CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT 2011

PILLAR 3

SEK

CONTENTS

1. 2011 IN BRIEF

During 2011, there were no significant changes to SEK's objectives, principles, risk management methods or methods of measuring risk. Furthermore, neither the types of risk exposures nor the origins of these exposures have changed materially.

On December 31, 2011, SEK's risk-weighted assets (RWA), as calculated in accordance with Basel II (without taking into consideration the transitional rules applicable during the current period of transition from Basel I to Basel II) were equal to Skr 65.9 billion, which implies a Tier-1 ratio of 23.3 percent and a total capital adequacy ratio of 23.3 percent. The application of the transitional rules has been extended, during which the capital requirement pursuant to the transitional rules must not be less than 80 percent of the capital requirement calculated under Basel I regulations. Adjusted in accordance with the Swedish Financial Supervisory Authority's transitional rules, SEK's reported risk-weighted assets were Skr 65.9 billion, which also implies a Tier-1 ratio of 23.3 percent and a total capital adequacy ratio of 23.3 percent.

Common Equity Tier-1 capital adequacy ratio amounted to 19.6 percent as of December 31, 2011.

SEK's capital adequacy assessment process is deemed to be in line with the Basel II framework's underlying principles and concepts. In summary, SEK's assessment is that SEK's expected available capital amply covers the expected risks in the different scenarios that SEK envisages, in a way that supports SEK's high creditworthiness.

The financial crisis, in combination with new regulations, has resulted in further strengthening SEK's role, partly because the market and politicians have pushed, and continue to push, the issue of tougher regulation for the financial market. This provides greater scope for different types of niche operators, including government-owned credit institutions like SEK. This view has been strengthened by the prevailing debt crisis. The overall assessment is that SEK currently has a comparatively significant advantage as a result of its business model not permitting any refinancing risk. Unlike SEK's competitors, therefore, SEK is not facing an extensive and expensive extension of its debt portfolio.

2. INTRODUCTION

2.1 BACKGROUND

The Basel rules (Basel II) came into force in Sweden and the rest of the EU as of January 1, 2007. The main structure of the Basel II system consists of three "Pillars", as follows:

Pillar 1 deals with minimum capital requirements for credit and market risks as well as for operational risks, based on explicit calculation rules. Pillar 1 allows institutions to choose between various alternatives based on their level of development:

- With regard to credit risks, the standardized approach is the simplest approach. It is similar to Basel I, but contains more risk weights, all of which are established by national authorities. Institutions can expand upon the supervisory authorities' risk weights by using risk assessments from recognized credit rating agencies such as Moody's, Standard & Poor's and Fitch. The next level of sophistication under Pillar 1, regarding credit risk, is called the Foundation IRB approach (internal ratings-based approach). Under the Foundation IRB approach, the risk weights, and therefore the capital requirements, are partially based on institutions' internal risk classifications. There is also an advanced form of the IRB approach, in which the capital requirement is determined to an even greater extent on the basis of an institution's own calculations. SEK uses the Foundation IRB approach to calculate its capital requirement for credit risk (see section 6.9).
- In regard to market risks, institutions are allowed to choose between a simple or advanced method. There has been no substantial change in the handling of market risks in Basel II as compared with the old Basel I accord. SEK has only limited market risks under Pillar 1 (see section 8).
- For operational risks there are three alternatives: the basic indicator approach, the standardized approach and the internal measurement approach. For operational risk, SEK has chosen the standardized method (see section 7).

Under Pillar 1, an institution must at all times have a capital base that at least corresponds to the sum of the capital requirements for credit risks, market risks and operational risks. This is calculated in accordance with the Capital Adequacy Act (2006:1371), regarding capital adequacy and large exposures as well as the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2007:1) regarding capital adequacy and large exposures.

Pillar 2 concerns national supervisory authorities' evaluation of risks and describes institutions' risk and capital management. It also establishes the supervisory authorities' functions and powers. Further, under Pillar 2 each financial institution must identify risks and assess risk management from a wider perspective, to supplement the capital requirements calculated within the scope of Pillar 1. This Internal Capital Adequacy Assessment Process (ICAAP) also takes into account qualitative risks which cannot be directly measured in the form of exposures that can be covered by capital.

Pillar 3 concerns, and places demands on, openness and transparency and how institutions, in a broad sense, should report their operations to the market and the public. The disclosure of capital and risk management must follow the requirements of the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2007:5) regarding public disclosure of information concerning capital adequacy and risk management.

2.2 SEK GROUP

The information in this risk report refers to the SEK financial group. The SEK financial group's parent company, AB Svensk Exportkredit ("SEK" or "the Parent Company"), has its registered office in Stockholm, Sweden, with the address Klarabergsviadukten 61–63, P.O. Box 194, 101 23 Stockholm, Sweden. The Group included, as of December 31, 2011, AB Svensk Exportkredit and its wholly-owned subsidiaries, AB SEK Securities, SEK Financial Advisors AB, SEK Financial Services AB, SEK Customer Finance AB, SEK Exportlånet AB and Venantius AB including the latter's wholly-owned subsidiary VF Finans AB (the Subsidiaries). Together, these are referred to as the "Consolidated Group" or "the Group".

AB SEK Securities is a securities company under the supervision of the Swedish Financial Supervisory Authority. SEK Financial Advisors AB, SEK Customer Finance AB and Venantius AB are no longer engaged in any active business. SEK Financial Services AB and SEK Exportlånet AB are inactive companies. On April 13, 2011, the Parent Company in the Consolidated Group sold all of the shares in the wholly-owned subsidiary AB SEKTIONEN to a company in the LMK Industri AB Group. AB SEKTIONEN's main asset was its building, which served as SEK's headquarters until December 17, 2010, when SEK moved its headquarters to new, rented, premises. AB SEKTIONEN's operating business before the sale was to rent its building to the Parent Company.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are accounted for in accordance with the purchase method. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are consistent with Group policies. Intra-group transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unless otherwise stated or clear from context the information in these notes relates to both the Consolidated Group and the Parent company. There is no difference regarding the consolidation principles between consolidated accounting and the group-based accounting.

TABLE 2.1: SPECIFICATION OF SUBSIDIARIES INCLUDED IN THE FINANCIAL GROUP AS OF DECEMBER 31, 2011

Subsidiaries	Corporate registration number	Number of shares	Book value (Skr mn)	Voting power of holding (%)	Domicile	Consolidation method
AB SEK Securities	556608-8885	100,000	10.0	100%	Stockholm	Purchase method
SEK Financial Advisors AB	556660-2420	5,000	0.8	100%	Stockholm	Purchase method
SEK Financial Services AB	556683-3462	1,000	0.1	100%	Stockholm	Purchase method
SEK Customer Finance AB	556726-7587	1,000	16.6	100%	Stockholm	Purchase method
SEK Exportlånet AB	556761-7617	1,000	0.1	100%	Stockholm	Purchase method
Venantius AB (publ)	556449-5116	5,000,500	54.7	100%	Stockholm	Purchase method
Total			**82.3**			

2.3 DISCLOSURE STRUCTURE

This report provides information about risks, risk management and capital adequacy in accordance with Pillar 3 of the capital adequacy regulation (Basel II). The content of this report conforms to Swedish Financial Supervisory Authority's regulation FFFS 2007:5. The figures reported in this report refer to the SEK group. The figures for the group and for the parent company are essentially the same.

The figures in parentheses in this report refer to comparative data from 2010.

The information is not required to be, and therefore has not been, subject to external audit. However, the information in this disclosure document has been subject to internal quality assurance. The company's Asset and Liability Committee has established instructions that set out (i) how SEK should fulfill requirements regarding the publication of information under the Swedish Capital Adequacy Act and (ii) how SEK should assess whether the published information is satisfactory. This includes how the information is checked, whether it provides a comprehensive representation of SEK's risk profile and how often the information should be published.

The report is structured as follows: Chapter 3 (Risk and Capital management) provides a description of SEK's overall risk and capital management policies. This chapter also describes how SEK formulates its capital targets and risk appetite, and how risk categories are defined. In addition, the chapter provides a description of how the internal control environment has been organized.

Chapter 4 (Capital adequacy and Capital base) provides information about the terms and conditions that apply to the items included in SEK's capital base. This chapter also provides a capital adequacy analysis and information about SEK's compliance with the Swedish Financial Supervisory Authority's large exposure rules. In addition, this chapter describes how SEK will meet a minimum leverage ratio under Basel III regulations.

Chapter 5 (ICAAP and Economic capital) describes SEK's internal capital adequacy assessment process and the methods that form the basis for the overall assessment of the capital requirement. This chapter contains analyses and conclusions regarding capital requirements.

Chapters 6–11 present information regarding how SEK identifies and analyzes credit risk (including counterparty risk in derivative transactions), market risk, operational risk, liquidity and funding risk, reputational risk, business risk and strategic risk. The various approaches used to calculate capital requirements for these risks are also described in these chapters. Chapter 6 also provides information about SEK's credit portfolio, write-downs and the use of credit-risk protection. These chapters also describe how future regulations will affect SEK. For example, sections 6.8.3, 9.4 and 11.3 contain information about future regulation and its effect on SEK.

Chapter 12 (SEK's remuneration system) describes SEK's remuneration system in accordance with FFFS 2011:1.

Chapter 13 (Credit risk exposures in accordance with Basel II and SEK's 2011 Annual Report) provides a reconciliation between the group's balance sheet in accordance with IFRS and exposures in accordance with Basel II.

Chapter 14 (Determining fair value for financial instruments) describes SEK's hierarchy and processes for determining and disclosing the fair value of financial instruments based on valuation techniques.

3. RISK AND CAPITAL MANAGEMENT

3.1 RISK MANAGEMENT AND RISK CONTROL

Risk management is a key factor in SEK's ability to offer its customers competitive financing solutions, develop SEK's business activities, and thus contribute to the company's long-term development. SEK's customers often require large credits with long maturities, and these credits sometimes entail risks that would be too large to be acceptable to SEK without the use of risk-mitigating techniques. Therefore, in order to be able to carry out such transactions, a well-developed risk management system is required. Risk management requires knowledge and processes that are able to handle well-known risks with well-defined techniques, as well as being able to identify new risks and manage them by developing new techniques. Support from SEK's Board of Directors, and a clear line of decision-making authority, combined with awareness of risk among our employees, uniform definitions and principles, and control of risks incurred within an approved framework, as well as transparency in the external accounts make up the cornerstones of SEK's risk and capital management system.

It is not only in transactions with customers that risk management skills are decisive. Based on SEK's business model, which has been used for many years, SEK's funding activities benefit from various types of risk preferences that exist in the market. By being flexible and accepting new types of structures at an early stage – while at the same time being able to neutralize the risks – the company can respond to investor demands regarding risk exposure and at the same time obtain funding on favorable terms.

Risk management comprises two important components. One is to manage risks so that net risks are kept at the right level. The other is to assess the company's internal capital adequacy and ensure a level and composition of risk capital that is in line with the development of its business activities.

CHART 3.1: BASIC PRINCIPLES FOR RISK MANAGEMENT

- SEK shall carry out its business in such a manner SEK is perceived by its business counterparties as a first-class counterparty.
- SEK shall be selective in its choice of counterparties in order to ensure high creditworthiness.
- All SEK's credit commitments shall at all times be fully funded throughout maturity.
- SEK shall at all times have a capital base that is well above regulatory requirements.

As described above in chart 3.1, SEK's policy is that all SEK's credit commitments – outstanding credits as well as agreed but undisbursed credits – shall be fully financed through maturity. "Credit commitments" mean outstanding credits as well as agreed, but undisbursed credits.

SEK defines risk[1] in terms of the probability of a negative deviation from an expected financial result. Risk management includes all activities that affect the assumption of risk, i.e., SEK's processes and systems that identify, measure, analyze, monitor and report risks at an early stage. Adequate internal controls, consisting of a set of rules, systems and routines, as well as robust monitoring of adherence to these, helps ensure that the company is run in a reliable, efficient and controlled manner. Risk control refers to all activities for measuring, reporting and responding to risks, independent from the (risk-taking) units. SEK implements risk control from two different perspectives: (i) risk-related corporate governance that primarily includes risk management procedures and related limits, and (ii) management and control procedures that are carried out at the company level and include elements of corporate organization, corporate governance and internal controls.

SEK's risk management is mainly directed towards credit, market, liquidity, and operational risks. The Management and control at the corporate level cover the entire group, i.e. all risks, but are directed especially at risk appetite, capital targets and business risks.

TABLE 3.1: SEK'S MOST SIGNIFICANT RISK CATEGORIES

Credit risk	*Credit risk* represents the risk of the loss that would occur if a borrower or other party to any contract involving counterparty risk and guarantors, if any, were unable to fulfill its obligations in accordance with contractual terms and conditions.
Market risk	*Market risks* occur when the terms of a contract are such that the size of the payments linked to the contract or the value of the contract vary in function of a market variable, such as an interest rate or an exchange rate.
Liquidity and funding risk	*Liquidity and funding risk* is defined as the risk of not being able to meet SEK's own payment obligations upon their due dates.
Operational risk	*Operational risk* is defined as the risk of losses as a result of inappropriate or failed processes, human error, erroneous systems or external events. The definition also includes legal risk.
Business risk	*Business risk* is defined as the risk of lower revenues due to failure to reach volume and margin objectives or due to competition in general.
Strategic risk	*Strategic risk* is defined as the risk of lower revenues as a result of adverse business decisions, improper implementation of decisions or lack of adequate responsiveness to changes in the regulatory and business environment.
Reputational risk	*Reputational risk* is defined as the risk of lower revenues due to external rumors about the company or the industry in general.

3.2 CAPITAL POLICY, CAPITAL TARGETS AND RISK APPETITE

SEK's *capital policy* defines how capital management should support business objectives. One important goal is to, through size of shareholders equity, balance shareholders' demand for return with financial stability requirements required by regulators, debt investors, business counterparties, other market participants and rating agencies. The company's capital policy is set by the Board of Directors.

SEK's *capital target* serves two purposes. The first is to ensure that the company's capital strength is sufficient to support the strategy set out in the company's business plan and to ensure that capital adequacy is always higher than the minimum regulatory requirement, even during severe economic downturns. The other purpose is to maintain capital strength that supports high creditworthiness, which in turn ensures access to long-term funding on beneficial terms.

[1] Risk is a balancing of both probabilities and consequences with respect to a given event. The term "risk" is generally used when there is at least one negative consequence of an event. The balancing means that the risk, in total, may be high, even if the probability is low, depending on whether or not the consequences are serious.

The capital target is expressed in the form of two measures:

i. The Common Equity Tier 1 ratio is the ratio between Common Equity Tier 1 capital and risk-weighted assets (RWA) calculated in accordance with applicable regulation, but without regard to any Basel I-based additional requirements. The target level for this ratio is 16 percent. In the event of an adverse development in the operating environment the ratio is permitted to be lower, although never less than 12 percent.
ii. The company's capital requirement under Pillar 2 (quantified as economic capital) should not exceed Common Equity Tier 1 capital.

In addition to this capital target, the company expresses risk appetite as follows:

1. SEK's required rate of return is the long-term risk-free interest rate plus 4 percent after tax.
2. According to SEK's policy, SEK's annual dividend must be a minimum of 30 percent of net profit for the year (after taxes).
3. SEK's credit commitments – outstanding credits as well as agreed but undisbursed credits – shall be fully financed through maturity (referred to as positive availability). The company thus adopts a zero tolerance approach to refinancing risk.
4. SEK's borrowing shall cover agreed but undisbursed credits. Furthermore, SEK shall have readiness to ensure the company's lending capacity even during times of stress. This readiness should be adjusted to the assessed new lending requirement. In addition, SEK shall have a buffer for potential payments under the ISDA agreements.
5. The Tier 1 Leverage ratio (in accordance with the leverage limit rules, which are expected to be introduced from 2018) may not be less than 3 percent.
6. The target for the external rating is 'AA+', or one notch below the owner's sovereign rating. The company's rating should not be lower than 'AA-'.
7. Business risk is quantified by measuring volatility in operating profit, excluding credit losses. The positioning of the company results in a higher tolerance for this risk.
8. SEK's appetite for operational risk is low.[1] For compliance risk, SEK has zero tolerance. Risks that are assessed to be at a medium or high level should be mitigated.

3.3 GENERAL MEETINGS AND OWNER

SEK is wholly owned by the Swedish government. The owner exercises its influence at general meetings of the company. The Ministry of Finance is responsible for the state's ownership. At the proposal of the owner, the annual general meeting appoints the Board members and auditors, adopts the income statement and balance sheet of the Parent Company and the statement of comprehensive income and statement of financial position of the Consolidated Group, and addresses matters that arise at the meeting in accordance with the Swedish Companies Act and the articles of association. See chart 3.2 SEK – corporate governance.

3.4 ORGANIZATION

The ultimate responsibility for SEK's business, and for ensuring it is carried out with good internal control, lies with the *Board of Directors (the "Board").* The company's Board consists of eight members. None of SEK's executive management is a member of the Board. The Board establishes policies and at every meeting receives a summary report on the risk situation. The Board appoints the President, who oversees the day-to-day management of the company in accordance with the Board's guidelines and instructions. In addition to the Board and the President, there are committees with various powers to make decisions depending on the types of risks encountered. The Board has an annual process of establishing instructions for all of its committees. Minutes from all the committee meetings are furnished and reported to the Board at its meetings.

Table 3.2 describes SEK's committee structure, roles and attendées as of January, 2012:

TABLE 3.2: SEK'S COMMITTEE STRUCTURE, ROLES AND ATTENDÉES, AS OF JANUARY 1, 2012

COMMITTEE	FOCUS	ATTENDÉES
The Board's Finance Committee	Addresses questions relating to SEK's financial activities. Such financial activities refer to long-term and short-term borrowing, liquidity management, risk measurements and risk limits, and matters relating to policy or quality assurance. Decides on interest rate and currency risk limits.	Four members who are not employees of the company (one of these members is the chairperson). The President, Executive Director – COO, Head of Risk Control and Head of Funding attend the meetings. Executive Director – Strategic Analysis acts as the secretary to the committee.
The Board's Credit Committee	The highest decision-making body (after the Board itself) with respect to credit decisions.	Three members who are not employees of the company (one of these members is the chairperson). The President, Executive Director – Strategic Analysis, Executive Director – Chief Risk Officer and Executive Director – COO attend the meetings from executive management. Executive Director – Strategic Analysis acts as the secretary to the committee.
The Board's Remuneration Committee	Prepares proposals for decisions regarding the establishment of the Remuneration Policy and remuneration instructions, and prepares proposals for measures to monitor SEK's Remuneration Policy and remuneration instructions. Prepares proposals for decisions regarding the President's total remuneration, the remuneration of senior executives/ executive management and of the respective employee who is responsible for SEK's Control Function. Prepares and manages overall issues regarding remuneration.	Three members who are not employees of the company (one of these members is the chairperson). The President participates in meetings of the committee in matters that do not relate to the President's terms and conditions of employment. The Executive Director – Human Resources also participates in the Remuneration Committee meetings. Executive Director – Strategic Analysis acts as the secretary to the committee.
The Board's Audit Committee	Addresses matters relating to SEK's financial reporting and corporate governance report (including the Board's internal control report) in accordance with the Swedish Corporate Governance Code.	Four members who are not employees of the company (one of these members is the chairperson). From the executive management, the President and Executive Director – the Administrative Officer attend the committee's meetings. The Head of Financial Control, Internal Control Officer and Internal Audit report to the committee. External auditors also attend the meetings and report to the committee. Executive Director – Strategic Analysis acts as the secretary to the committee.

[1] SEK applies a three-point scale when assessing operational risk; low, medium, high.

COMMITTEE	FOCUS	ATTENDÉES
Asset and Liability Committee	Responsible for matters relating to SEK's financial activities, including SEK's short- and long-term financial stability. Also responsible for ensuring that the internal capital adequacy assessment is performed, presented to the Board's Finance Committee and approved by the Board. In addition, it decides on the structure and governance of SEK's balance sheet, considers matters relating to borrowing, and coordinates matters related to risk capital and liquidity, as well as validating the parameters used by SEK's economic capital model. The Asset and Liability Committee has the right to decide on risk limits within the scope of its mandate. The Committee also prepares and proposes risks limits in those cases in which the limits must be approved by the Board or the Board's Finance Committee.	The President (chairman), Executive Director – COO, Head of Treasury, Head of Funding and Head of Risk Control.
The Executive Committee's Credit Committee	Responsible for matters concerning credits and credit risk management within SEK. The Credit Committee has the right to make credit decisions within the scope of its mandate and on the basis of authority ultimately delegated by the Board.	The President (chairman), Executive Director – Chief Risk Officer, Executive Director – Strategic Analysis and Executive Director – COO.
Internal Control Committee	Responsible for the management and monitoring of operational risks. Also responsible for managing and following-up on incident reports, as well as following-up on reports from internal and external auditors. The committee serves as a deliberative and decision-making body for new products. Preparatory and decision-making body for SOX 404-related issues within SEK.	The President (chairman), Executive Director – COO, Executive Director – Strategic Analysis, Executive Director – Administrative Officer, Head of Risk Control, Head of Financial Control and Internal Control Officer.
Business Committee	Assesses, among other things, whether individual transactions fulfill the criteria set out in the instruction from the state.	The Executive Director – COO (chairman), Executive Director – Vice COO, Head of Structured Finance, Head of CRM and TF Head of Credit Management.
Executive Committee	The Executive Committee a) acts as the President's consultative body on company-wide matters; b) prepares and submits recommendations on matters that are deemed to be of fundamental significance or otherwise of great importance for the company, and c) decides on the issues that the President refers to the Executive Committee.	The President (chairman), Executive Director – COO, Executive Director – Chief Risk Officer, Executive Director – Strategic Analysis, Executive Director – Administrative Officer, Executive Director – Human Resources, Executive Director – Vice COO and Executive Director – Communications.

Within SEK, responsibility for risk management is based on the principle of three "lines of defense," the aim of which is to clarify roles and responsibility for risk management. *The first line of defense* consists of business units (including support functions) that "own" and manage risks. The Risk Control and Compliance function constitute *the second line of defense* and are responsible for the monitoring and control of risk and ensuring compliance. *The third line of defense* consists of Internal Audit, whose task is to undertake independent inspection and supervision of both the first and second lines of defense.

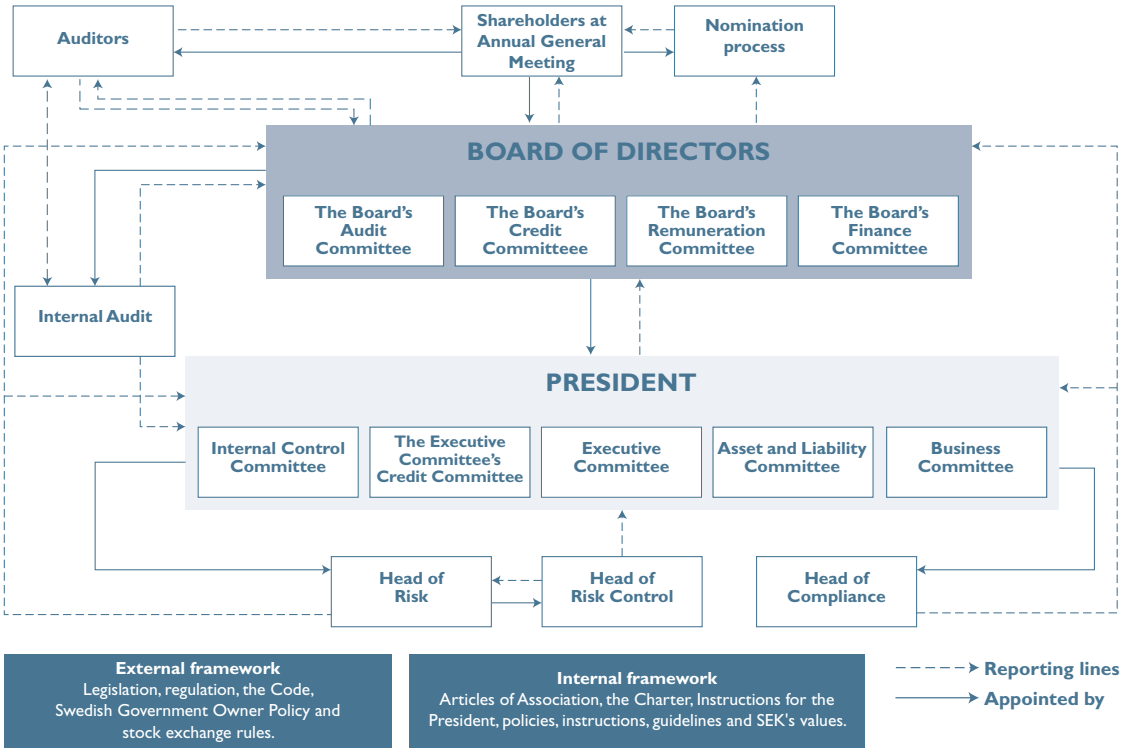
SEK's independent risk control is carried out by the *Risk Control function*, which reports to the Head of Risk and provides reports to the President. The Head of Risk reports to the President and provides reports to the Board. Based on a portfolio perspective, Risk Control is responsible for the control, analysis and reporting of financial risks and operational risk. The financial risks primarily consist of credit and counterparty risks, and market risks, as well as liquidity and funding risks. The Risk Control function monitors the company's risk strategy, risk management and rating methods for credit risk classification, as well as calculating, analyzing and forecasting regulatory capital adequacy and the need for economic capital. The function is also responsible for the choice of methods and models, and acts as a center of excellence, with the task of contributing to increasing SEK's risk capacity, including by analyzing diversification and risk mitigation effects.

