and exposure class/type**

| Net Exposures        | Financial institutions | Regional/Local Governments | Securitization positions | Corporates | Covered bonds | CDS covered corporates | Multilateral development banks | Total <sup>1</sup> |
|----------------------|------------------------|----------------------------|--------------------------|------------|---------------|------------------------|--------------------------------|--------------------|
| Skr bn<br>Country    | States                 |                            |                          |            |               |                        |                                |                    |
| Sweden               | 2.8                    | 9.8                        | 9.3                      | -          | 3.2           | 5.1                    | 0.2                            | -                  |
| Canada               | 8.3                    | -                          | -                        | -          | -             | -                      | -                              | 8.3                |
| Netherlands          | 7.7                    | -                          | -                        | 0.2        | -             | -                      | -                              | 8.0                |
| France               | 2.2                    | 2.5                        | -                        | -          | -             | -                      | 1.0                            | -                  |
| Australia            | 4.0                    | -                          | -                        | 1.6        | -             | -                      | -                              | 5.6                |
| United States        | 1.3                    | -                          | -                        | 1.2        | 1.8           | -                      | -                              | 4.2                |
| United Kingdom       | 2.3                    | -                          | -                        | 0.5        | -             | -                      | 0.4                            | -                  |
| Japan                | 3.0                    | -                          | -                        | -          | 0.2           | -                      | -                              | 3.2                |
| Denmark              | 1.7                    | -                          | -                        | -          | -             | 0.9                    | -                              | 2.6                |
| Norway               | 2.5                    | -                          | -                        | -          | -             | -                      | -                              | 2.5                |
| Ireland              | -                      | -                          | -                        | 2.3        | -             | -                      | -                              | 2.3                |
| Singapore            | 1.7                    | -                          | -                        | -          | -             | -                      | -                              | 1.7                |
| Finland              | 0.7                    | -                          | -                        | -          | 0.4           | -                      | 0.3                            | -                  |
| Austria              | 1.3                    | -                          | -                        | -          | -             | -                      | -                              | 1.3                |
| Switzerland          | 1.1                    | -                          | -                        | -          | -             | -                      | -                              | 1.1                |
| Germany              | 0.0                    | -                          | 0.1                      | -          | 1.0           | -                      | -                              | 1.1                |
| Korea, Republic Of   | 1.0                    | -                          | -                        | -          | -             | -                      | -                              | 1.0                |
| Luxembourg           | -                      | 0.9                        | -                        | -          | -             | -                      | -                              | 0.9                |
| Spain                | -                      | -                          | -                        | 0.8        | -             | -                      | -                              | 0.8                |
| Qatar                | 0.7                    | -                          | -                        | -          | -             | -                      | -                              | 0.7                |
| United Arab Emirates | 0.6                    | -                          | -                        | -          | -             | -                      | -                              | 0.6                |
| Portugal             | -                      | -                          | -                        | 0.3        | -             | -                      | -                              | 0.3                |
| Latvia               | -                      | 0.0                        | -                        | -          | -             | -                      | -                              | 0.0                |
| <b>Total</b>         | <b>43.0</b>            | <b>13.2</b>                | <b>9.4</b>               | <b>6.9</b> | <b>6.5</b>    | <b>6.0</b>             | <b>1.8</b>                     | <b>0.1</b>         |
|                      |                        |                            |                          |            |               |                        |                                | <b>86.8</b>        |

<sup>1</sup> Total amounts in this table exclude collateral deposited.