SEK has also a *Compliance function*. The overall purpose of this function is to support the Group in running its operations in accordance with applicable regulations, including the monitoring of regulatory compliance within the company. The function reports to both the Board and the President.

SEK has an independent *Internal Audit function* which conducts audits and evaluations to ensure that the company's risk management and corporate governance processes are effective and efficient. Internal Audit reports directly to the Board. Internal Audit carries out audit activities in accordance with the prevailing audit plan, which is approved by the Board. Internal Audit regularly reports its findings to the Board, the Audit Committee and the President in addition to periodically informing the company's management. To further strengthen the third line of defense, in 2011 the Board took the decision to outsource the Internal Audit function to an external party as of January 1, 2012. This is in order to ensure access to specialist expertise and global networks, which are considered to be of particular importance at a time of extensive regulatory change.

It is a fundamental principle for all control functions to be independent of the commercial activities. Chart 3.2 shows SEK's organization for corporate governance.

CHART 3.2: SEK – CORPORATE GOVERNANCE STRUCTURE



4. CAPITAL BASE AND CAPITAL ADEQUACY

SEK's capital adequacy ratio as of December 31, 2011, calculated according to Basel II, Pillar 1, was 23.3 percent (without taking into account the effects of currently applicable transitional rules). When taking the transitional rules into account, the capital adequacy ratio was still 23.3 percent. Common Equity Tier-1 capital adequacy amounted to 19.6 percent as of December 31, 2011.

4.1 CAPITAL BASE

The capital base is intended to act as a buffer against the risks to which SEK is exposed. In short, the capital base consists of equity after various adjustments plus subordinated debt. Subordinated debt means debt for which, in the event of the obligor being declared bankrupt, the holder would be repaid after other creditors, but before shareholders. Subordinated debt can be both perpetual and non-perpetual and the amount of each type that may be included in the capital base is restricted by the capital adequacy rules. All SEK's capital contribution securities are issued under the previous regulatory framework; the entire amount is therefore included according to the transitional arrangements in FFFS 2010:10. Under the applicable Basel II rules, SEK does not yet need to report Common Equity Tier 1 capital. Under Basel III, SEK must start reporting Common Equity Tier 1 capital from 2013. However, for the sake of transparency, SEK is publishing this information now.

Details of the calculation of SEK's capital base are shown in tables 4.1 and 4.2.

TABLE 4.1: CAPITAL BASE – SUPPLEMENTAL AND DEDUCTION ITEMS, AS OF DECEMBER 31, 2011 (AND 2010)

Skr mn		
Equity:		
Share capital	3,990	(3,990)
Reserves	295	(–5)
Retained earnings	9,683	(8,585)
Adjusting items:[1]		
Expected dividend	–420	(–301)
Items recognized at fair value	–475	(–75)
Intangible assets	–88	(–58)
Other deductions[2]	–33	(n.a.)
100% of expected loss in accordance with IRB calculation	–	(–85)
Total Common Equity Tier-1[3]	**12,952**	**(12,051)**
Tier-1 eligible subordinated debt[4]	**2,423**	**(2,381)**
Total Tier-1 capital	**15,375**	**(14,432)**

[1] Deductions made directly (Basel III transitional rules not taken into account).

[2] The Swedish Financial Supervisory Authority (FSA) is changing its regulations and recommendations regarding capital adequacy and large exposures (FFFS 2007:1). Among other things, it is tightening requirements on the application of fair value measurement. The provisions on fair value measurement are to now apply to all of the institution's positions. Requirements regarding model-based valuation and the management of less liquid positions are being tightened. This means that institutions may need to adjust their capital base more as a result of the valuation and price adjustment of positions measured at fair value.

The background to these changes is that the financial crisis highlighted deficiencies in current regulation, which is based on the capital requirement directive and the Basel regulations. According to the Swedish FSA, the crisis demonstrated that the valuation methods used did not take sufficient account of less liquid positions. Less liquid positions and positions valued using modeling may demonstrate greater price volatility in a stressed situation. According to the Swedish FSA, a valuation under IAS 39 may not always be treated the same as a valuation for the purposes of capital adequacy.

In summary, based on the available material in the form of a draft of the new regulations and the decision memorandum from the Swedish FSA, SEK considers that price adjustment of the capital base at December 31, 2011 needs to be made and needs take account of holdings in bonds measured at fair value. These bonds are deemed to be less liquid and the capital base consequently requires adjustment. Due to pending guidelines from the European Banking Authority, SEK will make a calculation in the form of an approximation.

[3] A formal definition of Common Equity Tier-1 is not yet set. SEK defines Common Equity Tier-1 as Tier-1 Capital excluding additional Tier-1 Capital in the form perpetual subordinated debt.

[4] SEK's additional Tier-1 Capital was issued under previous regulatory framework; the entire amount is therefore included according to the transitional arrangements in FFFS 2010:10.

Table 4.2 describes the composition of SEK´s Tier 1 subordinated debt. On December 21, 2011, Standard & Poor's Ratings Services ("S&P") announced that it had lowered its issue ratings on SEK's two rated outstanding junior subordinated debt instruments to 'BBB-' from 'A+'. At the same time, they lowered the associated program ratings on SEK's junior subordinated hybrid instruments to 'BBB-' from 'A+'. According to S&P, the rating action is in line with S&P's updated methodology on rating hybrid instruments and reflects their view that in most instances within the EU involving state aid, there has been a requirement to apply a burden-sharing arrangement involving junior subordinated debt holders. The downgrade is limited to these two junior subordinated debt instruments and the related program. No other ratings of SEK or any of its other debt instruments are affected.

TABLE 4.2: BOOK VALUE SUBORDINATED DEBT AS OF DECEMBER 31, 2011 (AND 2010)

Skr mn		
Perpetual, non-cumulative subordinated loan, foreign currency (i), (ii)	3,174	(2,590)
Book value	**3,174**	**(2,590)**

(i) Nominal value USD 200 million. Interest payments quarterly in arrears at a rate of 5.40 percent per annum. Redeemable, at SEK's option only, at the end of any financial quarter, at 100 percent of the nominal value. Redemption requires the prior approval of the Swedish Financial Supervisory Authority. Interest payments will not be made if SEK does not have available distributable capital for making such payments. The investors' right to receive accrued but unpaid interest will thereafter be lost (non-cumulative). In order to prevent the issuer being obliged to enter into liquidation, the shareholder, on the approval of the Swedish Financial Supervisory Authority may decide that the principal amount and any unpaid interest will be utilized in meeting losses. However, SEK can not thereafter pay any dividend to its shareholders before the principal amount has been reinstated as debt in full in the balance sheet or has been redeemed with the approval of the Swedish Financial Supervisory Authority and such accrued but unpaid interest has been paid.

(ii) Nominal value USD 150 million. Interest payments quarterly in arrears at a rate of 6.375 percent per annum. Redeemable, at SEK's option only, at the end of any financial quarter, at 100 percent of the nominal value. Redemption requires the prior approval of the Swedish Financial Supervisory Authority. Interest payments will not be made if SEK does not have available distributable capital for making such payments. The investors' right to receive accrued but unpaid interest will thereafter be lost (non-cumulative). In order to prevent the issuer being obliged to enter into liquidation, the shareholder, on the approval of the

Swedish Financial Supervisory Authority may decide that the principal amount and any unpaid interest will be utilized in meeting losses. However, SEK can not thereafter pay any dividend to its shareholders before the principal amount has been reinstated as debt in full in the balance sheet or has been redeemed with the approval of the Swedish Financial Supervisory Authority and such accrued but unpaid interest has been paid.

There are no ongoing or expected material obstacles, or any legal obstacles whatsoever, to a quick transfer of funds from the capital base or repayment of liabilities between SEK and its subsidiaries.

4.2 CAPITAL ADEQUACY ANALYSIS

Since 2007, the capital requirement has primarily been calculated based on Basel II rules. The Swedish legislature has chosen not to immediately allow the full effect of the Basel II regulations if these rules result in a lower capital requirement than that calculated under the earlier, less risk-sensitive, Basel I rules. During the transition period of 2007-2009, the capital requirement was therefore calculated in parallel on the basis of the Basel I rules. To the extent that the Basel I-based capital requirement – reduced to 95 percent in 2007, 90 percent in 2008, and 80 percent in 2009 – has exceeded the capital requirement based on the Basel II rules, the capital requirement under the abovementioned Basel I-based rules has constituted the minimum capital requirement. In 2009 the Swedish legislature decided to extend the transitional rules until the end of 2011, and in 2011 the legislator determined to further extend the transitional rules. For 2012, therefore, the capital requirement will continue to correspond to the highest capital requirement under the Basel II rules and 80 percent of the capital requirement under Basel I rules.

At the end of 2011, SEK's total capital requirement (excluding application of the Basel I-based transitional requirements) amounted to Skr 5,273 million (year-end 2010: Skr 5,157 million). See table 4.3 for a detailed calculation of this amount.

TABLE 4.3: CAPITAL REQUIREMENT (PILLAR 1), AS OF DECEMBER 31, 2011 (AND 2010)

Skr mn	Risk-weighted assets		Capital requirement	
Credit risk standardized approach	1,767	(925)	141	(74)
Credit risk IRB method	59,349	(58,157)	4,748	(4,653)
Currency exchange risks	–	(–)	–	(–)
Operational risk	4,799	(5,371)	384	(430)
Total Basel II	**65,915**	**(64,453)**	**5,273**	**(5,157)**
Basel I-based additional requirement[1]	–	(26)	–	(2)
Total Basel II incl. additional requirement	**65,915**	**(64,479)**	**5,273**	**(5,159)**
Total Basel I	**81,146**	**(80,599)**	**6,492**	**(6,448)**

[1] The item "Basel I-based additional requirement" is calculated in accordance with § 5 of the law (2006:1372) on implementation of the law containing the capital adequacy requirements and large exposures rules (the latter being law no. 2006:1371).

The ratio of the capital base to risk-weighted assets (RWA) is the capital adequacy ratio. The ratio of the capital base to the capital requirement is the capital adequacy quotient. The capital adequacy ratio, calculated in accordance with Basel II, Pillar 1, totaled 23.3 percent as of December 31, 2011 before consideration of the transitional rules (year-end 2010: 22.4 percent). With the transitional rules taken into consideration, the capital adequacy ratio totaled 23.3 percent (year-end 2010: 22.4 percent), of which the Tier-1 ratio was 23.3 percent (year-end 2010: 22.4 percent). Common Equity Tier-1 adequacy amounted to 19.6 percent as of December 31, 2011 (Year-end 2010: 18.7 percent). Table 4.4 provides the breakdown of these ratios. In addition, the table describes the minimum capital ratio's that banks should at all times hold in accordance with Basel III rules.

TABLE 4.4: CAPITAL ADEQUACY ANALYSIS (PILLAR 1), AS OF DECEMBER 31, 2011 (AND 2010)

%	Excl. Basel 1-based add. requirement		Incl. Basel 1-based add. requirement		Basel III requirements incl. capital conservation buffer	Basel III requirements incl. capital conservation buffer and maximum contracyclical buffer
Total capital adequacy	23.3%	(22.4%)	23.3%	(22.4%)	10.5%	13.0%
of which:						
Related to Common Equity Tier-1	19.6%	(18.7%)	19.6%	(18.7%)	7.0%	9.5%
Related to Tier-1	23.3%	(22.4%)	23.3%	(22.4%)	8.5%	11.0%
Related to Tier-2		(–)		(–)		
Capital adequacy quotient[1]	2.92	(2.80)	2.92	(2.80)		

[1] Capital adequacy quotient = Total capital base/total capital requirement

4.3 LARGE EXPOSURES

Large exposure limits prevent an institution from incurring disproportionately large losses as a result of the failure of an individual client (or a group of connected clients) due to the occurrence of unforeseen events. According to Swedish Financial Supervisory Authority regulations, exposure to a single client or a group of connected clients may not exceed 25 percent of the institution's capital base. A large exposure refers to an exposure that accounts for at least 10 percent of an institution's capital base. SEK complies with these rules and reports its large exposures to the Swedish Financial Supervisory Authority on a quarterly basis.

SEK has defined internal limits to manage large exposures, which are monitored daily. The internal limits are approved by the Executive Committee's Credit Committee or the Board's Credit Committee. In addition, Swedish Financial Supervisory Authority rules require institutions to maintain detailed information about possible connections between their clients in order to ensure that they are able to minimize losses in the event of unforeseen events. A thorough analysis of these connections is essential to ensure compliance with the large exposures regime. According to Swedish Financial Supervisory Authority requirements, a detailed analysis should be carried out of all exposures exceeding two percent of SEK's capital base when determining large exposures to a group of clients that have connections with one another. Identification of possible connections between a group of clients from a risk perspective forms an integral part of SEK's credit process. Client Relationship Management and Credit Management are responsible for identifying these connections and documenting them in the credit/limit application. SEK has developed guidelines that regulate the identification of connected clients.

The changes in large exposure rules came into force on December 31, 2010, with transitional rules applicable through to the end of 2012. According to these rules, financial institution exposures are treated in the same way as corporate exposures. A 100 percent weighting is applied for these exposures, instead of the previous 20 percent weighting. SEK applies the transitional rules, which enable the previous method of treatment to be applied to those financial institution exposures incurred no later than 2009. Exposures to financial institutions incurred since December 31, 2009, however, have 100 percent weighting.

TABLE 4.5: SEK'S LARGE EXPOSURES AS OF DECEMBER 31, 2011 (AND 2010)

The aggregate amount of SEK's large exposures as a percentage of SEK's total regulatory capital base:	308 percent (year-end 2010: 277 percent)[1]
Exposure between 10% and 20% of capital base:	21 exposures totaling Skr 44,258 million
Exposure >20% of capital base:	One exposure totaling Skr 3,085 million
Breaches of 25% large exposure limit	None (year-end 2010: none)

[1] The aggregate amount above consisted of risk-weighted exposures to 22 counterparties or counterparty groups (year-end 2010: 20 counterparties or counterparty groups).The majority of these relate to combined exposures, in respect of which more than one counterparty is responsible for the same payments.

4.4 THE RISK-BASED CAPITAL REQUIREMENT WITH A LEVERAGE RATIO

In addition to the risk-based capital adequacy requirements, Basel III introduces a minimum leverage ratio requirement for institutions. An institution must have Tier 1 capital of more than 3 percent of the total of its assets and its off-balance sheet commitments. Unlike traditional capital requirements, the leverage ratio does not take account of the differences in risk weighting between different assets. Consequently, an upper limit is set for the proportion of the balance sheet that an institution may fund with debt. This is a step back from the risk-sensitive regulation of Basel II towards the more general, conventional view taken by Basel 1. This is because there is concern that risk-based capital adequacy will lead to an excessively low level of capital because of risks being underestimated when times are good.

The transition period for the leverage ratio commenced on January 1, 2011. The transition period will comprise a supervisory monitoring period and a parallel run period. The supervisory monitoring period commenced on January 1, 2011. The parallel run period commences on January 1, 2013 and continues until January 1, 2017. During this period, the leverage ratio and its components will be tracked, including its behavior relative to the risk-based requirement. The capital measure for the leverage ratio should be based on the new definition of Tier 1 capital as set out in the Basel III Framework. The Basel Committee will also collect data during the transition period to track the impact of using total regulatory capital and Common Equity Tier 1. Bank level disclosure of the leverage ratio and its components will start on January 1, 2015. Based on the results of the parallel run period, any final adjustments to the definition and calibration of the leverage ratio will be carried out in the first half of 2017, with a view to migrating to Pillar 1 treatment on January 1, 2018 based on appropriate review and calibration.

To ensure that SEK will meet the requirements for a leverage ratio of at least 3 percent (in accordance with the limitation rules that are expected to be introduced as of 2018), SEK's capital policy has introduced a target to maintain the company's financial solidity. The capital policy stipulates that Tier 1 capital must constitute a minimum of 3.0 percent of exposures calculated in accordance with the Basel Committee's definition. As of December 31, 2011, SEK's Tier 1 Leverage Ratio was 3,95 percent.

5. ICAAP AND ECONOMIC CAPITAL

SEK's assessment is that SEK's expected available capital amply covers the expected risks in the different scenarios that SEK envisages, in a way that supports SEK's high creditworthiness.

5.1 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Under Pillar 2, institutions are responsible for designing their own processes for internal capital adequacy assessment (ICAAP). This requires that institutions must in an overall and comprehensive manner measure their risks and assess their risk management and, on the basis of such assessment, determine their capital needs. They must also communicate their analysis and conclusions to the Swedish Financial Supervisory Authority. The ICAAP must be documented and disclosed throughout the whole company. As part of its strategy planning process, SEK's Board of Directors and management establish the company's risk appetite and clear objectives with regard to the level and composition of the risk capital.

The risk-related internal capital adequacy assessment forms a single system, together with the formulation of SEK's business strategy, risk management and internal control, and is thus an integral part of SEK's internal control and governance. SEK's ICAAP aims to:

1. Align risk appetite and strategy. Management considers SEK's risk appetite when evaluating strategic options, setting related objectives, and developing mechanisms to manage related risks.
2. Reduce operational surprises and losses. SEK seeks to gain enhanced capabilities to identify potential events and take remedial action, so as to reduce surprises as well as associated costs or losses.
3. Take advantage of favorable opportunities through integration with business plan processes. By considering potential events, management is positioned to identify and proactively realize business opportunities and other favorable opportunities.
4. Improve the deployment of capital. Robust information on potential risks allows management to effectively assess overall capital needs and enhance capital allocation.

To calculate capital requirements in accordance with Pillar 2, SEK uses other methods than those used to calculate the capital requirements under Pillar 1. Under Pillar 2, a number of other risks are analyzed in addition to those risks covered by capital under Pillar 1. These risks are analyzed based on a perspective of proportionality, with the greatest focus being placed on those risks that are of most significance for SEK. In order to also take into account factors such as concentration risk, the company, based on a quantitative approach, calculates the total economic capital needed for credit risk. In addition, SEK makes its own assessment of the capital requirement for operational risk and structural interest rate risk (based on interest rate risk in the banking book). SEK believes that capital does not constitute a risk-reducing factor for certain types of risks; this is the case for reputation and liquidity risk. Instead, SEK applies active risk mitigation for these risks. Chart 5.1 describes how SEK groups and analyzes its risks in the capital adequacy assessment process.

CHART 5.1: SEK'S GROUPING OF RISKS IN THE ICAAP

5.2 ECONOMIC CAPITAL

For internal assessment and evaluation of the capital requirements for credit risk under Pillar 2, SEK works with economic capital (EC), which it believes to be a more precise and risk-sensitive measurement in relation to the regulatory capital requirement.

In order to ensure continued high credit quality for SEK, and an adequate relationship between risks and the risk-bearing capital in various possible scenarios, analyses and stress tests are carried out. An important tool for these analyses and tests is SEK's model for the calculation of economic capital. The scenarios examined are based on SEK's business operations and the composition of SEK's total portfolio.

Parameters that can be used to simulate the impact of relevant scenarios are primarily ratings (rating migration); probability of default (PD); exposure at default (EAD); loss given default (LGD); and correlations. The scenario analyses and stress tests must be carried out regularly, at least once per year. Table 5.1 shows parameters that are essential for the quantification of credit risk, and how they are set for the Foundation IRB approach, which SEK uses, as well as for the Advanced IRB approach and economic capital.

TABLE 5.1: THE DIFFERENCE BETWEEN THE IRB APPROACH UNDER PILLAR 1 AND THE CALCULATION OF ECONOMIC CAPITAL UNDER PILLAR 2

Risk parameters	Foundation IRB approach	Advanced IRB approach	Economic capital
Probability of default (PD)	**Internal estimation**	**Internal estimation**	**Internal estimation**
Exposure at default (EAD)	Conversion factors [1]	**Internal estimation**	**Internal estimation**
Loss given default (LGD)	45% [1,2]	**Internal estimation**	**Internal estimation**
Maturity (M)	2.5 years [1,2]	**Internal estimation**	**Internal estimation**
Correlations	[1]	[1]	**Internal estimation**

[1] Risk parameters established by the Swedish Financial Supervisory Authority.
[2] 45% and 2.5 years are normally applicable.

5.2.1 CREDIT RISK MODELING

The need for economic capital regarding credit risk is based on a calculation of Value at Risk (VaR), calculated with a 99.9 percent confidence level, and constitutes a central part of the company's internal capital adequacy assessment. Below is a description of the principles that govern the internal model for credit risk that SEK uses. The calculation of VaR forms the basis for SEK's assessment of how much capital should be allocated for credit risk under Pillar 2, in addition to the capital required under Pillar 1. This quantitative approach is complemented with qualitative assessments. The internal model is then compared with the credit risk quantification under Pillar 1. SEK analyzes the differences between the applications of these two different methods in detail through a so-called decomposition, where every significant difference in approach between the methods is analyzed separately. These differences in approach are made up of both deviations in regard to modeling approaches and differences in parameters.

Two central components that characterize a portfolio risk model are (i) a model for correlations among counterparties, and (ii) a model for the probability of defaults for individual counterparties. SEK uses a simulation-based system to calculate the risk for credit portfolios where the correlation model takes into consideration each counterparty's industry and domicile through a multi-factor model. In addition, the correlation model continually takes market data into consideration and the correlations are updated weekly.

The counterparties' probability of default is based, in principle, on the same PD estimate that is used in the calculation of capital requirements under Pillar 1. SEK's model also takes into consideration rating migrations and the unrealized value changes that these result in. Output from the model consists of a probability distribution of the credit portfolio's value for a specific time horizon – normally a period of one year. This probability distribution makes possible a quantification of the credit risk for the portfolio and, thereby, an estimation of the need for economic capital. Quantification is carried out by calculating VaR, based on the probability distribution, at the confidence level of 99.9 percent. In addition, the credit risk model forms the basis for a capital attribution by allocating the economic capital among the individual counterparties.

5.2.2 DECOMPOSITION – COMPARISON BETWEEN PILLAR 1 AND PILLAR 2

The regulatory capital requirement under Pillar 1 for corporate and financial institutions exposures is calculated using the Basel formula. This formula is derived from the same approach to modeling credit risk as SEK's internal model for calculating credit risk-related economic capital. A good approximation of the regulatory capital requirement under Pillar 1 is obtained by changing the approach in the internal model (see 5.2.1) to one that is analogous to that of the Basel formula. Then, by changing the approach step by step and thus returning incrementally to the internal approach, the effect of each step on the total difference between Pillar 1 and Pillar 2 can be analyzed. As is noted above, this analysis is called decomposition, as it breaks down the total difference between the pillars into components. This is performed periodically and is a fundamental part of the SEK's Internal Capital Adequacy Assessment Process (ICAAP).

5.2.2.1 Factors on which the Pillar 1 and Pillar 2 approaches differ

SEK's Pillar 1 approach differs from SEK's internal approach under Pillar 2 with regard to ten different factors. These factors can be divided into two groups, (i) the internal model and its parameterization, and (ii) exposure types where the Basel formula is not used under Pillar 1. The first seven factors belong to group (i), while securitizations, government exposures and double default are factors belonging to group (ii). Each factor is explained below:

1. Pillar 1 calibration factor
In the Basel formula there is a calibration factor, which increases the risk weight by 6 percent. This factor is not based on the underlying theoretical model, but rather it is a result of a quantitative impact study. The internal model that SEK uses under Pillar 2 does not have such a calibration factor; therefore the analysis needs to take this into account.

2. Name concentration
Pillar 1 assumes a granular portfolio, i.e. that all exposures in a portfolio are so small that their individual sizes do not contribute to risk. Put another way, no name concentration is assumed. In general, this is not a realistic assumption, and particularly not for SEK's portfolio which consists of only a relatively small number of counterparties. Using the internal model, SEK analyzes the effect of name concentration by splitting each exposure into smaller exposures to unique counterparties that, besides their identity, have the same characteristics as the original counterparty. This transformation results in the Pillar 1 view.

3. Correlation
The underlying correlation model of the Basel formula is referred to as a one-factor model. Each counterparty is allocated a value for a correlation parameter, which is only dependent on that counterparty's probability of default. SEK's internal model instead employs a multi-factor model, wherein different counterparties are tied to indices that are geography- and sector-specific. If the same index were to be used for all counterparties, one would obtain the correlation model of the Basel formula. This way SEK

can easily mimic the correlation model of the Basel formula in its internal model, thus enabling analysis of the effect of the capital requirement for the two different correlation assumptions.

4. Short maturities
The Basel formula contains a maturity adjustment parameter. In the Foundation IRB approach, which SEK uses, this parameter is fixed at 2.5 years, regardless of the true maturity of the exposure. This means that the capital requirement for an exposure under Pillar 1 is independent of maturity.

SEK's internal model has a time horizon of one year for the calculation of risk. Exposures with maturities of less than one year are given a reduced probability of default. Thus, the probability of default of a three-month exposure is reduced to a fourth of what it would be if the maturity were one year. For overnight exposures, whose maturity is only one day, the probability of default is virtually negligible. This type of exposure consequently exhibits a significant decrease in capital requirement.

SEK's liquidity portfolio consists, to a relatively large extent, of short-term exposures, meaning that the impact of this factor on the capital requirement is significant. SEK quantifies this impact by calculating the capital requirement, both with the default probabilities implied by the Basel formula and with default probabilities adjusted for maturities of less than one year.

5. Maturity adjustment
For exposures with maturities of more than one year, the internal model employs credit spreads to calculate the impact of maturity on the risk. This is done by letting not only potential defaults affect the portfolio value, but also rating migration.

SEK uses theoretically calculated credit spreads, which are based on historical default statistics from Standard & Poor's. This is because SEK is aiming over time for a more stable through-the-cycle approach to credit risk, as opposed to the point-in-time approach that is implied by using market credit spreads.

6. Floor for default probabilities
The probability of default is an important parameter in credit risk calculations. In the Basel formula, probability estimates below 0.03 percent are not allowed. SEK's estimates of default probability, though, are lower than this so called "PD floor" for the "AAA" and "AA+" rating classes. This means that the internal calculations are made using slightly lower default probabilities for these two rating classes compared with the Basel formula. By changing all the PD estimates below 0.03 percent to 0.03 percent in the internal model, the Basel formula view can be replicated.

7. Loss given default
When using the Basel formula, the Loss Given Default (LGD) parameter is provided for each exposure. Under the Foundation IRB approach, which SEK uses, the value of this parameter is completely governed by regulations, and for a large part of SEK's portfolio it is set at 45 percent. Under Pillar 2 SEK instead uses an LGD value that better reflects SEK's view of LGD. By using the Basel formula's values for LGD, SEK is able to replicate the Pillar 1 view of this factor.

8. Securitizations
SEK's portfolio consists, to some extent, of securitizations. In Pillar 1, the capital requirements for these exposures are given according to standardized risk weights, based on external credit ratings. In the internal model, these types of exposures are treated in a similar way to other exposures so that, for example, concentration risk and maturity are taken into account. SEK quantifies the effect of this factor in the decomposition by comparing the Pillar 1 capital requirement with the increase in capital requirement that occurs when including these exposures in the calculations in SEK's internal model.

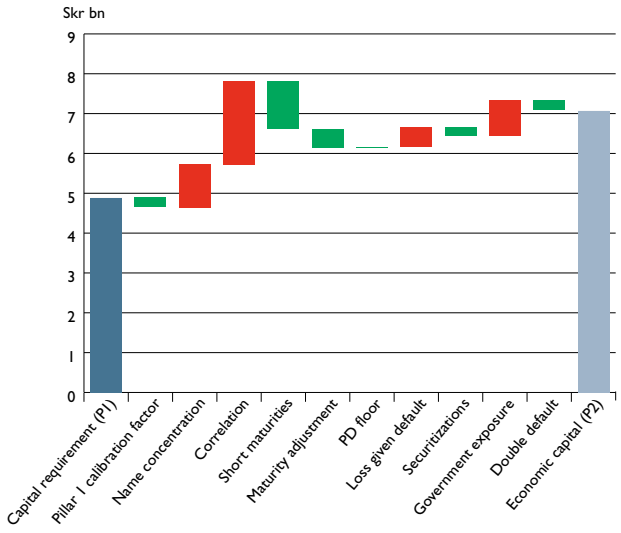
9. Government exposures
For exposures to governments in Pillar 1, SEK uses the standardized approach, yielding a capital requirement of zero for exposures to governments with a high credit rating. SEK's government exposures are mainly of this type.

The internal model treats exposures to governments in a similar way to other exposures. There is, however, an important exception: exposures to SEK's owner (the Kingdom of Sweden) are treated according to a standard rule which specifies that SEK's capital requirement (under Pillar 2) for exposures to the Swedish government is set at a fixed percentage of the amount of the exposure.

10. Double default
In order to reduce concentration risk, SEK has a large amount of credit derivatives. The term "double default", stems from the fact that two simultaneous defaults are required in order for a credit loss to be incurred. To calculate the capital requirement under Pillar 1, a modified version of the Basel formula is used that takes the respective default probability estimates of both the obligor and the guarantor into account. The internal model simulates double defaults realistically through losses being incurred in cases where both obligor and guarantor default.

5.2.2.2 Decomposition as of December 31, 2011
Chart 5.2 shows the result of the decomposition for SEK's portfolio as of December 31, 2011.

CHART 5.2: DECOMPOSITION OF THE DIFFERENCE IN CAPITAL REQUIREMENTS BETWEEN PILLAR 1 AND PILLAR 2



The green and red columns represent the effect on the capital requirement when moving from a Pillar 1 approach to a Pillar 2 approach. The red columns represent increases in the capital requirement, and green columns represent decreases. The left (dark blue) column represents the Pillar 1 capital requirement for credit risk, Skr 4,889 million, and the right (light blue) column represents the total Pillar 2 capital requirement for credit risk, Skr 7,077 million. Thus, these columns represent the starting point and endpoint of the decomposition.

The total additional capital required under Pillar 2 is Skr 2,188 million (7,077 minus 4,889). Chart 5.2 describes, or decomposes, this additional capital. It is worth pointing out that these factors need not result in an increase in the capital requirement, but can also result in a decrease. Hence, contributions of individual factors may exceed the total difference between Pillar 1 and Pillar 2.

5.3 CAPITAL PLANNING

5.3.1 BUSINESS PLAN AND SCENARIO ANALYSES

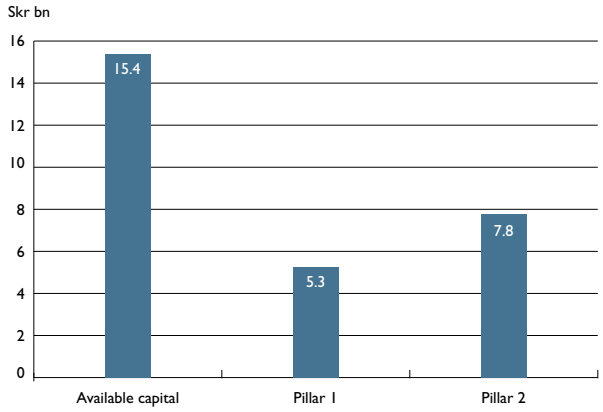
SEK annually assesses the development of its future capital requirements and available capital, primarily in connection with the three-year business plan being updated. One purpose behind the capital assessment is to ensure that the size of SEK's capital is sufficiently in line with risks and supports a high level of creditworthiness. The assessment covers the group. The business plan for the period 2012–2014 was formulated based on the situation in September 2011, together with an assessment of the expected development of new transactions after that time.

An important element in SEK's capital planning consists of scenario analyses. These provide a picture of SEK's risk level and available capital resources, both according to the business plan and under recession scenarios. SEK has, within its 2011 ICAAP process, carried out a scenario analysis which consists of a strongly unfavorable business environment development, i.e. a significant economic downturn, which can be expected to occur approximately every twenty-fifth year. SEK's management has made an analysis of how the stress scenario affects the business plan. This analysis also includes the actions that would be taken if the stress scenario became a reality.

5.3.2 CAPITAL SITUATION

Chart 5.3 compares SEK's available capital with the capital requirements under Pillar 1 and the overall capital requirements under Pillar 2.

CHART 5.3: CAPITAL SITUATION AS OF DECEMBER 31, 2011



SEK's assessment is that expected available capital adequately covers the company's expected risks in the various scenarios envisaged by the company in a way that supports the company's high creditworthiness. SEK also has opportunities to take various measures aimed at strengthening its capital position in order to manage any negative development.

As of December 31, 2011, the total capital requirement under Pillar 2 was Skr 7,756 million, of which Skr 7,077 million was due to credit risk, Skr 433 million was due to operational risk and Skr 246 million was due to interest rate risk in the banking book.

5.3.3 CREDIT RISKS IN SEK'S CREDIT PORTFOLIO AS OF DECEMBER 31, 2011

SEK's credit portfolio is of high credit quality, with fairly high concentrations as a result of the company's mandate to support the Swedish export industry. Export credits are guaranteed largely by government export credit agencies, which is why there is a large exposure towards national governments, including that of Sweden. Chart 5.4 summarizes the distribution of risk by showing a breakdown of nominal exposure, capital requirement and economic capital by different risk classes.

CHART 5.4: EXPOSURE, PILLAR 1 CREDIT RISK CAPITAL REQUIREMENT AND CREDIT RISK ECONOMIC CAPITAL AS PERCENTAGES OF TOTAL, EXCLUDING ASSETS WITHOUT COUNTERPARTIES, BY CREDIT RATING AS OF DECEMBER 31, 2011

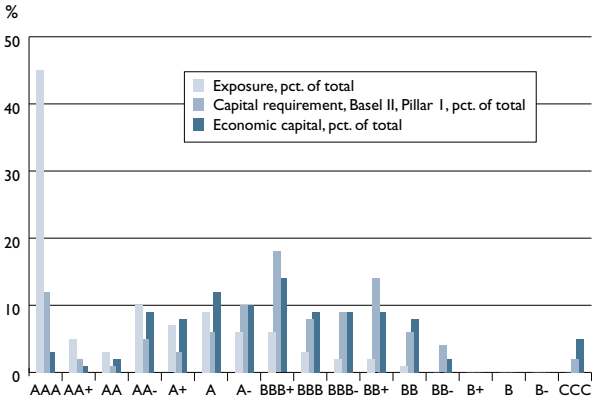


Table 5.2 shows exposures and capital measures by geographic region. The concentration in respect of Sweden is reflected primarily in the fact that the need for capital to cover exposures to counterparties domiciled in Sweden is significantly higher than the minimum capital requirement under Pillar 1 for the same exposures.

TABLE 5.2: EXPOSURE, PILLAR 1 CREDIT RISK CAPITAL REQUIREMENT AND CREDIT RISK ECONOMIC CAPITAL, EXCLUDING ASSETS WITHOUT COUNTERPARTY, BY REGION AS OF DECEMBER 31, 2011

	Exposure		Credit risk capital requirement, Basel II, Pillar 1		Credit risk economic capital	
Region	Skr mn	**in %**	Skr mn	**in %**	Skr mn	**in %**
Sweden	178,739	57%	2,148	44%	4,872	69%
remaining Nordic region	28,786	9%	730	15%	810	11%
remaining Europe	74,718	24%	1,367	28%	932	13%
North America	20,047	6%	434	9%	311	4%
Oceania	7,999	3%	96	2%	38	1%
Asia	3,126	1%	98	2%	86	1%
South America	191	0%	9	0%	28	0%
Grand total	**313,606**	**100%**	**4,882**	**100%**	**7,077**	**100%**

TABLE 5.3: EXPOSURE, PILLAR 1 CREDIT RISK CAPITAL REQUIREMENT AND CREDIT RISK ECONOMIC CAPITAL, EXCLUDING ASSETS WITHOUT COUNTERPARTY, BY SECTOR AS OF DECEMBER 31, 2011

	Exposure		Credit risk capital requirement, Basel II, Pillar 1		Credit risk economic capital	
Sector	Skr mn	**in %**	Skr mn	**in %**	Skr mn	**in %**
Government export credit agencies	123,069	39%	14	0%	767	11%
Financial institutions	86,455	28%	1,787	37%	1,091	15%
Corporates	55,409	18%	2,509	51%	4,696	66%
Regional governments	19,127	6%	–	–	127	2%
Securitization positions	16,115	5%	465	10%	243	3%
Central governments	13,007	4%	107	2%	152	2%
Multilateral development banks	423	0%	–	–	0	0%
Retail	1	0%	0	0%	–	–
Grand total	**313,606**	**100%**	**4,882**	**100%**	**7,077**	**100%**

6. CREDIT RISKS

Credit risks are SEK's largest risks. Credit risks are inherent in all assets and other contracts in which a counterparty is obliged to fulfill obligations. Credit risks are limited through the methodical and risk-based selection of counterparties, and they are managed by, among other things, the use of guarantees and credit derivatives.

6.1 INTERNAL RATINGS-BASED APPROACH (IRB)

All of SEK's counterparties must be assigned an internal risk classification or rating except those counterparties that have been expressly exempted from this requirement by the Swedish Financial Supervisory Authority (see section 6.1.4). The design of the company's IRB system includes both operational as well as analytical aspects. The operational design concerns the organizational process for, and controls on how, counterparties are assigned risk classifications. Important operational aspects of the process include where in the company the risk classification is performed and established, and how the responsibility for monitoring, validation and control is distributed throughout the organization. The analytical design concerns how risk is measured and assessed. This includes how the loss concept is defined and measured, and which methods and models are used for risk classification and the calculation of risk. The analytical design of the risk classification system often differs significantly among different financial institutions. The systems, however, share the fact that every credit exposure within a specific risk class is associated with a number of quantifiable risk criteria.

SEK's internal rating system (the IRB system) comprises all the various methods, work and decision processes, control mechanisms, guideline documents, IT systems, processes and routines that support risk classification and quantification of credit risk.

6.1.1 SEK'S RATING COMMITTEE

The decision concerning an internal rating for a counterparty is taken by SEK's Rating Committee. The Rating Committee's task is to use analyses and credit assessments that are carried out according to established methods and rating proposals from SEK's credit analysis function (Credit Management) in order to (i) establish ratings for new counterparties, (ii) when considered relevant, review ratings for existing counterparties, and (iii) at least on an annual basis, review credit ratings for existing counterparties.

Committee members are appointed by the President in such a way that a majority of the members represent non-commercial functions within the company. The committee members, who come from various functions within SEK, must have both broad and in-depth expertise in risk assessment and/or experience in credit ratings. SEK aims to maintain continuity within the Rating Committee. A rating that has been established by the Rating Committee may not be appealed against or amended by another body within SEK. The minutes of the Rating Committee consist of memoranda drawn up by the responsible analyst and signed by members of the committee.

6.1.2 RISK CLASSIFICATION

6.1.2.1 Time horizon

One important question in an expert-based system, such as SEK's, is the intended time horizon of risk classification. The simplest approach would be for each risk classification to reflect the borrower's ability to repay given current conditions. This approach is known as point-in-time, and is designed to estimate the risk of the borrower defaulting within the near future, usually one year. A more ambitious, but also more demanding, approach is to allow the risk classification to reflect the borrower's ability to repay over an entire economic cycle. This approach, known as through-the-cycle, involves an assessment of the borrower's ability to repay during the worst phases of an economic cycle. This risk classification system will give different results, depending on which of these two different time horizons is used. In point-in-time assessments, the measured risk in a given portfolio will be significantly more sensitive to cyclical fluctuations in risk, rising in periods of economic downturn and falling in periods of upswing. If the assessments are made through the cycle, however, the measured risk in a portfolio should, in principle, only change if the long-term condition of one or more specific counterparties change(s) and there are reasons to change the original assessments. The choice of time horizon in the risk classification is highly dependent on the purpose for which the risk classification system is to be used.

The *through-the-cycle* approach is considered a suitable approach if the risk classification is to support a credit or investment decision. It is the goal of the established rating agencies, for example, that their credit ratings reflect credit risk through the cycle. SEK also uses this approach.

6.1.2.2 Internal rating scale

An internal risk classification system is a tool for improving the precision and consistency of credit assessments. Having awarded each counterparty an explicit (cardinal) default probability, the company can also check its own risk classification against external sources. SEK's internal ratings-based approach aims at assessing the credit risk of individual counterparties. SEK's methodology for internal risk classification is based on both qualitative and quantitative factors. Within SEK, risk classification is based, to a high degree, on analyst assessments.

Using different methods for analyzing corporates, regional governments and financial institutions, the individual counterparties are assigned credit ratings. The aim of using a common rating scale for all counterparties is simply to be able to correctly price and quantify risk over time for SEK's counterparties and, thereby, to maintain the desired risk level in the company. The tool used for this is the rating, which is an ordinal ranking system. Therefore the risk classification within SEK is to a great extent a question of relative assessments. The classification does not aim at estimating a precise probability of default, but rather seeks to place the counterparty within a category of comparable counterparties, from a risk perspective. It is currently common for financial institutions with internal ratings-based systems to set the probability of default (PD) values for their various risk classes, especially for "low default portfolios," by mapping their internal rating scale against the rating scale of a rating agency, and then using the external rating agency's default statistics for calculating the probability of default. Rating agencies, such as Standard & Poor's, Fitch and Moody's, regularly publish statistics for default frequencies in their various rating classes. This type of technique is also considered at present to be best practice by the market. SEK maps its internal rating scale to Standard & Poor's rating scale and employs Standard & Poor's default statistics as a basis for its own calculations, with the aim of achieving consistent estimates of PD (within sufficient safety margins).

Table 6.1 summarizes the external rating agencies', coverage of the company's counterparties. For example, of the 595 counterparties that SEK has allocated an internal rating to, 243 counterparties have an external rating from Standard & Poor's.

TABLE 6.1: EXTERNAL RATING AGENCIES' COVERAGE OF SEK'S COUNTERPARTIES AS OF DECEMBER 31, 2011

SEK	S&P	Moody's	Fitch
595	243	254	198

SEK strives to refine its risk classification models by finding new relationships between various indicators and the probability of default (PD). In addition to contributing to improved precision in credit assessments, the internal ratings-based approach may de facto be used in the company's business activities. As the risk classification system standardizes and collects information which is otherwise spread throughout the organization, it can be used to report risk trends in the credit portfolio to Executive Management and the Board of Directors.

6.1.3 EXPOSURE CLASSIFICATION WITHIN SEK

All of SEK's exposures must be assigned to an exposure class. In order to secure maximum congruity between the different calculations that use exposure classes, the definitions that are used for the exposure classification must, as far as possible, be the same. The definitions to be used are laid out in the current capital adequacy regulations.

SEK's exposures are limited to central government exposures, financial institutions exposures, and corporate exposures, as well as securitization positions. Note that this classification refers to the IRB method. The standardized approach has a different set of exposure classifications. Responsibility for all exposure classifications within SEK is held by the credit analysis function, Credit Management.

6.1.4 SEK-SPECIFIC EXEMPTIONS

The Swedish Financial Supervisory Authority approved SEK's application to be allowed to use an IRB approach in February, 2007. SEK's permission to base its capital requirement for credit risk on the IRB approach covers the majority of the company's exposures. The Swedish Financial Supervisory Authority has granted SEK permission until December 31, 2012, to apply the standardized approach to the following exposures:

- Export credits guaranteed by the Swedish Export Credits Guarantee Board ("EKN") or corresponding foreign entities within the OECD.
- Exposures to governments.
- Exposures in the Customer Finance[1] business area.

It is possible to request an extension of the approved exemptions. If, in the event of a request, the Swedish Financial Supervisory Authority does not grant an extension, SEK will have a three-year period in which to implement the IRB approach.

6.1.5 RATING METHODOLOGY

6.1.5.1 Financial institutions

The two driving factors in SEK's internal credit risk assessment for financial institutions are business risk and financial risk. In brief, business risk is assessed on the basis of an analysis of the counterparty's business, market position and ownership, as well as the significance of legislation and regulations for its business activities.

The assessment of financial risk is focused on the financial strength of the counterparty and its ability to withstand financial burdens, as expressed in annual reports and other financial information. It is, however, not possible to set a rating solely on the basis of financial data, without also assessing business risk, i.e., each individual assessment is made up of a combination of quantitative and qualitative factors.

6.1.5.2 Corporates

In SEK's internal credit risk assessment for corporates, the two driving factors are also business risk and financial risk. In the same way as for financial institutions, the analyst is responsible for making a rating recommendation as the basis for the decision made by the Rating Committee.

6.1.5.3 Insurance companies

SEK intends to start using insurance solutions for risk mitigation and as a result of this the company applied for approval of a methodology for risk classification of insurance companies in 2011. On January 12, 2012, the Swedish Financial Supervisory Authority granted SEK permission to use the Foundation internal rating-based approach to calculate the risk-weighted exposures to insurance companies.

6.1.5.4 Specialized lending

Within the exposure class corporate exposures, exposures that represent specialized lending are separately identified. For such exposures, SEK calculates risk weights based on "slotting." According to the Basel II regulations, there are five categories for corporate exposures that constitute specialized lending. Categories 1–4 represent non-defaulted exposures, and category 5 represents defaulted exposures. The breakdown among categories 1–4 is based on the increased risk levels for the exposures (where category 1 represents the lowest risk). All of SEK's exposures are currently attributable to category 1, (in other words, the category that represents the highest creditworthiness), and to category 4.

The majority of SEK's exposures that fall into the specialized lending category are guaranteed by governments within the OECD. This means that they are effectively transferred to another exposure class via credit-risk mitigation. After taking into account credit-risk mitigation and conversion factors, the total exposure amounted to Skr 608 million as of December 31, 2011.

TABLE 6.2: SPECIALIZED LENDING AS OF DECEMBER 31, 2011 (AND 2010)

Skr mn

Category	EAD*	
1	445	(449)
2	–	(–)
3	–	(–)
4	163	(162)
5	–	(–)
Total	**608**	**(611)**

* Exposure at Default, or "EAD", is calculated on the basis of the exposure amount after consideration has been given to conversion factors. The conversion factor describes that portion of an off-balance sheet commitment for which capital is required under the regulations.

6.1.5.5 Securitization positions

SEK has not acted in the role of originator or participating institution in any of its securitization transactions and has only functioned as an investor with the purpose of diversifying liquidity placements. SEK's current securitization positions are classified as loans and receivables, and credit risk is therefore the main associated risk. As of the fourth quarter of 2011 SEK no longer takes account of credit derivatives to cover the risk of securitization position.

SEK uses what is known as the external rating method for the calculation of risk-weighted amounts for securitization positions. This means that the risk weight is determined based on the external credit rating, with the starting point being the position's credit quality step in accordance with the rules on the use of external credit valuation. See table 6.3. Since 2007, SEK no longer invests in securitization positions.

[1] Customer Finance specializes in cross-border customer financing for capital equipment.