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**Table 4: Liquidity placements as of March 31, 2014 by country and rating**

| Country              | AAA         | AA+        | AA         | AA-         | A+         | A           | A-         | BBB+       | BBB        | BBB-       | BB         | B+         | CCC        | Total <sup>1</sup> |
|----------------------|-------------|------------|------------|-------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|--------------------|
| Sweden               | 14.9        | 7.8        | 1.8        | 1.6         | 2.0        | 0.5         | 1.5        | 0.2        | 0.0        | -          | -          | -          | -          | 30.4               |
| Canada               | -           | -          | -          | 2.3         | 3.0        | 3.0         | -          | -          | -          | -          | -          | -          | -          | 8.3                |
| Netherlands          | 0.2         | 0.4        | -          | 2.9         | -          | 4.4         | -          | -          | -          | -          | -          | -          | -          | 8.0                |
| France               | -           | -          | 2.5        | -           | -          | 3.2         | -          | -          | -          | -          | -          | -          | -          | 5.7                |
| Australia            | 1.6         | -          | -          | 4.0         | 0.0        | -           | -          | 0.0        | -          | -          | -          | -          | -          | 5.6                |
| United States        | 1.1         | -          | -          | 1.8         | -          | 1.2         | -          | 0.0        | -          | -          | -          | -          | 0.1        | 4.2                |
| United Kingdom       | -           | -          | 0.1        | 2.2         | -          | 0.9         | -          | -          | 0.1        | -          | -          | -          | -          | 3.2                |
| Japan                | -           | -          | -          | -           | -          | 3.2         | -          | -          | -          | -          | -          | -          | -          | 3.2                |
| Denmark              | 0.9         | -          | -          | -           | -          | 1.0         | 0.7        | -          | -          | -          | -          | -          | -          | 2.6                |
| Norway               | -           | -          | -          | -           | -          | 0.9         | 1.7        | -          | -          | -          | -          | -          | -          | 2.5                |
| Ireland              | 1.5         | -          | -          | -           | -          | -           | -          | -          | -          | 0.4        | 0.2        | 0.2        | -          | 2.3                |
| Singapore            | -           | -          | -          | 1.7         | -          | -           | -          | -          | -          | -          | -          | -          | -          | 1.7                |
| Finland              | -           | -          | 0.1        | 0.9         | -          | 0.4         | -          | -          | -          | -          | -          | -          | -          | 1.4                |
| Austria              | -           | -          | -          | -           | -          | 1.3         | -          | -          | -          | -          | -          | -          | -          | 1.3                |
| Switzerland          | -           | -          | -          | -           | -          | 1.1         | -          | -          | -          | -          | -          | -          | -          | 1.1                |
| Germany              | 0.1         | -          | -          | -           | -          | -           | 1.0        | -          | 0.0        | -          | -          | -          | -          | 1.1                |
| Korea, Republic Of   | -           | -          | -          | -           | -          | 1.0         | -          | -          | -          | -          | -          | -          | -          | 1.0                |
| Luxembourg           | 0.1         | 0.9        | -          | -           | -          | -           | -          | -          | -          | -          | -          | -          | -          | 0.9                |
| Spain                | -           | -          | -          | 0.0         | 0.0        | -           | 0.1        | 0.2        | 0.1        | 0.0        | 0.4        | -          | -          | 0.8                |
| Qatar                | -           | -          | -          | -           | 0.7        | -           | -          | -          | -          | -          | -          | -          | -          | 0.7                |
| United Arab Emirates | -           | -          | -          | 0.6         | -          | -           | -          | -          | -          | -          | -          | -          | -          | 0.6                |
| Portugal             | -           | -          | -          | -           | -          | -           | 0.0        | -          | -          | 0.3        | -          | -          | -          | 0.3                |
| Latvia               | -           | -          | -          | -           | -          | -           | -          | 0.0        | -          | -          | -          | -          | -          | 0.0                |
| <b>Total</b>         | <b>20.3</b> | <b>9.1</b> | <b>4.5</b> | <b>17.8</b> | <b>5.7</b> | <b>22.2</b> | <b>4.9</b> | <b>0.4</b> | <b>0.2</b> | <b>0.7</b> | <b>0.6</b> | <b>0.2</b> | <b>0.1</b> | <b>86.8</b>        |

<sup>1</sup> Total amounts in this table exclude collateral deposited.



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