TABLE 6.3: SECURITIZATION POSITIONS[1], AFTER CREDIT-RISK MITIGATION, BY RISK WEIGHT, AS OF DECEMBER 31, 2011 (AND 2010)

	Risk weight															
Skr mn	6–10%		12–18%		20–35%		30–40%		60–100%		425%		1 250%		Total exposure	
Traditional securitizations	10,185	(22,777)	195	(303)	661	(73)	–	(–)	463	(–)	220	(–)	–	(638)	11,724	(23,791)
Synthetic securitizations	56	(183)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	56	(183)
Resecuritizations[2]	–	(–)	–	(–)	–	(–)	3,692	(–)	–	(–)	–	(–)	641	(–)	4,333	(–)
Total	**10,241**	**(22,960)**	**195**	**(303)**	**661**	**(73)**	**3,692**	**–**	**463**	**(–)**	**220**	**(–)**	**641**	**(638)**	**16,113**	**(23,974)**

[1] Exposures before impairments.
[2] According to Swedish Financial Supervisory Authority's regulation, resecuritization positions receive a higher risk weight as of December 31, 2011.

In addition to the external rating method, SEK classifies the securitization positions into three risk classes, ABS class 1 to 3, in which ABS class 3 represents normal risk. ABS class 2 represents higher than normal risk and includes positions with underlying assets in Ireland, Portugal or Spain, positions quoted below 80 percent of nominal value or positions deemed to be higher than normal risk for some other reason. ABS class 1 represents high risk and includes positions with an external credit rating below investment grade or positions deemed high-risk for some other reason. In addition to the three risk classes, a forth class includes positions expected to be paid in full within a period of 12 months and consists only of positions that would otherwise be classified as ABS class 3.

Positions in ABS class 1 are analyzed on a monthly basis and more thoroughly than other ABS classes.

Monitoring of positions in re-securitizations takes place in accordance with the same process as for other securitization positions. Two re-securitizations account for a significant proportion of underlying securitization and/or re-securitization positions. These two positions are categorized under ABS class 1 and are analyzed each month based on underlying assets. Other re-securitization positions account for marginal proportions of underlying securitization and/or re-securitization position.

No securitization positions have been sold and no purchases have been made during 2011.

ASSET-BACKED SECURITIES HELD

Table 6.4 includes current aggregated information regarding SEK's total net exposures related to asset-backed securities held and current rating. Ratings in the table as of 31 December 2011 are stated as the second-lowest of the ratings from Standard & Poor's, Moody's and Fitch. Where only two ratings are available, the lowest is stated. All of these assets represent first-priority tranches, and they have all been rated 'AAA'/'Aaa' by Standard & Poor's or Moody's at acquisition.

TABLE 6.4: SECURITIZATION POSITIONS HELD AS OF DECEMBER 31, 2011

Net exposures, Skr mn

Exposure	RMBS[1]	Credit cards	Auto Loans	CMBS[1]	Consumer loans	CDO[1]	CLO[1]	Total	rated 'AAA'	... of which rated 'AA+'	... of which rated 'AA'	... of which rated 'AA-'	... of which rated 'A+'	... of which rated 'A'	... of which rated 'BBB+'	... of which rated 'BBB'	... of which rated 'BBB-'	... of which rated 'BB'	... of which CDO rated 'CCC'
Australia	3,550	–	–	–	–	–	–	3,550	3,550	–	–	–	–	–	–	–	–	–	–
Belgium	760	–	–	–	–	–	–	760	760	–	–	–	–	–	–	–	–	–	–
France	–	–	24	–	–	–	–	24	24	–	–	–	–	–	–	–	–	–	–
Germany	–	–	102	70	–	–	–	172	102	70[3]	–	–	–	–	–	–	–	–	–
Ireland	920	–	–	–	–	–	1,465[2]	2,385	1,465	–	–	45[3]	–	–	592[3]	283[3]	–	–	–
Netherlands	834	–	–	–	–	–	–	834	834	–	–	–	–	–	–	–	–	–	–
Portugal	351	–	–	–	–	–	–	351	–	–	–	–	–	171[3]	–	–	180[3]	–	–
Spain	962	–	65	–	66	–	209	1,302	452	50[3]	16[3]	496[3]	44[3]	24[3]	–	–	–	220[3]	–
United Kingdom	3,246	–	–	–	–	–	57	3,303	3,044	–	259[3]	–	–	–	–	–	–	–	–
United States	–	–	–	–	–	151	2,790	2,941	2,132	658[3]	–	–	–	–	–	–	–	–	151[4]
Total 2011	**10,623**	**–**	**191**	**70**	**66**	**151**	**4,521**	**15,622**	**12,363**	**778**	**275**	**541**	**44**	**195**	**592**	**283**	**180**	**220**	**151**
Total 2010	**18,235**	**450**	**663**	**73**	**154**	**163**	**3,759**	**23,497**	**21,126**	**1,350**	**302**	**212**	**41**	**303**	**–**	**–**	**–**	**–**	**163**

[1] RMBS = Residential mortgage-backed securities
CMBS = Commercial mortgage-backed securities
CDO = Collateralized debt obligations
CLO = Collateralized loan obligations
[2] In the fourth quarter of 2011 SEK decided to not take account of a credit derivative to cover the risk of an Irish CLO amounting to Skr 1,465 million at 31 December 2011. The issuer of this credit derivative has a lower rating than the underlying CLO, which is rated 'AAA'.
[3] Of these assets amounting to Skr 3,108 million, Skr 1,535 million still have the highest possible rating from at least one of the rating agencies.
[4] These assets consist of two CDOs (first-priority tranches) with end-exposure to the US market. There have been no delays with payments under the tranches. However, the ratings of the assets have been downgraded dramatically between 2008 and 2011, by Standard & Poor's from 'AAA' to 'NR' (after being downgraded to 'D'), by Moody's from 'Aaa' to 'Ca' and by Fitch from 'AAA' to 'C'. Due to these dramatic rating downgrades, the company has analyzed the expected cash flows of the assets. Based on information presently known, the company has recorded a total impairment of Skr 491 million for these assets.

6.2 CALCULATION OF RISK-WEIGHTED ASSETS

6.2.1 CALCULATION OF RISK-WEIGHTED ASSETS IN ACCORDANCE WITH THE IRB APPROACH

The two expressions that together primarily quantify the credit risk of an exposure are the probability of default (PD) and the loss given default (LGD). Using these two parameters and the size of the outstanding exposure at default (EAD), it is possible to calculate the statistically expected loss (EL) for a given counterparty exposure (PD×LGD×EAD=EL). By using the so-called Basel formula, the amount of risk-weighted assets (RWA, *f* (PD, LGD, EAD)) is calculated. This estimate constitutes a measure of the Unexpected Loss (UL). The capital requirement refers ultimately to the risk of unexpected losses (UL), while expected losses (EL) should be able to be covered, in principle, by day-to-day revenues. That is, the risk weights should not reflect the normal loss level underlying the different exposures, but rather the risk of losses being unexpectedly large during a given period. Within the Foundation IRB model, only PD is estimated by SEK. The values of the other parameters are set by the supervisory authority. SEK follows the above described instructions for calculation of risk-weighted assets under the Foundation IRB approach.

CHART 6.1: DEFINITION OF EXPECTED LOSS

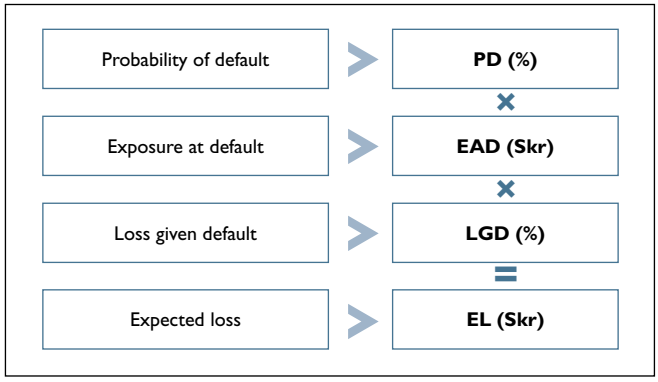


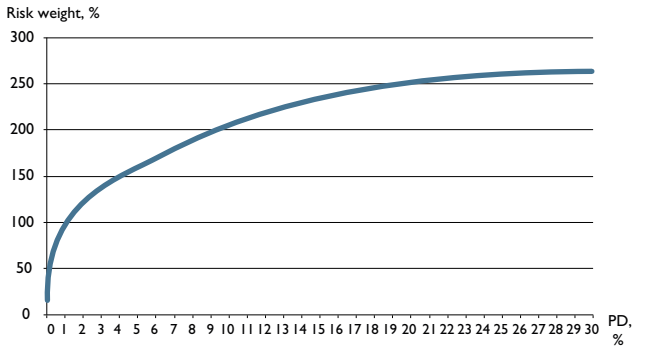
TABLE 6.5: RISK PARAMETERS

RISK PARAMETERS	FOUNDATION IRB APPROACH	ADVANCED IRB APPROACH
Probability of default (PD)	**Internal estimation**	**Internal estimation**
Exposure at default (EAD)	Conversion factors[1]	**Internal estimation**
Loss given default (LGD)	45%[1, 2]	**Internal estimation**
Maturity (M)	2.5 years[1, 2]	**Internal estimation**
Correlations	[1]	[1]

[1] Risk parameters established by the Swedish Financial Supervisory Authority.
[2] 45% and 2.5 years are normally applicable.

Chart 6.2 shows the connection between risk weight and PD for exposures to institutions and exposures to corporates.

CHART 6.2: RISK-WEIGHT FUNCTION



The table below shows SEK's credit exposures, risk-weighted assets (RWA) and average risk weights, as calculated using the Foundation IRB approach and the standardized approach. The average risk weight for SEK's credit portfolio is approximately 20 percent.

TABLE 6.6: CREDIT RISK CONVERTED EAD AND AVERAGE RISK WEIGHT AS OF DECEMBER 31, 2011 (AND 2010)

Skr bn	EAD		Risk-weighted assets		Average risk weight	
Standardized approach						
Central governments	12.2	(15.5)	1.3	(0.8)	11%	(5%)
Government export credit agencies	112.4	(107.5)	0.2	(–)[1]	–[1]	(0%)
Regional governments	19.0	(23.5)	–[1]	(–)[1]	–[1]	(0%)
Multilateral development banks	0.4	(0.4)	–[1]	(–)[1]	–[1]	(0%)
Corporates	0.2	(0.1)	0.2	(0.1)	100%	(100%)
Total standardized approach	**144.2**	**(147.0)**	**1.7**	**(0.9)**	**1%**	**(1%)**
IRB method						
Financial institutions	86.2	(112.2)	22.3	(29.2)	26%	(26%)
Securitization positions	16.1	(25.4)	5.8	(4.3)	36%	(18%)
Corporates	53.9	(42.0)	31.1	(24.4)	58%	(58%)
Non-credit-obligation assets	0.1	(0.2)	0.1	(0.2)	100%	(100%)
Total IRB method	**156.3**	**(179.8)**	**59.3**	**(58.2)**	**38%**	**(32%)**
Total	**300.5**	**(326.8)**	**61.0**	**(59.1)**	**20%**	**(18%)**

[1] Risk-weighted assets have zero value.

6.2.2 CALCULATION OF RISK-WEIGHTED ASSETS IN ACCORDANCE WITH THE STANDARDIZED APPROACH

Under the standardized approach, institutions also allocate their exposures among the prescribed exposure classes and assign the exposures those risk weights, which have been assigned to each respective exposure class. In certain cases, risk weights may comply with external ratings. External credit assessments may be used to determine to which credit quality level an exposure corresponds. To determine this, financial institutions must utilize the correspondence tables between credit rating companies' different credit ratings and the steps in the credit quality scales that the Swedish Financial Supervisory Authority sets. SEK follows these instructions. The majority of the exposures for which SEK is granted permission to use the standardized approach can be attributed to the highest credit quality step, which corresponds to a risk weight of zero percent.

TABLE 6.7: CORRESPONDENCE TABLE

Credit quality step	Fitch	Moody's	S&P
1	'AAA'-'AA-'	'Aaa'-'Aa3'	'AAA'-'AA-'
2	'A+'-'A-'	'A1'-'A3'	'A+'-'A-'
3	'BBB+'-'BBB-'	'Baa1'-'Baa3'	'BBB+'-'BBB-'
4	'BB+'-'BB-'	'Ba1'-'Ba3'	'BB+'-'BB-'
5	'B+'-'B-'	'B1'-'B3'	'B+'-'B-'
6	'CCC+' and lower	'Caa1' and lower	'CCC+' and lower

TABLE 6.8: NET EXPOSURES UNDER THE STANDARDIZED APPROACH PER QUALITY STEP AS OF DECEMBER 31, 2011 (AND 2010)

Skr bn	1		2		3–6		Total	
Central governments	8.3	(12.5)	3.7	(3.4)	1.0	(0.6)	13.0	(16.5)
Government export credit agencies	122.2	(123.8)	0.9	(–)	–	(–)	123.1	(123.8)
Regional governments	19.1	(22.3)	–	(1.4)	–	(–)	19.1	(23.7)
Multilateral development banks	0.4	(0.4)	–	(–)	–	(–)	0.4	(0.4)
Corporates	–	(–)	–	(–)	0.4	(0.1)	0.4	(0.1)
Total	**150.0**	**(159.0)**	**4.6**	**(4.8)**	**1.4**	**(0.7)**	**156.0**	**(164.5)**

6.3 LIMITS, CREDIT RISK REPORTING AND RISK MEASUREMENT SYSTEMS

The purpose of SEK's limit system is to control and limit credit exposures to individual counterparties as well as to credit concentrations. Assigned limits and risk classifications must be revised at least on an annual basis so that they correspond to changes in counterparties' credit profiles. SEK's Credit Management function is responsible for credit reviews. The purpose with the credit review is to ensure that the assigned risk classification reflects the actual risk of the counterparty. It is also intended to identify, at an early stage, counterparties and credit exposures with increased risks of loss. The exposures classified as problem credits[3] are reviewed frequently. The limits for these credits are also blocked[4]. The Board of Directors represents the highest level of decision-making with regard to credit risk limits. The Board has delegated to the Board's Credit Committee its mandate to make credit decisions, with the exception of decisions that are matters of principle.

Calculation of the amount that determines which decision-making body establishes which limits is made based on the formula for calculating the capital requirement under Pillar 1 of the Basel II rules. This takes into consideration the probability of default (PD) of the counterparty, the size of exposure at default (EAD), and the assessed degree of loss given default (LGD), as well as the maturity of the exposure. In this calculation, only the counterparty's risk classification and the maximum exposure amount (EAD) are based on actual data. The degree of loss given default and the maturity of the exposure are determined as set out in the applicable Swedish regulations (normally at 45 percent and 2.5 years, respectively). These conditions do generally reflect those in SEK's existing portfolio, which makes it reasonable to use the basic formula for the calculation.

The Board of Directors and the committees responsible for risk monitoring aim to have a good understanding of the function of the internal ratings-based approach, as well as a good understanding of the content of the reports from the risk classification system that they receive. The President and the Head of Risk have informed the Board about all significant changes to, or exceptions from, instructions that govern the design and use of SEK's IRB system.

The company's Asset and Liability Committee receives regular information from the independent Risk Control function. This information includes conclusions from the validation process, identification of areas that are in need of improvement, and reports on the progress of work on previously decided improvement measures.

The company's risk and product classification and risk estimates form a central part of the regular reporting of credit risks to the Board of Directors, Asset and Liability Committee and the Executive Committee's Credit Committee. Risk Control and the credit analysis function, Credit Management, are responsible for different parts of this reporting. The reporting includes information on the distribution of counterparties and exposures by risk classes, risk estimates for each product and risk class, and migration between risk classes. It also contains information about, and results of, the stress tests that are applied. In addition, the reporting also includes the company's use of credit-risk protection, as well as the development of positions in securitizations.

6.3.1 VALIDATION PROCESS

A basic requirement for using an IRB system is that the company has a continual and well-functioning process for validation of all parts of the system. The validation process must comprise a consistent and appropriate analysis of whether the risk classification system measures risk in a satisfactory way. Validation must take place regularly, and at least once a year. SEK's independent Risk Control function is responsible for this process. Risk Control continually works at developing and improving its validation methods, in accordance with changes in best practice in the industry.

SEK's validation process has focused on a number of key areas:

1. Ensuring that SEK's default definition (PD) is in agreement with the IRB regulations' definition (the Basel definition) and that this definition also agrees with Standard & Poor's definition.
2. Comparison of SEK's internal risk classification method and internal risk classification criteria with Standard & Poor's rating method and rating criteria.
3. Ensuring that Standard & Poor's rating statistics and identification of defaulting companies can be used as a reference portfolio in SEK's mapping procedure. SEK's intention is to continue to use Standard & Poor's default statistics as a basis for internal forward-looking PD estimates.
4. Comparing the result of SEK's internal risk classification with, primarily, Standard & Poor's ratings, but also with other external rating institutions' credit ratings, i.e., performing an outcome analysis.
5. Evaluating how well the IRB system has succeeded in being integrated into SEK's management and decision-making processes, taking into account SEK's specific mission and nature.

The validation process aims to ensure that, among other things, (i) the assumptions and methods for the classification models are appropriate, (ii) the risk classification process is used in a uniform way within the company's various business areas, (iii) the system identifies exposures and counterparties with differing credit risks, and (iv) the system generates reliable and precise estimates of the risk parameters that the company uses.

When assessing whether the classification system is consistent, the principles for the choice of classification models and explanatory factors must be stated. It must also be possible to prove that the principles are still relevant. The Credit Management function is responsible for this.

The IRB Use Test

An important criterion for the qualitative validation of the IRB system is the actual application of each rating result in SEK's risk and business processes. This type of qualitative validation aims at assessing how well different internal management processes and routines work, and can be described as a process-oriented validation. In order to receive permission to employ an IRB system for calculation of capital requirements a company must, according to the regulations, satisfy a "use test". SEK's internal product and risk classification and its estimate of risk parameters form an integrated part of SEK's corporate governance, credit process, risk management and internal allocation of capital. Estimates are well rooted in, and accepted by, the business organization.

SEK carries out a product and risk classification of each new counterparty before a credit decision is made. The individuals and decision forums that are responsible for credit decisions are aware of a counterparty's or exposure's rating. SEK generally applies the same values to risk parameters in its business processes as in the calculation of capital requirements. The company has documented the few cases where it uses different values in its business processes and in the calculation of the capital requirement. It is primarily in the company's pricing model and its internal capital adequacy assessment process that adjusted values are used.

[3] An exposure (receivable) to a risk counterparty that SEK considers to have a high probability of not fulfilling all its commitments on time, according to the original contract terms.

[4] A blocked limit means that no new deals will be concluded with the relevant counterparty.

6.3.2 INFORMATION ABOUT MIGRATION BETWEEN RISK CLASSES

The tables below show the rating distribution as of December 31, 2011 for counterparties for which SEK applies the IRB method, based on rating levels as of December 31, 2010.

TABLE 6.9: MIGRATION MATRIX 2011

The table should be read row by row. The first row shows the rating breakdown as of December 31, 2011 for those counterparties that as of December 31, 2010 were rated 'AAA'. The second row displays the rating breakdown by as of December 31, 2011 for those counterparties that as of December 31, 2010 were rated 'AA+', and so on. The shaded diagonal area accordingly displays the shares of counterparties for which the ratings were unchanged as of December 31, 2011, compared with December 31, 2010.

	2011																		
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC/C	D	Sum
AAA	100%																		100%
AA+	12%	85%	3%																100%
AA		8%	83%	9%															100%
AA-			12%	81%	7%														100%
A+				27%	57%	14%		2%											100%
A					13%	76%	4%	7%											100%
A-						15%	83%	2%											100%
BBB+				2%			6%	71%	18%	3%									100%
BBB					2%	2%		55%	41%										100%
BBB-									14%	79%	7%								100%
BB+										14%	68%	18%							100%
BB									5%	11%	26%	47%	11%						100%
BB-											8%	23%	69%						100%
B+												50%		0%	50%				100%
B															0%	50%		50%	100%
B-															67%	0%	33%		100%
CCC												50%					50%		100%
D																		100%	100%

Charts 6.3–6.5 below show, in absolute figures and in percentage terms, the upgrades and downgrades per risk class and also the number of counterparties whose risk class (rating) changed during 2011.

CHART 6.3: NUMBER OF MIGRATED COUNTERPARTIES WHOSE RISK CLASS CHANGED DURING 2011

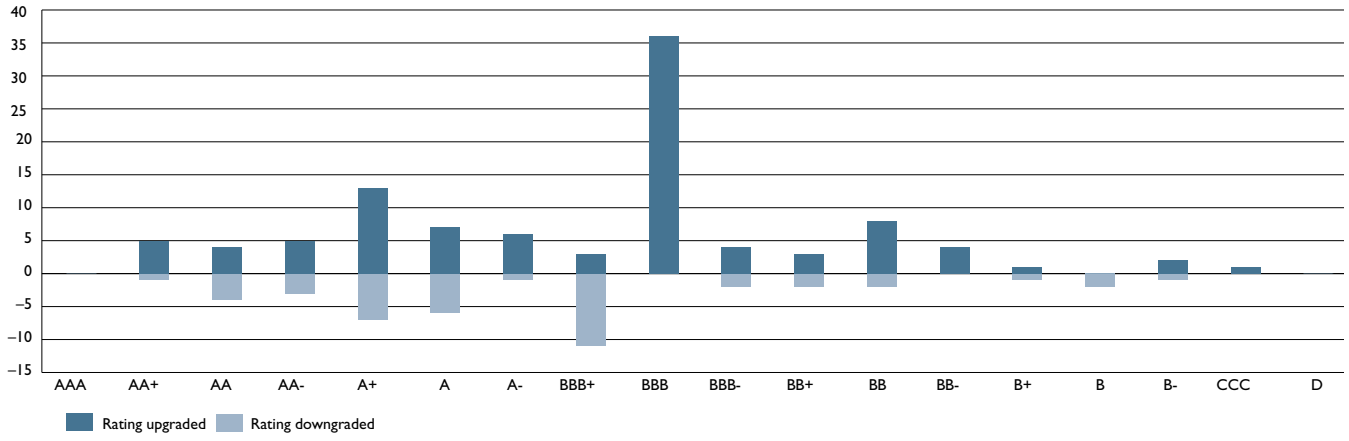


CHART 6.4: PERCENTAGE OF COUNTERPARTIES WHOSE RISK CLASS IN THE RESPECTIVE RATING CLASS CHANGED DURING 2011

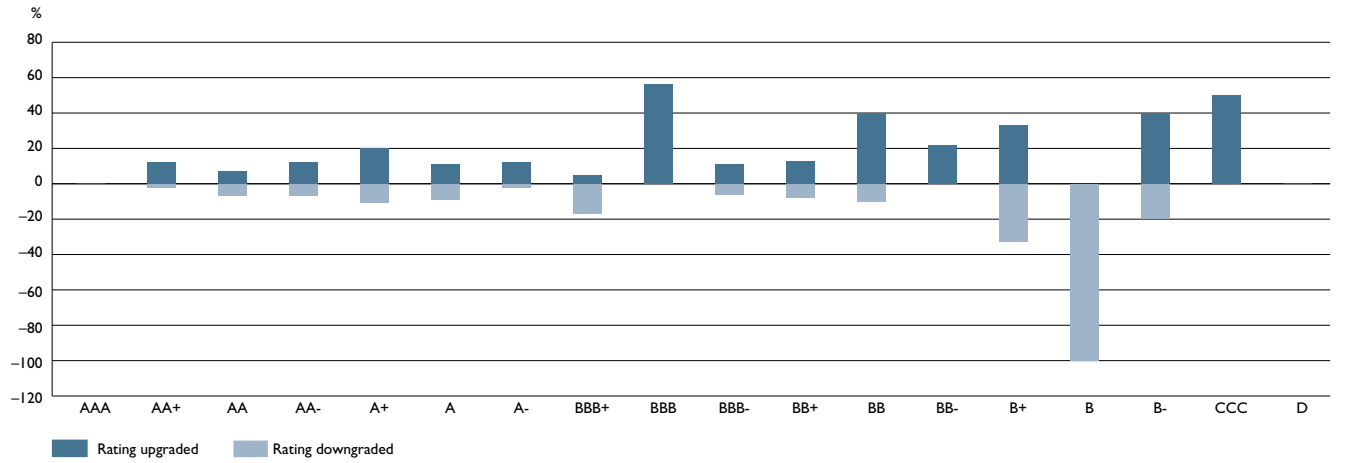
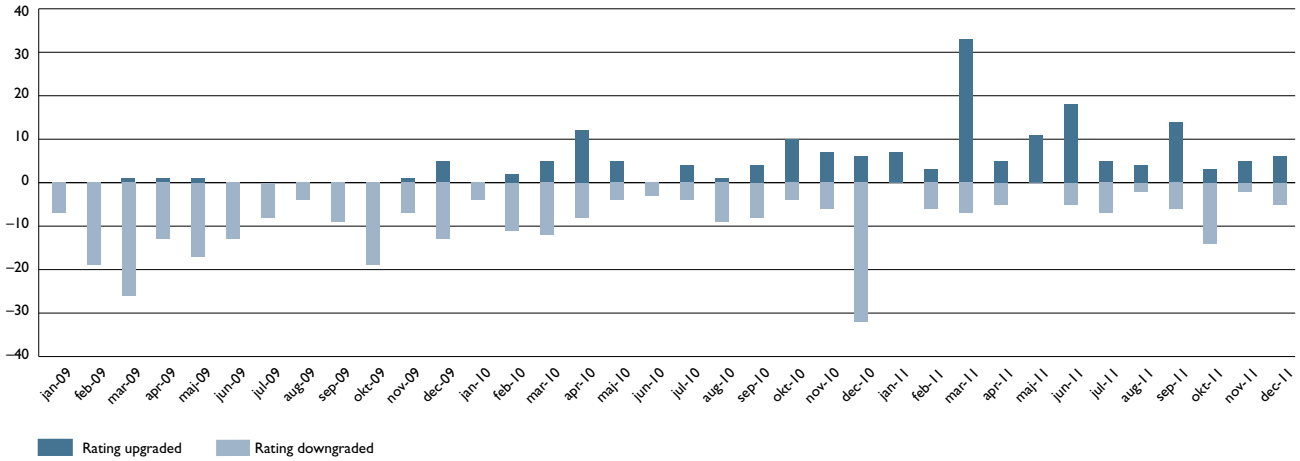


CHART 6.5: NUMBER OF COUNTERPARTIES WHOSE RISK CLASS CHANGED DURING 2009–2011 (PER MONTH)

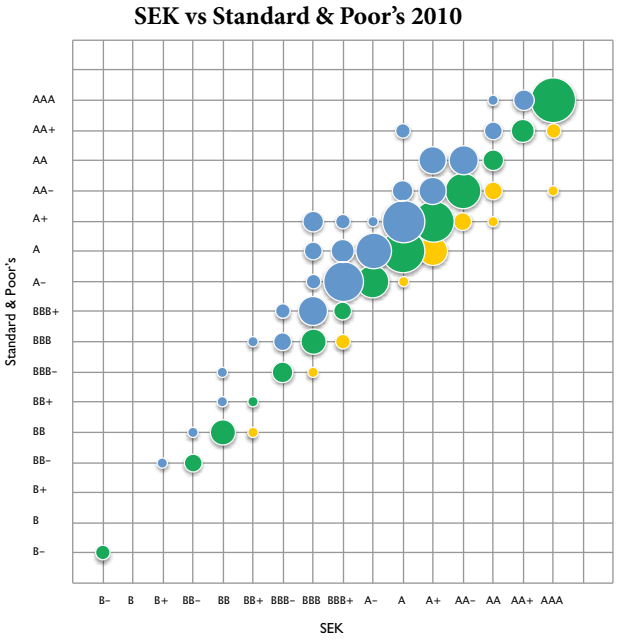


6.3.3 INFORMATION ABOUT THE CORRELATION BETWEEN INTERNAL AND EXTERNAL RATINGS

The charts below display a summary of SEK's outcome analysis showing the correlation between ratings assigned by SEK's internal ratings-based approach and Standard & Poor's, Fitch's and Moody's credit ratings. The purpose of these is to illustrate how SEK's risk classification relates to those of the rating agencies. The fact that there are differences may be an expression of the differences in analytical assessment as well as the point in time of the assessments.

Every circle represents a rating pair (for example, SEK: "BBB", Standard & Poor's: "BBB+") and the size of the circle reflects the number of counterparties that have been allocated this rating pair. The yellow points indicate where SEK's risk classification is higher than the external ratings, while blue points report observations where SEK's risk classifications are lower. The green color indicates where the risk classification for SEK and the external credit rating agencies is the same.

CHART 6.6: CORRELATION BETWEEN SEK'S INTERNAL RATINGS-BASED APPROACH AND STANDARD & POOR'S AT THE END OF 2010 AND 2011, RESPECTIVELY



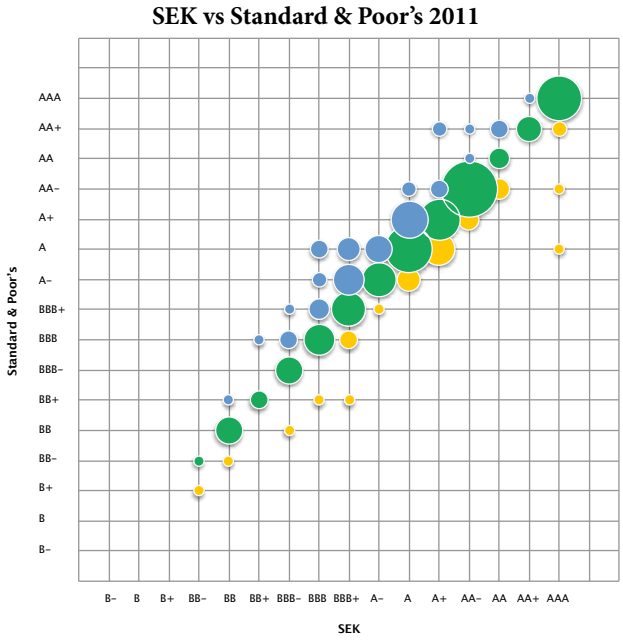


CHART 6.7: CORRELATION BETWEEN SEK'S INTERNAL RATINGS-BASED APPROACH AND MOODY'S AT THE END OF 2010 AND 2011, RESPECTIVELY

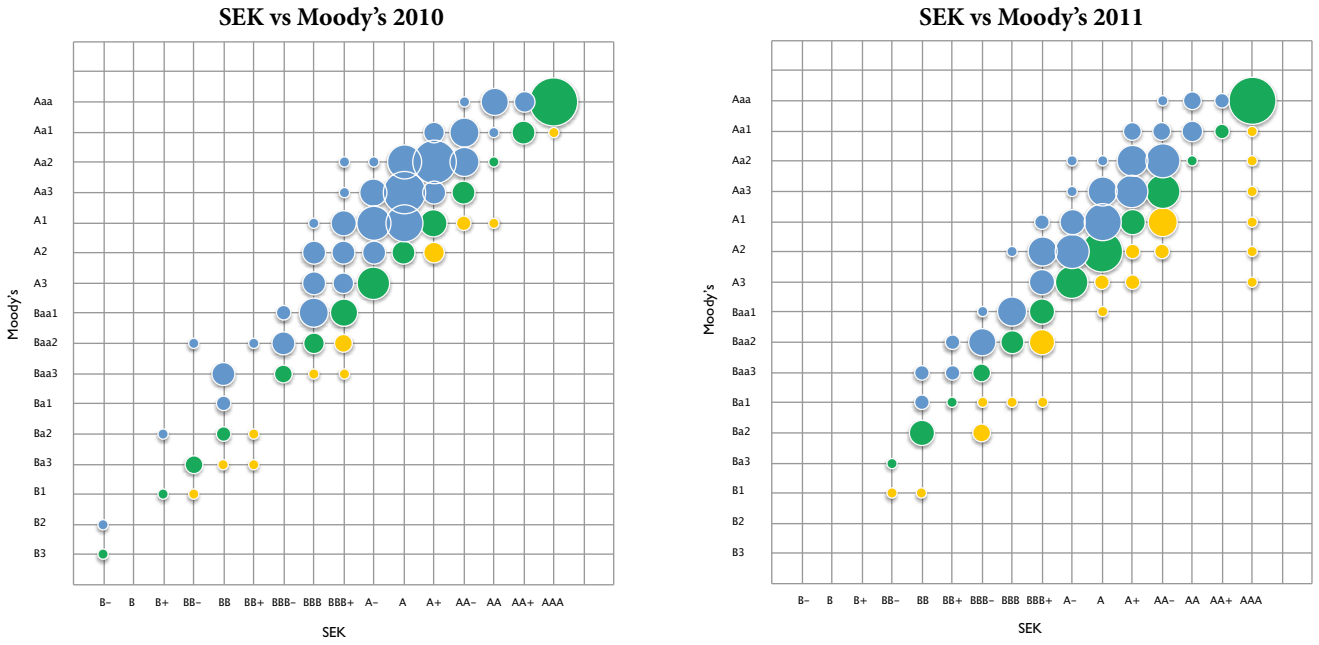
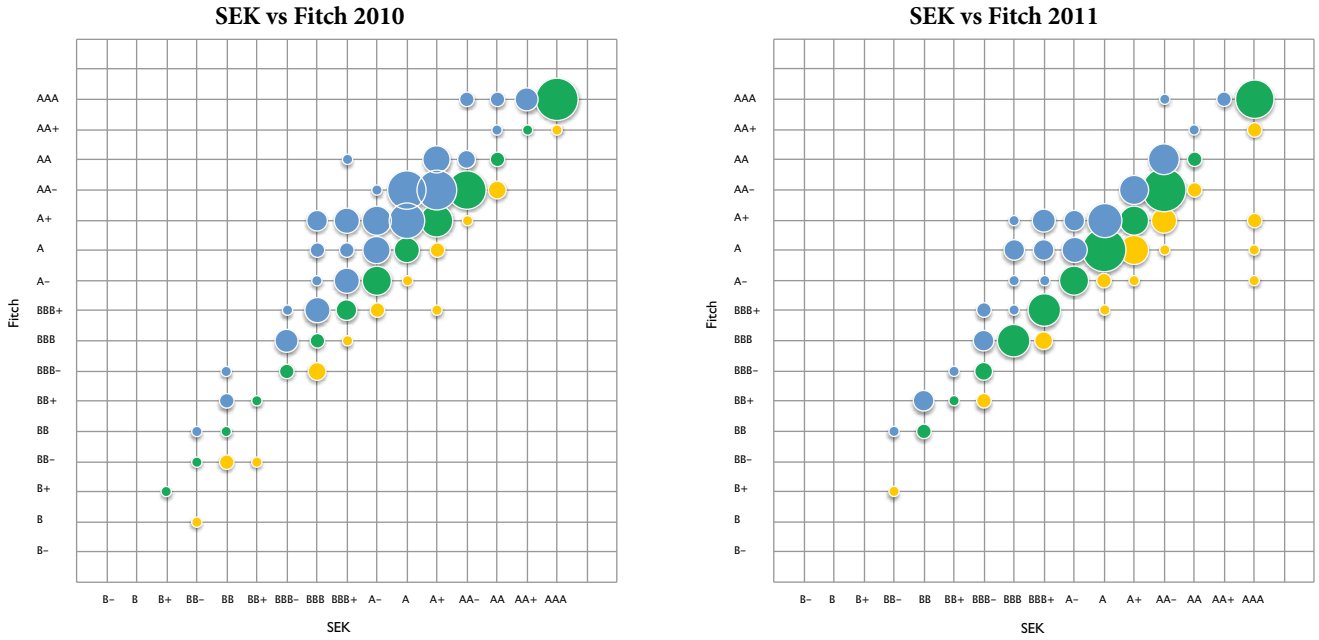


CHART 6.8: CORRELATION BETWEEN SEK'S INTERNAL RATINGS-BASED APPROACH AND FITCH'S AT THE END OF 2010 AND 2011, RESPECTIVELY



6.4 INFORMATION ABOUT THE CREDIT PORTFOLIO

The table below shows a breakdown, by exposure class, of SEK's total exposures related to interest-bearing securities, outstanding lending and committed undisbursed credits (including guarantees and credit default swaps), as well as derivatives.

TABLE 6.10: TOTAL EXPOSURES AS OF DECEMBER 31, 2011 (AND 2010)

Skr bn	Total				Credits & interest-bearing securities				Undisbursed credits, derivatives etc.			
Classified by exposure class	Amount		%		Amount		%		Amount		%	
Central Governments	13.0	(16.5)	4	(5)	11.5	(14.4)	4	(5)	1.5	(2.1)	4	(4)
Government export credit agencies	123.1	(123.8)	39	(36)	101.7	(91.1)	37	(31)	21.4	(32.7)	55	(64)
Regional governments	19.1	(23.7)	6	(7)	18.8	(23.2)	7	(8)	0.3	(0.5)	1	(1)
Multilateral development banks	0.4	(0.4)	0	(0)	0.4	(0.4)	0	(0)	–	(–)	–	(–)
Financial institutions	86.5	(114.1)	28	(33)	74.0	(101.6)	27	(35)	12.5	(12.5)	32	(24)
Asset-backed securities	16.1	(24.0)	5	(7)	16.1	(24.0)	6	(8)	–	(–)	–	(–)
Corporates	55.4	(43.3)	18	(12)	52.1	(39.7)	19	(13)	3.3	(3.6)	8	(7)
Total	**313.6**	**(345.8)**	**100**	**(100)**	**274.6**	**(294.4)**	**100**	**(100)**	**39.0**	**(51.4)**	**100**	**(100)**

The following applies to all the tables presented in this Section 6.4:

- The amount for gross exposure is reported before credit-risk protection (guarantees and credit derivatives) while net exposures are reported after guarantees and credit derivatives.
- Exposure amounts (gross and net amounts) are reported on the basis of volumes without regard to conversion factors. The conversion factor describes that portion of an off-balance sheet commitment that must be covered by capital according to the regulations.

6.4.1 EXPOSURES BY EXPOSURE CLASS

Table 6.11 shows the allocation of credit exposures to different exposure classes. The table illustrates that exposures to central governments and government export credit agencies correspond to approximately 43 percent (2010: 41 percent) of SEK's total net exposures.

TABLE 6.11: CREDIT-RISK EXPOSURES, AS OF DECEMBER 2011 (AND 2010)

Skr bn	Gross exposure, December 31, 2011		Share		Average gross exposure 2011[1]		Net exposure December 31, 2011		Share		Average net exposure 2011	
Central governments	15.4	(20.4)	5%	(6%)	18.9	(29.2)	13.0	(16.5)	4%	(5%)	15.7	(24.8)
Government export credit agencies	0.7	(0.3)	0%	(0%)	0.0	(0.0)	123.1	(123.8)	39%	(36%)	116.5	(132.1)
Regional governments	11.0	(14.5)	4%	(4%)	13.3	(14.0)	19.1	(23.7)	6%	(6%)	21.7	(23.8)
Multilateral development banks	0.0	(0.0)	0%	(0%)	0.0	(0.0)	0.4	(0.4)	0%	(0%)	0.4	(0.4)
Financial institutions	75.8	(98.8)	24%	(29%)	87.1	(111.4)	86.5	(114.1)	28%	(33%)	100.0	(129.5)
Corporates	194.6	(186.4)	62%	(54%)	182.2	(194.7)	55.4	(43.3)	18%	(13%)	48.7	(40.3)
Securitization positions	16.1	(25.4)	5%	(7%)	20.1	(30.1)	16.1	(24.0)	5%	(7%)	18.7	(28.5)
Retail	0.0	(0.0)	0%	(0%	0.0	(0.0)	0.0	(0.0)	0%	(0%)	0.0	(0.0)
Total	**313.6**	**(345.8)**	**100%**	**(100%)**	**321.7**	**(379.4)**	**313.6**	**(345.8)**	**100%**	**(100%)**	**321.7**	**(379.4)**

6.4.2 EXPOSURES BY RISK CLASS

Charts 6.9 and table 6.12 show the net exposures to financial institutions and corporates by risk class (rating) and the probability of default (PD) as of December 31, 2011. The capital requirement calculations for exposures in these risk classes are based on the stated PD estimates based on the IRB approach, as shown in table 6.12. For other exposure classes, the capital requirement calculations are established by the supervisory authority (standardized approach).

Note that the PD estimates shown in table 6.12 are the company's internal estimates. Regulation FFFS 2007:1 stipulates that for exposures to institutions and corporate exposures, the PD must be at least 0.03 percent (the "floor rule"). SEK uses this floor rule in connection with its formal capital requirement calculations.

CHART 6.9: NET EXPOSURES BY RISK CLASS

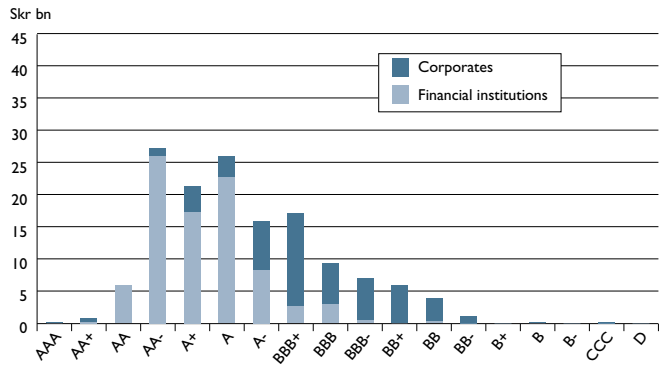


TABLE 6.12: NET EXPOSURES BY RATING AND PD AS OF DECEMBER 31, 2011 (AND 2010)

Skr bn

Rating	PD		Financial institutions		Corporates	
AAA	0.02%	(0.02%)	–	(–)	0.1	(0.0)
AA+	0.02%	(0.02%)	0.2	(–)	0.5	(0.6)
AA	0.04%	(0.04%)	5.9	(11.6)	–	(–)
AA-	0.05%	(0.05%)	26.0	(21.7)	1.0	(1.1)
A+	0.07%	(0.07%)	17.3	(31.7)	4.0	(3.5)
A	0.10%	(0.10%)	22.6	(30.2)	3.3	(3.0)
A-	0.15%	(0.15%)	8.3	(8.9)	7.5	(4.9)
BBB+	0.21%	(0.21%)	2.6	(5.5)	14.6	(8.1)
BBB	0.31%	(0.31%)	2.9	(3.9)	6.5	(9.3)
BBB-	0.44%	(0.44%)	0.4	(0.4)	6.6	(6.4)
BB+	0.79%	(0.86%)	0.0	(0.0)	5.9	(1.9)
BB	1.03%	(1.27%)	0.3	(0.2)	3.6	(2.8)
BB-	1.56%	(2.12%)	–	(–)	1.1	(1.2)
B+	2.91%	(3.39%)	–	(0.0)	–	(–)
B	6.44%	(9.22%)	0.0	(–)	0.1	(0.1)
B-	10.05%	(13.66%)	–	(–)	0.0	(0.1)
CCC	28.98%	(30.95%)	–	(–)	0.2	(0.2)
D	100%	(100%)	–	(–)	0.0	(0.0)
Total			**86.5**	**(114.1)**	**55.0**	**(43.2)**

6.4.3 EXPOSURES BY REGION

Tables 6.13 and 6.14 illustrate SEK's gross and net exposures as of December 31, 2011 (and 2010) by geography.

TABLE 6.13: GROSS EXPOSURE BY REGION AND EXPOSURE CLASS

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
Central governments	0.0	(0.0)	7.6	(7.8)	–	(–)	–	(–)	0.2	(0.3)	3.3	(2.1)	2.5	(3.6)	1.8	(6.6)	15.4	(20.4)
Government export credit agencies	0.7	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.0)	–	(–)	0.7	(0.0)
Regional governments	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	9.7	(12.9)	1.3	(1.6)	–	(–)	11.0	(14.5)
Multilateral development banks	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.0)	0.0	(0.0)
Financial institutions	0.6	(0.6)	1.2	(0.9)	6.7	(11.7)	4.4	(5.5)	–	(–)	22.0	(31.8)	10.6	(12.2)	30.3	(36.1)	75.8	(98.8)
Corporates	2.0	(2.2)	34.8	(26.7)	18.6	(20.5)	0.8	(0.9)	3.9	(3.9)	71.1	(68.2)	17.1	(17.6)	46.3	(46.7)	194.6	(186.7)
Securitization positions	–	(–)	–	(0.0)	3.4	(4.3)	3.6	(4.6)	–	(–)	–	(–)	–	(–)	9.1	(16.5)	16.1	(25.4)
Total	**3.3**	**(2.8)**	**43.6**	**(35.4)**	**28.7**	**(36.5)**	**8.8**	**(11.0)**	**4.1**	**(4.2)**	**106.1**	**(115.0)**	**31.5**	**(35.0)**	**87.5**	**(105.9)**	**313.6**	**(345.8)**

TABLE 6.14: NET EXPOSURE BY REGION AND EXPOSURE CLASS

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
IRB method																		
Financial institutions	–	(–)	0.8	(0.7)	9.7	(17.5)	4.4	(5.5)	–	(–)	19.1	(29.0)	13.3	(13.0)	39.2	(48.4)	86.5	(114.1)
Corporates	–	(–)	1.5	(0.6)	0.5	(1.4)	–	–	–	(–)	39.1	(28.9)	9.0	(7.3)	4.9	(5.0)	55.0	(43.2)
Securitization positions	–	(–)	–	(0.0)	3.4	(4.4)	3.6	(4.6)	–	(–)	–	(–)	0.0	(–)	9.1	(15.0)	16.1	(24.0)
Standardized approach																		
Central governments	–	(–)	0.7	(–)	–	(–)	–	(–)	–	(–)	3.9	(2.9)	2.5	(3.6)	5.9	(10.0)	13	(16.5)
Government export credit agencies	–	(–)	–	(–)	6.4	(8.4)	–	(–)	–	(–)	99.2	(96.2)	2.4	(1.5)	15.1	(17.7)	123.1	(123.8)
Regional governments	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	17.5	(21.8)	1.6	(1.9)	–	(–)	19.1	(23.7)
Multilateral development banks	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(–)	0.4	(0.4)	0.4	(0.4)
Corporates	–	(–)	0.1	(–)	0.0	(–)	–	(–)	0.2	(0.1)	0.0	(0.0)	0.0	(–)	0.1	(–)	0.4	(0.1)
Total	**–**	**(–)**	**3.1**	**(1.3)**	**20.0**	**(31.7)**	**8.0**	**(10.1)**	**0.2**	**(0.1)**	**178.8**	**(178.8)**	**28.8**	**(27.3)**	**74.7**	**(96.5)**	**313.6**	**(345.8)**

Table 6.15 and 6.16 illustrates SEK's gross and net exposures as of December 31, 2011 (and 2010) by European countries, excluding Nordic countries.

TABLE 6.15: GROSS EXPOSURES BY EUROPEAN COUNTRIES, EXCLUDING NORDIC COUNTRIES, AND EXPOSURE CLASS

Skr bn	Central governments		Government export credit agencies		Regional governments		Multilateral development banks		Financial institutions		Corporates		Securitization positions		Total	
Great Britain	–	(–)	–	(–)	–	(–)	–	(–)	8.9	(8.9)	6.3	(7.6)	3.2	(9.3)	18.4	(25.8)
Russia	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	11.4	(10.7)	–	(–)	11.4	(10.8)
Spain	–	(–)	–	(–)	–	(–)	–	(–)	0.5	(1.3)	8.9	(8.1)	1.3	(1.7)	10.7	(11.1)
France	–	(0.1)	–	(–)	–	(–)	–	(–)	6.1	(9.4)	1.9	(0.6)	–	(0.2)	8.0	(10.3)
The Netherlands	–	(–)	–	(–)	–	(–)	–	(–)	5.1	(5.5)	1.3	(1.5)	0.9	(1.3)	7.3	(8.3)
Germany	1.3	(0.6)	–	(–)	–	(–)	–	(–)	4.7	(4.7)	0.6	(0.5)	–	(0.0)	6.6	(5.8)
Ireland	–	(0.9)	–	(–)	–	(–)	–	(–)	1.3	(1.0)	2.0	(2.3)	2.6	(2.8)	5.9	(7.0)
Turkey	–	(–)	–	(–)	–	(–)	–	(–)	0.1	(0.1)	5.5	(6.2)	–	(–)	5.6	(6.3)
Italy	–	(–)	–	(–)	–	(–)	–	(–)	–	(0.7)	3.2	(3.4)	–	(–)	3.2	(4.1)
Poland	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	3.1	(3.1)	–	(–)	3.1	(3.1)
Switzerland	–	(–)	–	(–)	–	(–)	–	(–)	1.7	(1.2)	0.3	(0.8)	–	(–)	2.0	(2.0)
Belgium	–	(4.5)	–	(–)	–	(–)	–	(–)	0.9	(2.6)	0.3	(0.3)	0.8	(0.8)	2.0	(8.2)
Portugal	0.5	(0.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(0.4)	0.8	(0.9)
Greece	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Other countries	–	(0.0)	–	(–)	–	(–)	0.0	(0.0)	1.0	(0.6)	1.5	(1.6)	–	(–)	2.5	(2.2)
Total	**1.8**	**(6.6)**	**–**	**(–)**	**–**	**(–)**	**0.0**	**(0.0)**	**30.3**	**(36.1)**	**46.3**	**(46.7)**	**9.1**	**(16.5)**	**87.5**	**(105.9)**

TABLE 6.16: NET EXPOSURE BY EUROPEAN COUNTRIES, EXCLUDING NORDIC COUNTRIES, AND EXPOSURE CLASS

Skr bn	Central governments		Government export credit agencies		Regional governments		Multilateral development banks		Financial institutions		Corporates		Securitization positions		Total	
Great Britain	–	(–)	4.9	(6.4)	–	(–)	–	(–)	13.2	(15.6)	0.7	(0.7)	3.2	(9.3)	22.0	(32.0)
France	–	(0.1)	3.5	(4.0)	–	(–)	–	(–)	7.9	(11.7)	–	(–)	–	(0.1)	11.4	(15.9)
Germany	2.3	(1.4)	5.7	(6.2)	–	(–)	–	(–)	5.3	(5.8)	0.4	(0.4)	–	(0.0)	13.7	(13.8)
The Netherlands	–	(–)	–	(–)	–	(–)	–	(–)	5.9	(6.5)	1.3	(1.2)	0.9	(1.3)	8.1	(9.0)
Belgium	–	(4.5)	–	(–)	–	(–)	–	(–)	0.9	(2.6)	0.1	(0.3)	0.8	(0.8)	1.8	(8.2)
Ireland	–	(0.9)	–	(–)	–	(–)	–	(–)	1.2	(0.9)	0.5	(0.5)	2.6	(1.4)	4.3	(3.7)
Spain	–	(–)	–	(–)	–	(–)	–	(–)	0.7	(1.3)	1.3	(0.5)	1.3	(1.7)	3.3	(3.5)
Poland	3.1	(2.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(0.6)	–	(–)	3.1	(3.1)
Switzerland	–	(–)	0.1	(0.1)	–	(–)	–	(–)	3.1	(2.5)	0.1	(0.1)	–	(–)	3.3	(2.7)
Italy	–	(–)	0.9	(1.0)	–	(–)	–	(–)	–	(0.7)	0.0	(0.0)	–	(–)	0.9	(1.7)
Portugal	0.5	(0.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(0.4)	0.8	(0.9)
Greece	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Other countries	0.0	(0.1)	–	(–)	–	(–)	0.4	(0.4)	1.0	(0.8)	0.6	(0.7)	–	(–)	2.0	(2.0)
Total	**5.9**	**(10.0)**	**15.1**	**(17.7)**	**–**	**(–)**	**0.4**	**(0.4)**	**39.2**	**(48.4)**	**5.0**	**(5.0)**	**9.1**	**(15.0)**	**74.7**	**(96.5)**

6.4.4 EXPOSURES BY REMAINING MATURITY

Table 6.17 and 6.18 below show SEK's exposures in maturity buckets, both gross and net, as of December 31, 2011 (and 2010). The average maturity for SEK's exposures was 3.8 years as of December 31, 2011.

TABLE 6.17: GROSS EXPOSURE BY MATURITY AND EXPOSURE CLASS

Skr bn	M ≤ 1 year		1 year < M ≤ 3 years		3 years < M ≤ 5 years		M > 5 years		Total	
Central governments	5.2	(9.8)	2.1	(1.9)	2.2	(1.4)	5.9	(7.3)	15.4	(20.4)
Government export credit agencies	0.0	(0.0)	0.1	(–)	0.1	(–)	0.5	(0.0)	0.7	(0.0)
Regional governments	7.9	(10.2)	2.0	(2.5)	0.7	(1.3)	0.4	(0.5)	11.0	(14.5)
Multilateral development banks	–	(–)	–	(–)	0.0	(–)	–	(0.0)	0.0	(0.0)
Financial institutions	50.1	(65.6)	12.6	(18.9)	3.8	(3.1)	9.3	(11.2)	75.8	(98.8)
Corporates	34.6	(25.9)	49.6	(42.9)	48.4	(44.9)	62.0	(73.0)	194.6	(186.7)
Securitization positions	5.3	(7.0)	4.0	(8.9)	1.6	(3.9)	5.2	(5.6)	16.1	(25.4)
Total	**103.1**	**(118.5)**	**70.4**	**(75.1)**	**56.8**	**(54.6)**	**83.3**	**(97.6)**	**313.6**	**(345.8)**

TABLE 6.18: NET EXPOSURE BY MATURITY AND EXPOSURE CLASS

Skr bn	M ≤ 1 year		1 year < M ≤ 3 years		3 years < M ≤ 5 years		M > 5 years		Total	
IRB method										
Financial institutions	55.6	(70.7)	19.5	(26.2)	6.1	(8.1)	5.3	(9.1)	86.5	(114.1)
Corporates	14.2	(8.0)	11.1	(12.2)	10.7	(7.5)	19.0	(15.5)	55.0	(43.2)
Securitization positions	5.3	(7.1)	4.0	(8.9)	1.6	(3.9)	5.2	(4.1)	16.1	(24.0)
Standardized approach										
Central governments	5.0	(9.7)	1.1	(1.2)	2.3	(1.5)	4.6	(4.2)	13.0	(16.5)
Government export credit agencies	14.1	(11.2)	31.8	(23.1)	34.6	(31.5)	42.6	(58.0)	123.1	(123.8)
Regional governments	8.5	(11.4)	2.8	(3.5)	1.5	(2.1)	6.3	(6.7)	19.1	(23.7)
Multilateral development banks	0.4	(0.4)	–	(–)	0.0	(–)	–	(0.0)	0.4	(0.4)
Corporates	0.0	(0.0)	0.1	(0.0)	0.0	(0.0)	0.3	(0.0)	0.4	(0.1)
Total	**103.1**	**(118.5)**	**70.4**	**(75.1)**	**56.8**	**(54.6)**	**83.3**	**(97.6)**	**313.6**	**(345.8)**

6.4.5 EXPOSURES BY INDUSTRY

Table 6.19 below summarizes the distribution of SEK's exposures to corporates by industry as of December 31, 2011 (and 2010).

TABLE 6.19: CORPORATE EXPOSURE BY INDUSTRY (GICS)

Skr bn	Gross exposure		Net exposure	
IT and telecom	66.4	(64.7)	6.2	(6.2)
Industrials	39.2	(31.5)	22.3	(12.9)
Materials	26.3	(27.4)	8.2	(8.1)
Financials	20.9	(26.4)	2.5	(2.7)
Utilities	15.8	(13.4)	5.7	(6.4)
Consumer goods	14.6	(14.7)	6.9	(5.3)
Health care	6.8	(5.7)	2.1	(1.0)
Energy	3.3	(1.9)	1.3	(0.7)
Other	1.3	(1.0)	0.2	(0.0)
Total	**194.6**	**(186.7)**	**55.4**	**(43.3)**

6.4.6 NUMBER OF EXPOSURES BY INDUSTRY AND RISK CLASS

Table 6.22 describes SEK's credit portfolio by industry and internal rating. The values in the table, which are grouped by risk class, show the number of counterparties that are in each industry. (Note that this industry allocation is more detailed than the allocation that is reported in table 6.19 and that all exposure classes have been included.)

6.4.7 EXPOSURES BY BUSINESS SEGMENT

SEK has the following two business segments: direct customer financing and end customer financing. Direct customer financing concerns financing that SEK arranges directly to, or for the benefit of Swedish exports companies. End customer financing refers to financing that SEK arranges for buyers of Swedish goods and services. Table 6.20 and table 6.21 illustrate SEK's gross and net exposures as of December 31, 2011 by business segment and geography. These tables contain only the company's loan portfolio, i.e. liquidity placements are not included in these tables as in the other tables in section 6.4.

TABLE 6.20: GROSS EXPOSURES BY BUSINESS SEGMENT AND GEOGRAPHY

Skr bn	Africa	Asia	North America	Oceania	South America	Sweden	Other Nordic countries	Other European countries	Total
End customer financing	3.3	41.4	15.9	0.8	3.2	13.0	1.2	46.2	125
Direct customer financing	–	1.5	3.8	0.1	1.1	69.6	16.1	4.2	96.4
Total	**3.3**	**42.9**	**19.7**	**0.9**	**4.3**	**82.6**	**17.3**	**50.4**	**221.4**

TABLE 6.21: NET EXPOSURES BY BUSINESS SEGMENT AND GEOGRAPHY

Skr bn	Africa	Asia	North America	Oceania	South America	Sweden	Other Nordic countries	Other European countries	Total
End customer financing	–	1.3	6.7	–	0.2	89.0	3.9	23.9	125.0
Direct customer financing	–	1.3	3.7	–	–	66.6	13.9	10.9	96.4
Total	**–**	**2.6**	**10.4**	**–**	**0.2**	**155.6**	**17.8**	**34.8**	**221.4**

TABLE 6.22: NUMBER OF EXPOSURES BY INDUSTRY AND RISK CLASS

Number of exposures by industry and risk class	'AAA'	'AA+' to 'AA-'	'A+' to 'A-'	'BBB+' to 'BBB-'	Below investment grade
Consumer goods					
Auto Parts & Equipment			1	4	2
Automobile Manufacturers				1	
Brewers				2	
Consumer Electronics			1	2	
Household Appliances				2	
Household Products			1		1
Tobacco					1
Agricultural Products					1
Distributors				1	
Home Furnishings			2		1
Packaged Foods & Meats				1	
Publishing					1
Energy					
Coal & Consumable Fuels				1	
Oil & Gas Refining & Marketing				2	1
Oil & Gas Exploration & Production				1	
Financials					
Asset Management & Custody Banks		2	4	2	
Consumer Finance		1		1	
Diversified Banks	5	29	47	15	2
Diversified Capital Markets		2	8	2	
Investment Banking & Brokerage		3	13	18	6
Multi-Sector Holdings			2	1	1
Other Diversified Financial Services	1		9	12	2
Property & Casualty Insurance	1				
Regional Banks	1	3	7	7	
Specialized Finance	12[1]	6[2]	4[3]	4	2
Thrifts & Mortgage Finance		1	6		
Diversified Real Estate Activities	1	12			
Real Estate Development		1			1
Real Estate Operating Companies				1	
Retail REITs			3		
Health care					
Biotechnology					1
Health Care Distributors		1			
Health Care Equipment				4	
Health Care Facilities				2	
Pharmaceuticals			1		1
Industrials					
Aerospace & Defense			1		
Air Freight & Logistics					1
Building Products				1	
Construction & Engineering				6	7
Construction & Farm Machinery & Heavy Trucks				4	
Environmental & Facilities Services					1
Heavy Electrical Equipment			3		
Highways & Railtracks			2		
Industrial Conglomerates			3	1	3
Industrial Machinery			7	3	4
Marine				1	1
Railroads	1			1	1
Security & Alarm Services				1	
Trucking				1	2
Airlines					1
Trading Companies & Distributors					1
IT and Telecom					
Communications Equipment			1	8	1
Electronic Equipment & Instruments				5	1
Integrated Telecommunication Services			5	14	
Wireless Telecommunication Services			1	14	4
Application Software					1
Electronic Manufacturing Services			1		
IT Consulting & Other Services					1
Technology Distributors			1		
Materials					
Commodity Chemicals				2	
Construction Materials					3
Diversified Metals & Mining					4
Forest Products			1	1	3
Paper Packaging					3
Paper Products				2	9
Steel				1	2
Sovereign and Municipalities					
Regional/Local Government	6	60	2		2
Sovereign	18	9	5	11	5
Utilities					
Electric Utilities		10	7	4	4
Gas Utilities			1		
Independent Power Producers & Energy Traders				1	1
Multi-Utilities		1			
Grand Total	46	141	150	168	90

[1] of which 7 are government export credit agencies
[2] of which 2 are government export credit agencies
[3] of which 2 are government export credit agencies

6.5 COMPARISON BETWEEN EXPECTED LOSS AND ACTUAL LOSSES (IRB)

SEK's estimated expected loss amount (EL), for non-defaulted exposures, as of December 31, 2011 totaled Skr 147.3 million, of which Skr 111.6 million was attributable to the corporates exposure class and Skr 35.7 million was attributable to the financial institutions exposure class. The time horizon of the expected loss amount is one year. However, the company basically has a low default portfolio, which is why this amount does not constitute a reliable indicator of the company's actual credit losses for 2012.

The table below provides a comparison for the years 2008–2011, between the expected loss amount for non-defaulted exposures at the start of each year and the actual losses attributable to internally risk-classified exposures[1] that defaulted during that year. In this context, actual loss is defined as either the write-down or the realized loan loss, at the end of the year the exposure defaulted.

Only three defaults occurred in the exposure classes corporate exposures and exposures to institutions during the years 2008–2011. The sum of the actual losses for these defaults totaled Skr 420 million, which can be compared with the sum of the expected loss amounts for these four years which totaled Skr 455 million. As the number of defaults for the period is small, it is not possible to draw any significant conclusions based on this in regard to the accuracy of the PD estimates.

TABLE 6.23: COMPARISON BETWEEN EXPECTED LOSS AND ACTUAL LOSSES (IRB)

Skr mn	Corporates	Financial institutions	Total
2008			
Expected loss amount	37	25	62
Actual loss	–	389	389
2009			
Expected loss amount	64	46	110
Actual loss	31	–	31
2010			
Expected loss amount	89	51	140
Actual loss	–	–	–
2011			
Expected loss amount	97	46	143
Actual loss	–	–	–

The Basel II regulations have in many respects been written with a focus on portfolios with high or average expected probabilities of default. For such portfolios, statistical tests are applicable and significant. Despite SEK having access to statistics regarding defaults over a long period of time, it is not possible for SEK to apply traditional statistical tests in a meaningful manner. This is because the number of defaults in SEK's portfolio, consisting mainly of highly rated counterparties, will normally be too small to be validated by statistical methods. The regulations do not explicitly express how to handle portfolios of this kind.

The challenge that SEK faces is thus how to apply the IRB method to prove the correctness of the PD estimates without being able to perform a traditional statistical validation for each individual risk class. Instead, using other quantitative methods, an annual validation of PD estimates is made, in which the company, while taking into account updated default statistics from Standard & Poor's, calculates the probability of SEK's total capital requirement being underestimated, as well as the probability of a substantial underestimation. If the probability of an underestimation is greater than 10 percent, or if the probability of a substantial underestimation is greater than 1 percent, a more in-depth analysis would be performed and the PD estimate would be updated so that the estimate of SEK's total capital requirement ended up within these tolerance levels.

[1] This does not cover positions in securitization since an expected loss amount is not calculated for this exposure class.

6.6 WRITE-DOWNS AND PAST-DUE EXPOSURES

Write-downs are made if and when SEK assesses that the company will not obtain full payment for its claim under a loan agreement, or another asset, from a counterparty and/or under any guarantee and/or through the utilization of collateral held by SEK. If the underlying assumptions for these internal models changed, this could cause material changes in the provisions for anticipated credit losses. In accordance with the Swedish Financial Supervisory Authority's regulations, SEK reports as past-due credits those claims for which principal or interest is more than 90 days past due.

Credit losses for 2011 amounted to a net recovery of Skr 4.2 million (2010: Skr 1.0 million). Write-downs of financial assets amounted to Skr 125.1 million 2011 (2010: Skr 119.7 million). During 2011, additional write-downs were recorded on one of the two CDOs. Write-downs increased in 2011 as a result of an increase in the general reserve for credit risks (unrelated to any identified counterparty). SEK assesses that the increase in the general reserve is motivated since the risks, especially in the financial system, have increased during 2011, this is expected to lead to increased losses with some delay.

TABLE 6.24: EXPOSURES WITH A NEED FOR WRITE-DOWN AND PAST-DUE EXPOSURES

Skr mn	Past-due exposures		Exposures with a need for write-down		Accumulated individual write-downs	
Government export credit agencies	1,046	(428)	–	(–)	–	(–)
Financial institutions	–	(–)	–	(–)	–	(–)
Corporates	–	(–)	48	(135)	40	(41)
Securitization positions	–	(–)	641	(638)	483	(470)
Total	**1,046**	**(428)**	**689**	**(773)**	**523**	**(511)**

TABLE 6.25: EXPOSURES WITH A NEED FOR WRITE-DOWN AND PAST-DUE EXPOSURES, BY REGION

Skr mn	Past-due exposures		Exposures with a need for write-down		Accumulated individual write-downs	
Africa	–	(–)	–	(–)	–	(–)
Asia	–	(–)	–	(–)	–	(–)
North America	–	(–)	641	(638)	483	(470)
Sweden	1,046	(428)	26	(108)	18	(14)
Other European countries	–	(–)	22	(27)	22	(27)
Other Nordic countries	–	(–)	–	(–)	–	(–)
Total	**1,046**	**(428)**	**689**	**(773)**	**523**	**(511)**

TABLE 6.26: CHANGES IN WRITE-DOWNS IN 2011

Skr mn	
Opening balance January 1, 2011	561
Write-downs 2011	125
Reversal of previous write-downs	–10
Closing balance December 31, 2011	**676**

6.6.1 LEHMAN BROTHERS

Following Lehman Brothers Holdings Inc.'s (the Parent Company in the Lehman Brothers Group) request for bankruptcy protection on September 15, 2008, SEK replaced most of the outstanding derivative contracts the Parent Company had entered into with three different Lehman Brothers entities. In accordance with the terms of the original contracts (which generally took the form of ISDA Master Agreements), SEK prepared statements of claim ("Calculation Statements") in relation to all of these Lehman Brothers entities. The Calculation Statements were delivered to the respective counterparties in the beginning of October 2008.

The majority of the contracts SEK had with different Lehman Brothers entities served primarily to hedge SEK against market risk. Those contracts have been replaced with new contracts.

In addition, SEK had entered into credit default swaps with Lehman Brothers entities that were accounted for as financial guarantee and therefore recorded at amortized cost. The underlying counterparties covered by these credit default swaps all had such creditworthiness as to qualify under SEK's policies to be held without credit default swap coverage. SEK has therefore not replaced these credit default swaps. The Calculation Statements include claims for calculated costs related to the replacement of these financial guarantees, however. SEK's claims against Lehman Brothers associated with these financial guarantees have not previously been recognized in the statement of financial position due to the requirement that contingent assets only should be recognized when there is virtual certainty of collection.

During the beginning of 2011, SEK reached an agreement with one subsidiary in the former Lehman Brothers Group with regard to the parties' respective claims. On November 16, 2011, an agreement was concluded with a third part for the sale of the said claim on the subsidiary in the former Lehman Brothers Group. The sale has resulted in a realized gain of Skr 279.3 million, of which Skr 100.0 million was already recorded as an unrealized gain in the second quarter 2011 and Skr 127.0 million as an unrealized gain in the third quarter 2011.

During the third quarter of 2011, SEK reached a similar agreement with another subsidiary in the former Lehman Brothers Group which resolves all of the parties' respective claims. SEK has not incurred any losses as a result of this agreement. Following the resolution of these claims under the agreement, SEK believes that it is no longer required to report any contingent asset related to this particular Lehman Brothers subsidiary.

In June 2009, Lehman Brothers Finance S.A. (in liquidation, with PricewaterhouseCoopers as appointed liquidators) ("LBF") notified SEK that LBF was demanding the payment of amounts that LBF claimed were due under one of the original ISDA Master Agreements (the "LBF Agreement"), plus interest, rejecting SEK's claims for cross-affiliate set-off, interest and damages, as reflected in the relevant Calculation Statements. SEK rejected LBF's claim for payment and its other objections to the relevant Calculation Statements. SEK has during the fourth quarter of 2011 made a payment to LBF representing SEK's debt including interest in accordance with the Calculation Statements. SEK disagrees with LBF's position, and intends to continue to vigorously defend its position.

SEK believes that it will not suffer any significant losses related to the bankruptcy of Lehman Brothers. SEK's set-off and damage claims have however not been settled, and no assurance can be given that they will be compensated in full. Nor can any guarantees on the outcome of SEK's dispute with LBF be given.

6.6.2 SPARBANKSSTIFTELSERNAS FÖRVALTNINGS AB

In March 2009, in connection with the settlement of a claim against Sparbanksstiftelsernas Förvaltnings AB ("SFAB"), SEK came to an agreement with SFAB by which SEK, through a purchase, assumed ownership of 25,520,000 shares in Swedbank AB representing approximately 3.3 percent of Swedbank's total share capital and votes. On June 16, 2009 SEK received a claim from SFAB challenging the agreement related to the transfer of ownership in the shares of Swedbank AB, which has been rejected by SEK. SEK subsequently subscribed for new shares in a rights offering of Swedbank AB in the autumn of 2009. Payment for new shares of Skr 497.6 million was delivered on October 6, 2009. SEK's holding in Swedbank AB amounted to 3.3 percent and the number of shares amounted to 38,280,000 after participating in the rights offering.

On October 26, 2009, SEK received an additional claim from SFAB relating to the value of SEK's entire current stake in Swedbank (38,280,000 shares), including fair valuation changes. These shares had an acquisition cost of a total of Skr 997.6 million, and, as of September 30, 2010, had a book value of Skr 3,592.0 million, which corresponded to the fair value. The aforementioned additional claim does not affect SEK's previous conclusion that SFAB has no valid claim, and, therefore, it has been rejected.

On November 11, 2009, SFAB announced that it had initiated arbitration proceedings. On March 1, 2010, SFAB submitted a statement of claim against SEK at the Arbitration Institute of the Stockholm Chamber of Commerce. The statement of claim has subsequently (after SEK filed its defense) been supplemented and developed. The arbitration process is still ongoing. On March 5, 2010, SFAB also submitted an application for summons against SEK in the said dispute to the City Court of Stockholm. SEK still considers that SFAB's demands are unfounded and has therefore not made any financial provisions in respect of any of the actions taken by SFAB as described above.

On October 28, 2010, SEK sold its entire stake in Swedbank AB. The holding was privately placed with a number of Swedish and international institutional investors. SEK, a holder of shares in Swedbank since March 2009, had previously announced that it should not be regarded as a long-term owner but rather had the intention to sell the stake in a responsible way. The shares, which had been acquired at a cost of Skr 997.6 million, were sold for a total of Skr 3,562.7 million resulting in a profit of Skr 2,565.0 million before taxes. At the board meeting held on October 29, 2010, SEK's Board of Directors resolved to call an extraordinary general meeting with the purpose to propose an extra dividend amounting to Skr 1,890.0 million, equal to the realized profit from the sale after tax. The extraordinary general meeting was held on December 1, 2010, and a decision on a special dividend amounting to Skr 1,890.0 million was made. The dividend was paid to SEK's owner, the Swedish state, on December 15, 2010.

6.7 CREDIT-RISK MITIGATION METHODS

SEK seeks to limit credit risk by the methodical risk-based selection of counterparties. Moreover, counterparty credit risk is managed, inter alia, by the use of guarantees supporting counterparty obligations as well as through the purchase of credit protection in the form of credit default swaps ("CDSs"). By purchasing protection under a CDS, SEK seeks to protect itself against certain events (referred to as "credit events") affecting the credit quality of the counterparty in question (for purposes of a CDS, referred to as the "reference entity").

A CDS provides the buyer with the right, under certain circumstances (such as the default or insolvency of the underlying reference entity) to exchange its claims against the reference entity for a pre-agreed value paid by the seller. Stated in general terms, the buyer of protection under a CDS may exchange credit exposure to the reference entity for a combination of derivatives transaction exposure (see section 6.8) towards the financial institution selling protection under the CDS, and residual exposure to the reference entity of the CDS.

As described in more detail in section 6.8, SEK documents any derivatives transaction, including any CDS, through an ISDA Master Agreement supported by either a Credit Support Annex or a recouponing/repricing arrangement. Under these credit support arrangements, the potential net exposure of SEK to the CDS protection seller (and vice versa) is valued on a daily or weekly basis across all transactions under the agreement, and, where this potential net exposure exceeds pre-agreed levels, credit support is transferred or swaps are repriced to manage the exposure.

The market value of a CDS is a function, among other things, of the creditworthiness of the underlying reference entity. As a result, the changes in value to SEK of a CDS in which SEK is the protection buyer will, all other things being equal, be inversely proportional with the changes in the creditworthiness of the underlying reference entity. SEK therefore views this risk mitigation technique as being particularly efficient from a real risk management perspective. For further information on SEK's use of CDSs, see section 6.7.2.

6.7.1 GUARANTEES

SEK relies to a large extent on guarantees in its lending. The guarantors are principally made up of government export credit agencies, such as the Swedish EKN, the Export Import Bank of the United States ("USEXIM"), the Exports Credits Guarantee Department of the United Kingdom ("ECGD"), the Compagnie Financière pour la Commerce Exterieure ("Coface") of France and Euler Hermes Kreditversicherungs AG of Germany, as well as financial institutions and, to a lesser extent, non-financial corporations. Credit risk is allocated to a guarantor according to SEK's policy and therefore, when disclosing credit risk net exposures, the majority of SEK's guaranteed credit exposure is shown as exposure to sovereign counterparties. As of December 31, 2011, government export credit agencies guaranteed a total of Skr 123.1 billion (year-end 2010: Skr 123.8 billion), which was equivalent to 39 percent (year-end 2010: 36 percent) of total credit exposures. Skr 110.0 billion (year-end 2010: Skr 109.6 billion) covered corporate exposures, Skr 5.3 billion (year-end 2010: Skr 6.1 billion) covered exposures to financial institutions, and Skr 7.8 billion (year-end 2010: Skr 8.1 billion) covered government exposures. See also table 6.28 in section 6.7.2.

TABLE 6.27: CREDIT EXPOSURES GUARANTEED BY GOVERNMENT EXPORT CREDIT AGENCIES AS OF DECEMBER 31, 2011 (AND 2010)

Skr bn		Guaranteed exposure		Share	
EKN	The Swedish Export Credits Guarantee Board	99.2	(96.2)	81%	(78%)
ECGD	Export Credits Guarantee Department	4.9	(6.4)	4%	(5%)
US EXIM	Export-Import Bank of the United States	6.4	(8.3)	5%	(7%)
HERMES	Euler Hermes Kreditversicherungs AG	5.7	(6.2)	5%	(5%)
Other		6.9	(6.7)	5%	(5%)
Total		**123.1**	(123.8)	**100%**	(100%)

6.7.2 CREDIT DERIVATIVE TRANSACTIONS

At year-end 2011, SEK had purchased protection through CDSs (described in table 6.26) in respect of claims (assets) totalling Skr 19.4 billion (year-end 2010: Skr 26.8 billion). CDS protection was purchased from 19 (year-end 2010: 19) different financial institutions. Of these, Skr 19.4 billion (year-end 2010: Skr 25.3 billion) covered corporate exposures, Skr 0.0 billion (year-end 2010: Skr 1.5 billion) covered exposures in securitization positions.

As described in more detail in section 6.8, SEK has ISDA Master Agreements and Credit Support Annexes or recouponing/repricing arrangements in place with CDS protection sellers. As also described in section 6.8, if the net in-the-money value to SEK of its derivatives transactions (including CDSs) with a given counterparty exceeds a certain pre-agreed level, the CSAs or recouponing/repricing arrangements obliges the individual protection seller to either transfer collateral to SEK or enter into a recouponing transaction which has the same economic effect. All SEK's CDSs are entered into under ISDA Master Agreements supported by either a Credit Support Annex or recouponing/repricing arrangement.

At year-end 2011, the notional amount of CDSs in respect of which SEK acted as seller of protection was Skr 0.4 billion (year-end 2010: Skr 0.5 billion). All the underlying exposures were corporate exposures.

CHART 6.10: BREAKDOWN OF CDS COVERED EXPOSURES BY THE COVERING COUNTERPARTY'S RISK CLASS AS A PERCENTAGE OF THE TOTAL CDS COVERED EXPOSURE AS OF DECEMBER 31, 2011

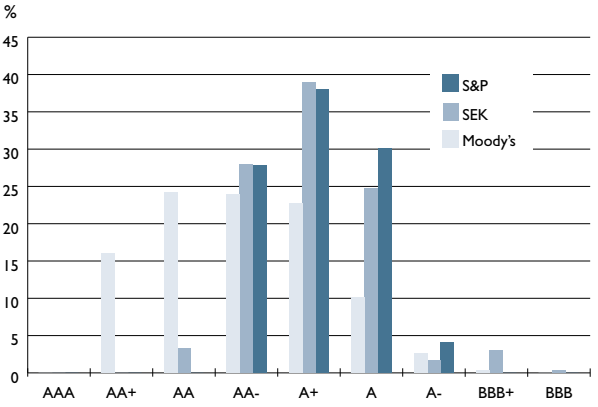
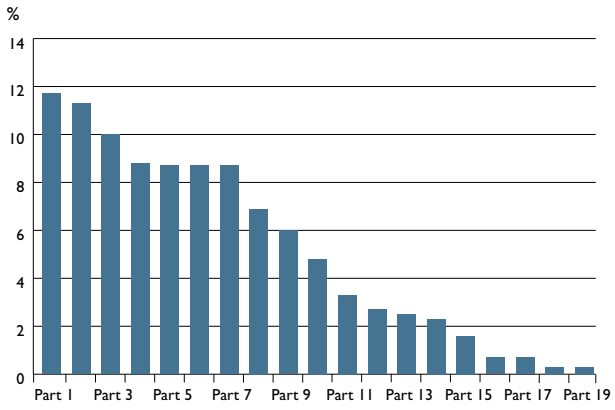


CHART 6.11: ALL SEK'S CDS COUNTERPARTIES AND THEIR PERCENTAGE OF TOTAL CDS COVERED AMOUNTS AS OF DECEMBER 31, 2011



The table below shows SEK's exposures mitigated by guarantees or CDS's, by exposure class as of December 31, 2011.

TABLE 6.28: EXPOSURES MITIGATED BY GUARANTEES OR CREDIT DERIVATIVES, BY EXPOSURE CLASS

Skr bn		Exposure class after mitigation													
Exposure class before mitigation	**Type of mitigation**	**Institution**		**Corporates**		**Local governments**		**Multilateral development banks**		**Central governments and central banks**		**Export credit agencies**		**Total**	
Institutions	Guarantee	–	(–)	0.1	(0.1)	7.4	(7.6)	–	(–)	1.6	(1.5)	5.3	(6.1)	14.3	(15.4)
Corporates	Credit Derivative	19.4	(25.3)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	19.4	(25.3)
	Guarantee	5.5	(3.9)	7.5	(6.3)	0.8	(1.7)	0.4	(0.4)	3.8	(2.6)	110	(109.6)	128	(124.5)
Local governments	Guarantee	–	(–)	–	(–)	0.1	(0.1)	–	(–)	–	(–)	–	(–)	0.1	(0.1)
Securitizations	Credit Derivative	–	(1.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(1.5)
Central governments and central banks	Guarantee	–	(–)	–	(–)	–	(–)	–	(–)	1.5	(1.7)	7.8	(8.1)	9.3	(9.8)
Total		**25**	**(30.7)**	**7.5**	**(6.4)**	**8.2**	**(9.4)**	**0.4**	**(0.4)**	**6.9**	**(5.8)**	**123.1**	**(123.8)**	**171.1**	**(176.5)**

6.7.3 OTHER CREDIT-RISK MITIGATION METHODS

SEK relies on various types of collateral in order to reduce and reallocate credit risks. Approved collateral under the ISDA Credit Support Annex (described in more detail below) mostly consists of cash and, to a limited extent, government bonds. Any collateral that SEK is entitled to receive must be managed and documented in a manner such that the collateral fulfills its function and can be used in the intended manner when needed. When a credit decision is made, the creditor's assessed creditworthiness and ability to repay, as well as, where applicable, the value of collateral, is taken into account. The credit decision may be made on the condition that certain collateral is provided.

6.8 COUNTERPARTY RISK IN DERIVATIVES TRANSACTIONS

Counterparty risk may arise when SEK has entered into derivative transactions, such as swaps or options, with a counterparty. Counterparty risk in derivatives transactions is a product of the market value to SEK of the transactions with a given counterparty and the creditworthiness of the counterparty in question. If a derivatives transaction with a counterparty has a positive value for SEK (SEK is "in the money"), a default by the counterparty could signify a loss for SEK. Thus, this risk is not dissimilar to credit risk arising upon the extension of credit. However, in a derivatives relationship the size of the risk may vary substantially during the life of the derivatives transaction(s), e.g. due to changes in the value of the asset underlying the transaction, or due to a sudden drop in the creditworthiness of the counterparty in question.

SEK addresses counterparty risk in derivatives transactions in a number of ways. First, counterparty risk is limited through credit analysis in the ordinary credit process. Secondly, SEK's counterparty risk in derivatives is sought to be reduced by ensuring that derivatives transactions are subject to netting agreements in the form of ISDA Master Agreements. On the assumption that it is enforceable against the counterparty, the effect of a netting agreement is that, should SEK's counterparty default, the positive and negative values to SEK of all derivatives transactions with that counterparty under the relevant netting agreement will be set off against each other, so that only the net exposure remains. SEK endeavours to only enter into derivatives transactions with counterparties in jurisdictions where such netting is enforceable. Thirdly, the ISDA Master Agreements are complemented by supplementary agreements providing for the collateralization of counterparty exposure. The supplementary agreements are in the form of ISDA Credit Support Annexes (CSAs), providing for the regular transfer and re-transfer of credit support. Moreover, in some cases, ISDA Master Agreements are supported exclusively by such recouponing/repricing provisions. Both the CSA and the recouponing/repricing provisions rely on a regular (typically daily or weekly) assessment of counterparty exposure and provide that where such exposure is above a certain threshold, collateral shall be transferred or recouponing shall take place. The level of unsecured exposure, which SEK is prepared to take in respect of a given counterparty is often linked to the external credit rating of the counterparty. Recently, however, SEK has begun to reduce this level to zero, both with new and existing counterparties. Where the threshold is zero, the uncollateralized exposure of SEK will, provided the relevant collateral provisions are enforceable, largely be a function of movements in the value of the transactions between the monthly, weekly or daily valuations, and the application of a minimum transfer amount for collateral transfers. The SEK standard minimum transfer amount is USD/EUR 1,000,000.

Importantly, both the CSA and the recouponing/repricing provisions may go both ways, meaning that where the counterparty has exposure to SEK above the agreed threshold and minimum transfer amount, SEK may be required to transfer collateral or provide credit support through recouponing/repricing of transactions. In a number of collateral arrangements, the amount of collateral that SEK would be required to transfer is dependent on SEK's credit rating. However, recently, SEK has begun to amend these ratings-related provisions with both new and existing counterparties.

6.8.1 INFORMATION ABOUT COUNTERPARTY RISK IN DERIVATIVE TRANSACTIONS

SEK has analyzed the effect on SEK of having to provide additional collateral if SEK's own credit rating is stressed. At year-end 2011, in the event of a downgrade of SEK's rating from 'AA+' to 'A+', the largest amount that could be demanded of SEK would be approximately Skr 0.6 billion (year-end 2010: Skr 1.2 billion).

As described above, where the values of transactions fluctuate and SEK has exposure to a counterparty exceeding the level of unsecured exposure agreed with that counterparty, the net exposure must, subject to the applicable minimum transfer amount, be regulated so that the exposure will be reduced. As of December 31, 2011 the positive gross value of derivative transactions on the balance sheet was Skr 31.5 billion (year-end 2010: Skr 37.7 billion). However, on the assumption that the netting is enforceable, also on the insolvency of a counterparty, SEK's exposure on default of its counterparties should, as a function of close-out netting under the ISDA Master Agreement, be its net exposure, as described above. SEK's net counterparty exposure in derivatives transactions was equal to approximately Skr 16.7 billion (year-end 2010: Skr 23.6 billion), i.e. Skr 14.8 billion (year-end 2010: Skr 14.1 billion) less than the gross exposure. As of December 31, 2011, SEK's counterparties had provided credit support of Skr 15.6 billion (year-end 2010: Skr 14.3 billion). During 2011, credit support received amounted on average to Skr 12.9 billion (2010: Skr 8.5 billion). Chart 6.12 displays how transactions settled by counterparties under the ISDA Master Agreements varied over 2011.

CHART 6.12: TRANSACTIONS SETTLED BY COUNTERPARTIES, AVERAGE PER MONTH DURING 2011

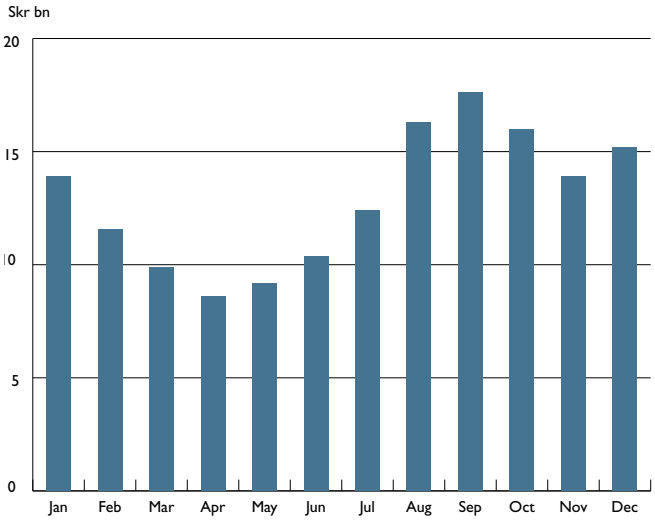


Table 6.29 shows values of derivative contracts on the balance sheet as of December 31, 2011 (and 2010).

TABLE 6.29: DERIVATIVE INSTRUMENTS

Skr bn	Assets fair value		Liabilities fair value		Nominal amounts	
Currency related contracts	23.2	(24.8)	5.1	(6.5)	231.6	(253.9)
Interest rate related contracts	6.2	(3.9)	7.2	(7.0)	143.5	(148.0)
Equity related contracts	2.0	(7.1)	8.7	(4.0)	58.5	(73.1)
Others	0.1	(1.9)	1.6	(0.6)	20.3	(20.6)
Total	**31.5**	**(37.7)**	**22.6**	**(18.1)**	**453.9**	**(495.6)**
Collateral received					15.6	(14.3)
Reduction in exposure from applying netting					14.8	(14.1)

6.8.2 CAPITAL REQUIREMENT FOR COUNTERPARTY RISK IN DERIVATIVE TRANSACTIONS

SEK applies the mark to market method to calculate the exposure amount for counterparty risk under Pillar 1. As of December 31, 2011, the capital requirement for counterparty risk in derivative transactions under Pillar 1 totaled Skr 326 million (2010: Skr 309 million). Table 6.30 shows current exposure, potential future exposure and capital requirements for counterparty risk.

Economic capital for counterparty risk under Pillar 2 is calculated in much the same way as for ordinary credit risk exposures. The exposure amounts are determined by the market value of derivative contracts, netted by counterparty. An addition is made for potential future credit exposures due to the volatility of the market values. This process is the same as when determining the minimum capital requirement for counterparty risk under Pillar 1. Once the exposure amounts have been determined, the exposures are added to the rest of the credit portfolio as if they were ordinary credit exposures and economic capital for credit risk is calculated for the entire portfolio as described in section 5.2.1.

TABLE 6.30: CURRENT, POTENTIAL FUTURE EXPOSURE AND CAPITAL REQUIREMENT FOR COUNTERPARTY RISK, AS OF DECEMBER 31, 2011

Skr mn	Current exposure		Potential future exposure		Total exposure		Risk weighted amount		Capital requirement	
Public entities	0	(66)	0	(27)	0	(93)	0	(0)	0	(0)
Institutions	89	(469)	11,180	(10,262)	11,269	(10,731)	4,072	(3,856)	326	(309)
Corporates	0	(20)	9	(9)	9	(29)	5	(12)	0	(1)
Total	**89**	**(556)**	**11,189**	**(10,298)**	**11,279**	**(10,854)**	**4,077**	**(3,868)**	**326**	**(309)**

6.8.3 OTC-DERIVATIVE REGULATIONS

The absence of a regulatory framework for OTC derivatives is considered to have contributed to deepening the financial crisis. In September 2009 the leaders of the G20 group of countries reached agreement on the following:

1. By no later than the end of 2012 all standardized OTC derivative contracts would be traded on an exchange or electronic trading platform where appropriate and cleared by a central counterparty.
2. OTC derivative contracts would be reported to central trade repositories.
3. Derivative contracts that are not cleared would be subject to higher capital requirements.

Within the EU the implementation of the G20 agreement will primarily take place through the proposed European Market Infrastructure Regulation, EMIR, and related detailed regulation by the ESMA commission. In the US it is being implemented through the Dodd-Frank reform and consumer protection legislation. OTC-derivative regulations are to be complete by the end of 2012 or the start of 2013. However, there is great uncertainty regarding the timetable for detailed regulation and how long the market will have to prepare for the introduction of EMIR and Dodd-Frank (Section VII).

The new regulation will have an effect on SEK's business model since SEK uses derivatives to hedge its exposures. The derivatives reform will introduce greater margin requirements, for both cleared and uncleared transactions. Moreover, the OTC derivatives reform will introduce higher administrative, operative and legal costs for SEK. There will also be higher costs due to charges and fees for central counterparties and clearing members.

Under Basel III OTC derivatives that are not cleared centrally will carry higher capital requirements. Basel III will also require mark-to-market losses attributable to changes in a counterparty's creditworthiness to be covered by adequate capital (CVA risk).

The CVA risk is to be calculated for those contracts that are not subject to central clearing. Since a large share of SEK's products are structured, SEK's total capital requirements for counterparty risks will increase. SEK is, however, well capitalized and is consequently well equipped to cope with the new Basel III requirements for counterparty risks.

6.9 CAPITAL REQUIREMENT FOR CREDIT RISK

Table 6.31 summarizes the capital requirement for credit risk under Pillar 1, broken down by the IRB approach and the standardized approach.

TABLE 6.31: RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENT CREDIT RISK AS OF DECEMBER 31, 2011 (AND 2010)

Skr mn	Risk-weighted assets		Capital requirement	
Standardized approach				
Central governments	1,519	(855)	121	(69)
Government export credit agencies	–	(–)	–	(–)
Corporates	247	(66)	20	(5)
Retail	1	(3)	0	(0)
Total capital requirement standardized approach	**1,767**	**(925)**	**141**	**(74)**
IRB method				
Financial institutions	22,335	(29,219)	1,787	(2,338)
Securization positions	5,807	(4,356)	465	(348)
Corporates	31,119	(24,423)	2,489	(1,954)
Non-credit-obligation assets	88	(159)	7	(13)
Total capital requirement IRB method	**59,349**	**(58,157)**	**4,748**	**(4,653)**
Total credit risk[1]	**61,116**	**(59,082)**	**4,889**	**(4,727)**
[1] Of which **counterparty credit risk**	4,077	(3,868)	326	(309)

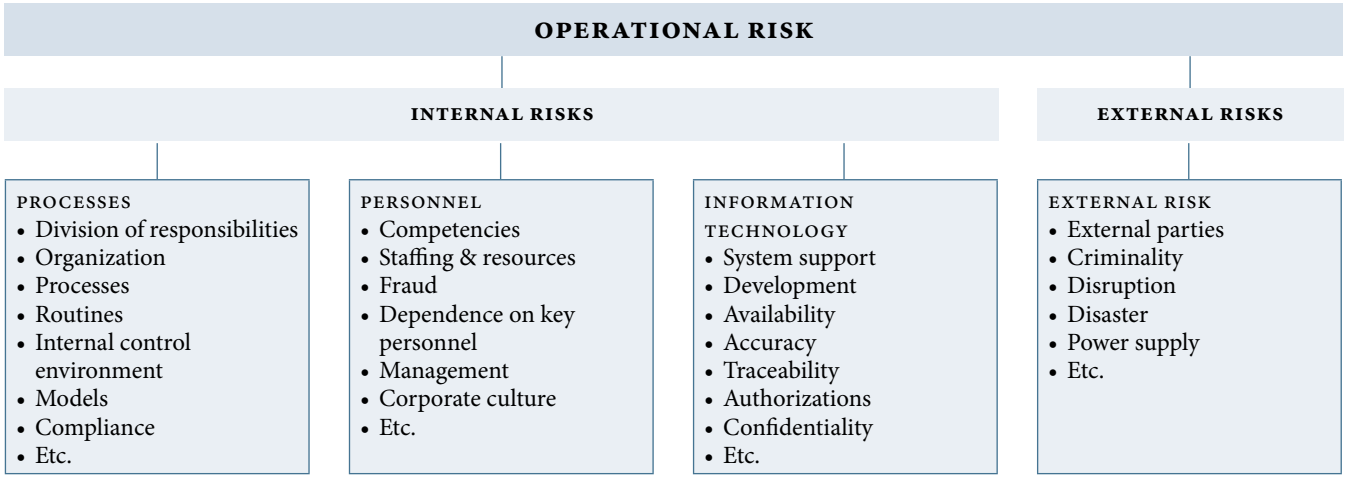
See also section 5.2.1 and 5.3.2 for description of measurement and calculation of economic capital under Pillar 2 for credit risk.

7. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk. SEK's appetite for operational risk is low.[1] For compliance risk, SEK has zero tolerance. Risks that are assessed to be at a medium or high level should be mitigated.

The definition of operational risk can be divided into four main categories, as set out in chart 7.1 below.

CHART 7.1: MAIN CATEGORIES OF OPERATIONAL RISK



7.1 HIGHLIGHTS IN 2011

SEK has intensified its work on managing operational risk and increasing awareness about this risk category among employees. As a result of this, the number of incidents reported increased notably in 2011. Employees are aware of the importance of flagging such events and of implementing measures to prevent a repeat of such incident. SEK has switched to reporting the capital requirement for operational risk under Pillar 1 in accordance with the standardized approach, a medium advanced method, and is consequently also deemed to meet the qualitative (management) requirements necessary for the application of this approach. This means, for example, that more extensive work is being carried out to identify, assess, manage and report operational risks. In addition, the company has worked actively on crisis and continuity planning and has conducted exercises based on these plans during the year.

7.2 RISK EXPOSURE

The company is exposed to operational risk, primarily within the sub-categories of Processes and Personnel. These principally relate to deficiencies in structure capital, human errors and a dependence on key personnel in certain functions. The majority of incidents that are reported relate to deficiencies in processes, e.g. transaction handling. The absolute sum of reported incidents 2011 was Skr 6.2 million. In recent years the company has worked methodically and extensively on maintaining a high standard of internal controls, which form a linchpin in the work to reduce exposure to operational risk. As a registered issuer with the Security Exchange Commission (SEC) in the US, the company is subject to the Sarbanes Oxley Act Section 404. This requires that the company's management must, on an annual basis, assess, and express its opinion on, the effectiveness of the company's internal controls relating to financial reporting and report its assessment to the SEC. Its statement of opinion must be based on testing of the internal controls carried out within SEK. As a result of this, extensive work is carried out each year to identify and manage risks that would result in the company not fulfilling its objective of providing reliable financial reporting. These well-established and extensive procedures, which are part of internal controls within SEK, provide an excellent basis for meeting the company's objectives to prevent operational risk.

7.3 STEERING DOCUMENTS

In order to support risk management, the company works in accordance with the framework for operational risk that has been further developed in 2011. The framework is based on the company's appetite for operational risk and risk management objectives. The risk appetite specifies the direction and boundaries for the management of risk, which is specified in the management of the business in the form of policy for operational risk, instructions, manuals and the corporate culture of the company. These steering documents describe the risk management process and define, which activities and operations are included in the process, and how they should be performed. The steering documents also state, how responsibility is structured for the execution of risk management, and for the monitoring and analysis of risk and the level of risk, as well as for the audit of this area. The policy is issued by the Board and the instructions are issued by the President.

7.4 RESPONSIBILITY

Operational risk occurs in potentially all business and support activities within SEK, which means that all functions within the company serve as part of the first line of defense in terms of the ownership of operational risks and have full responsibility for operational risks that occur within their own function. Responsi-

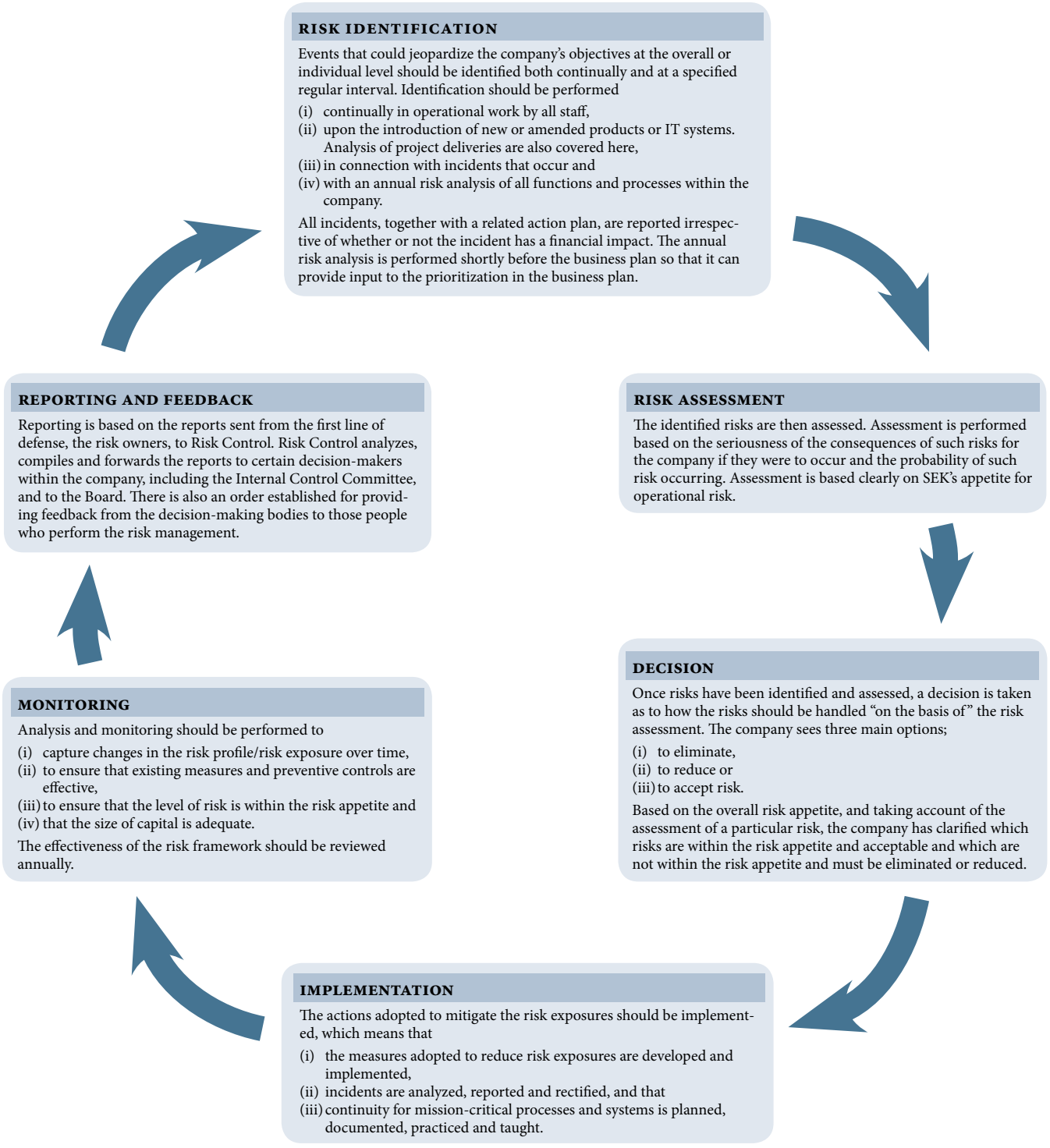
[1] SEK applies a three-point scale when assessing operational risk; low, medium, high.

bility for monitoring, analyzing and reporting operational risk lies with Risk Control, which constitutes the second line of defense. Risk Control is also responsible for ensuring that the company complies with the framework for operational risk. The Internal Control Committee, which is chaired by the President, is the company committee that is responsible for managing and monitoring operational risk.

7.5 RISK MANAGEMENT PROCESS

SEK works with operational risk in accordance with a risk management process consisting of 6 main stages, as depicted in the chart and described below.

CHART 7.2: RISK MANAGEMENT PROCESS FOR OPERATIONAL RISK



7.6 COMPLIANCE RISK AND MONEY LAUNDERING

Compliance risk is an operational risk and has been elevated to its own category for reporting purposes due to the importance of this area. The President has overall responsibility for regularly identifying compliance risks and for ensuring that business is conducted in compliance with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to SEK's financial activities. The President has assigned the compliance function to assist the organization in identifying and assessing the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that SEK may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to its financial activities. This assessment covers new legislation, internal regulations and the risk of conflicts of interest.

Money laundering risks are identified in accordance with the Act on Measures Against Money Laundering and Terrorist Financing (2009:62). Procedures for monitoring money laundering risks include the collection and review of customer information and the monitoring of transactions in accordance with a risk-based approach. All employees within relevant business units receive regular training and information regarding changes in regulations and new trends and patterns, as well as regarding methods which may be used for money laundering and terrorist financing. SEK has a process of providing information regarding suspicion of money laundering to the National Police Board.

7.7 CAPITAL REQUIREMENT FOR OPERATIONAL RISK

SEK uses the standardized approach to calculate the capital requirement for operational risk under Pillar 1.

Under the standardized approach the Institution's activities are divided into business lines according to the capital adequacy regulations. The capital requirement for each business line is calculated via a beta coefficient that can be either 12 percent, 15 percent or 18 percent depending on business line, which is multiplied by the gross income for each business line.

The gross income is calculated as the sum of the following items: interest and leasing revenues, interest and leasing expenses, dividends received, commissions earned, commissions incurred, net results of financial transactions, and other operational revenues. As of December 31, 2011, the capital requirement for operational risk totaled Skr 384 million. See table 4.3 in section 4.2 and chart 5.3 in section 5.3.2.

8. MARKET RISK

SEK's policy allows net exposure to interest rate and currency risks within predetermined limits. The figure below illustrates SEK's strategy of hedging market risks. After hedging market risk through interest rate and currency swaps there are virtually only interest rate risk with three months' duration remaining. For interest rate and currency-related risks the limits are set at very low levels. SEK's policy is to hedge all other risks.

CHART 8.1: SEK'S STRATEGY OF HEDGING MARKET RISKS

8.1 CURRENCY RISK

8.1.1 RISK MANAGEMENT AND REPORTING

SEK keeps currency risk at a low level by usually matching assets and liabilities in terms of currencies. Most of the remaining currency risk, which is limited, arises due to the difference between revenues and costs (interest margins) related to assets and liabilities in the respective currencies. Currency risks are restricted by limits set by the Board's Finance Committee. SEK has a limit for currency risk at an aggregated level, as well as sub-limits for different foreign currencies. Currency risk is monitored on a monthly basis and reported to the Asset and Liability Committee and to the Board's Finance Committee.

8.1.2 CURRENCY RISK MEASUREMENT

The risk is calculated as the change in the value of foreign currency positions resulting from a ten-percentage-point change in the exchange rate of the Swedish krona. Table 8.1 in section 8.2.2.1 describes SEK's currency risk and the internally established currency risk limit as of 31 December 2011.

8.2 INTEREST RATE RISK IN THE BANKING BOOK

8.2.1 RISK MANAGEMENT AND REPORTING

Risk neutrality for interest rate risk in debt-financed assets and debt excluding perpetual subordinated debt can only be achieved if currency, interest rate terms and the overall maturity period for the liabilities match the corresponding assets. Conditions are different for shareholders' funds, as interest rate terms cannot be matched. According to SEK's approach, risk neutrality should be based on the aim of minimizing earnings volatility and forming a link with shareholder's required return on equity. According to prevailing capital market theory, the required return on equity consists of two separate parts; the risk-free rate and a risk premium. If the required return on equity were to follow this theory, earnings should not remain unchanged if interest rates change. This means that the nominal return will vary over time, depending on the given market conditions. In addition to this theory, SEK has taken as its starting point an assessment of the average maturity in the credit portfolio and has also taken reinvestment risk into consideration. On this basis, SEK has assumed zero risk in assets funded with shareholders' funds as a maturity structure whereby 1/7[1] of the total portfolio matures every year from year 1 to year 7.

The Board's Finance Committee has overall responsibility for interest rate risk management. The Committee sets out the central policy documents for interest rate risk management, as well as the limits restricting the interest rate risk. Risk Control is responsible for control, analysis and reporting of interest rate risk. Interest rate risk in the banking book is reported regularly to the Asset and Liability Committee and the Board's Finance Committee.

8.2.2 INTEREST RATE RISK MEASUREMENT

The following describes how SEK measures and reports interest rate risk in the banking book.

8.2.2.1 Interest rate risk in debt-financed assets and debt excluding perpetual subordinated debt

Interest rate risk in debt-financed assets and debt excluding perpetual subordinated debt is measured as the highest of the risk calculated from a positive one-percentage-point parallel shift in the yield curve and the rotation risk. For each currency, the absolute value of the interest rate risk is calculated and added together to form an aggregated interest rate risk. Rotation risk is defined as the impact on SEK's earnings and/or financial position that would occur as the result of an assumed rotation of the yield curve (a linear shift of, at most, 0.5 percentage points in each direction). Perpetual subordinated debt with related hedging transactions, as well as assets in which shareholders' equity and untaxed reserves are invested, are excluded from these calculations. Table 8.1 below describes SEK's interest rate risk and limit for debt-financed assets and debt excluding perpetual subordinated debt at the end of 2011.

TABLE 8.1: SEK:S CURRENCY RISK, INTEREST RATE RISK IN BANKING BOOK AND PRICE RISK AS OF DECEMBER 31, 2011 (AND 2010)

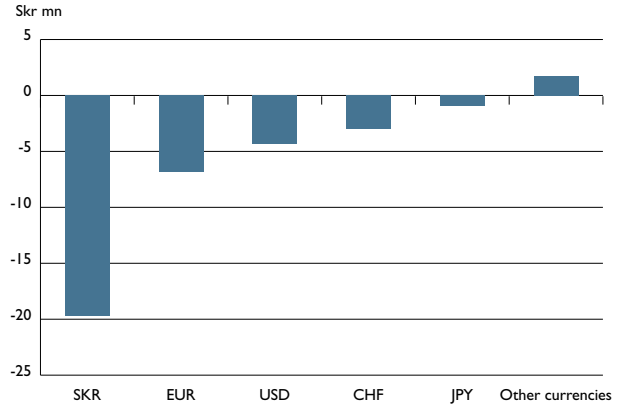
Skr mn

Currency risk	Limit 2011	Limit 2010	Risk 2011	Risk 2010
Currency risk	15	15	4	2
Interest rate risks	**Limit 2011**	**Limit 2010**	**Risk 2011**	**Risk 2010**
Interest rate risk (parallel shift +1 %)	70	70	37	47
Interest rate risk (rotation 0.5 %)	70	70	5	12
Interest rate risk in perpetual subordinated debt	–	–	280	144
Interest rate risk in assets corresponding to shareholders' funds compared with a benchmark portfolio	–	–	45	48
Interest rate risk in assets corresponding to shareholders' funds not compared with a benchmark portfolio	–	–	–490	–406
Basis risk	**Limit 2011**	**Limit 2010**	**Risk 2011**	**Risk 2010**
Basis risk	190	190	102	91
Price risk	**Limit 2011**	**Limit 2010**	**Risk 2011**	**Risk 2010**
Other price risk	2	–	0,5	–

[1] As of 2012, the new return target will be based on 1/10 instead of 1/7.

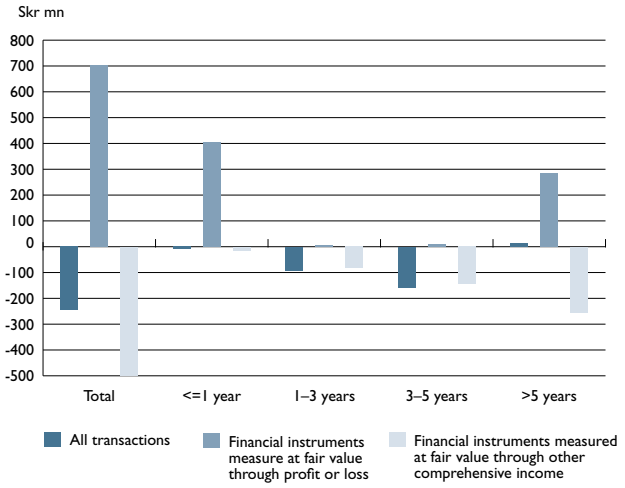
Chart 8.2 shows the calculation of interest rate risk for the five currencies that generate the greatest interest rate risk, as well as other currencies, at the end of 2011.

CHART 8.2: INTEREST RATE RISK BY CURRENCY



As of 2011 SEK measures and reports the interest rate risk effect on results of operations and other comprehensive income. The risk is also divided into time buckets subsequent to contracts' maturity structure in order to visualize, where in the time line the majority of the interest rate risk arises. For SEK this means improved transparency of how interest rate risks may potentially affect results of operations and comprehensive income. Chart 8.3 illustrates the effect of a one-percentage-point upward parallel shift in all interest rate curves as of December 31, 2011 on value of assets and liabilities, including derivatives.

CHART 8.3: INTEREST RATE RISK +100 BP BY ACCOUNTING CLASSIFICATION AS OF DECEMBER 31, 2011



The risk from financial instruments measured at fair value through profit or loss arises mainly within one year and beyond five years. This is due to the fact that SEK aims to hedge all interest rate risk in the banking book beyond one year. The risk that arises further ahead than five years derives from perpetual subordinated debt, which is not limited.

The risk from financial instruments measured at fair value through other comprehensive income is spread over a seven year time horizon and is caused by investments of shareholders' funds. The risk increases over time as the time to maturity is a contributing factor in the calculation of interest rate risk.

8.2.2.2 Interest rate risk in perpetual subordinated debt

The interest rate risk in perpetual subordinated debt is measured as the change in present value that arises from a parallel shift in the yield curve of one percentage point or a rotation of 0.5 percentage points. As of December 31, 2011, perpetual subordinated debt totaled USD 350 million (year-end 2010: Skr 350 million), equivalent to Skr 2,423 million (year-end 2010: Skr 2,381 million). The interest rate risk was hedged with interest rate swaps with maturities between 2019 and 2034. The maturity for perpetual subordinated debt has been approximated to 30 years and hedging has been carried out in order to match this maturity. SEK therefore measures an approximated interest rate risk related to perpetual subordinated debt. Table 8.1 in section 8.2.2.1 describes SEK's interest rate risk in perpetual subordinated debt at the end of 2011. There is no specific limit for this risk.

8.2.2.3 Interest rate risk in assets corresponding to shareholders' funds

In order to ensure a long-term stable return on equity, SEK's policy is to invest shareholders' funds in securities with medium-term maturities. At year-end 2011, the volume of securities held for this purpose amounted to approximately Skr 14.7 billion, with an average outstanding maturity of 3.0 years (year-end 2010: Skr 13.6 billion with an average outstanding maturity of 3.4 years). The interest rate risk in assets corresponding to shareholders' funds is calculated as a change in present value from a one-percentage-point parallel upward shift in yield curves compared with a benchmark portfolio according to the zero-risk definition. Table 8.1 in section 8.2.2.1 describes SEK's interest rate risk in assets corresponding to shareholders' funds (both with and without comparison to the benchmark portfolio) at the end of 2011.

8.2.2.4 Basis risk

The differences in the interest rate basis for different currencies lead to a risk in the case of surpluses or deficits in borrowings in relation to loans in individual currencies over a specific period. The basis risk is calculated (with the exception of surpluses in Skr, USD and EUR) as the change in present value due to changes in interest rate bases by a certain number of basis points (according to a standard method). Surpluses in Skr, USD and EUR are excluded from the calculation of basis risk since the majority of SEK's lending is made in these currencies. Surpluses in these currencies may be transferred into a new type of lending with relative immediacy, if required. SEK separately measures basis risk related to interest rate future contracts, and as of 2012 this risk is also measured for forward rate agreements. This is a step in the continuous process of developing SEK's market risk management. Table 8.1 in section 8.2.2.1 describes SEK's basis risk and basis risk limit at the end of 2011.

8.2.3 INTEREST RATE RISK REPORTING TO THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY

SEK regularly reports interest rate risk in the banking book to the Swedish Financial Supervisory Authority in accordance with regulation FFFS 2007:4. The calculations include all of SEK's exposures in the banking book that contain interest rate conditions. The total interest rate risk is calculated by arriving at the net sum interest rate risk of the ten most significant currencies, together with the interest rate risk for other currencies, where the latter are treated as a single item. If there is a possible change in value exceeding 20 percent of SEK's capital base in either direction as a result of an interest rate change of two percentage points, a report must be submitted to the Swedish Financial Supervisory Authority. Given a positive parallel shift in all yield curves of 200 basis points, as of December 31, 2011, the sensitivity was Skr –547 million (year-end 2010: Skr –635 million), which corresponds to 3.6 percent of SEK's capital base (year-end 2010: 4.4 percent). Given a negative parallel shift of 200 basis points the sensitivity was Skr +169 million (year-end 2010: +446 million), which corresponds to 1.1 percent of SEK's capital base (year-end 2010: 3.1 percent). The strong convexity of this result arises from a combination of prevailing market conditions with low market interest rates and

the fact that SEK's perpetual subordinated debt is hedged with contracts, whose time to maturity is limited.

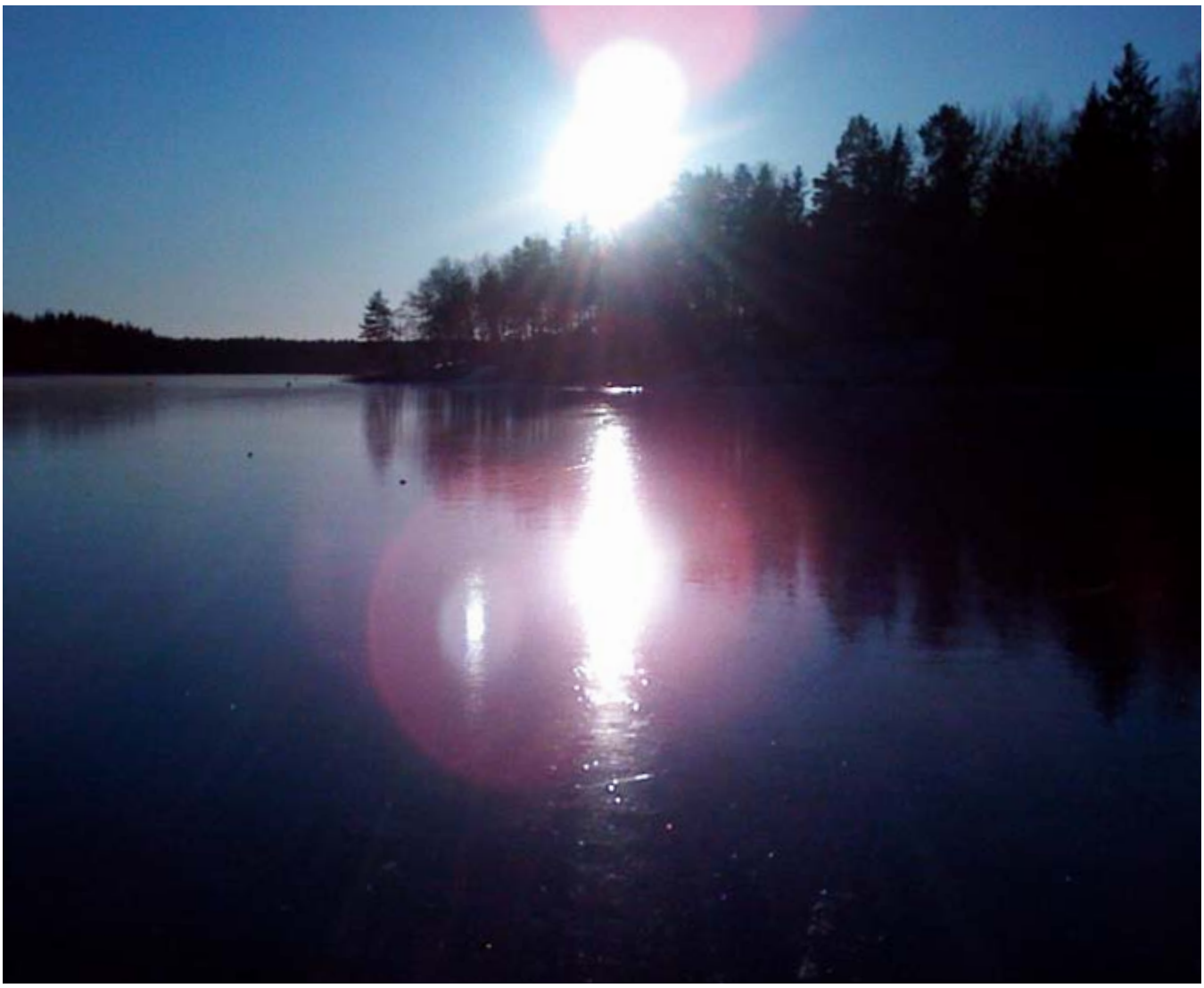
8.3 OTHER PRICE RISK

Where SEK is responsible for the secondary market of self-distributed bonds, the individual repurchases may be too small to be hedged due to practical reasons. SEK's policy is that such repurchases should be hedged as soon as market practice allows. This risk is undesirable, but it is a consequence of the maintenance of a liquid secondary market. As of 2011 the risk of repurchased self-distributed bonds is limited and regularly reported together with other market risks. SEK has adopted a conservative approach regarding the risk of these products and defines market risk as the aggregate nominal value of the given repurchases. Table 8.1 in section 8.2.2.1 describes SEK's 'Other price risk' and the risk limit at the end of 2011.

8.4 CAPITAL REQUIREMENT FOR MARKET RISK

SEK has only limited market risks under Pillar 1 in the form of currency risks. As of December 31, 2011 SEK's total net position in foreign currency did not exceed two percent of the group's capital base, and SEK consequently did not have any capital requirement for currency risk. As of the end of 2011, SEK was not exposed to any commodity risk. SEK had no trading book as of December 31, 2011. There was consequently no capital requirement for market risks under Pillar 1 during 2011.

Capital requirements for interest rate risk under Pillar 2 are measured by the change in value arising from a parallel 100 basis point shift of all yield curves for all the company's interest rate-sensitive positions. All risks in a foreign currency are translated to Swedish krona in accordance with the current spot rate. As of December 31, 2011, this capital requirement amounted to Skr 246 million (year-end 2010: 251 million).



9. LIQUIDITY AND FUNDING RISK

SEK applies a conservative policy concerning liquidity and funding risks, in order to avoid refinancing risk. This policy means that all credit commitments – outstanding credits as well as agreed but undisbursed credits – shall be funded throughout maturity. This means that SEK does not have to raise new borrowings, if market conditions are deemed to be disadvantageous.

9.1 RESPONSIBILITY AND REPORTING

SEK's Board of Directors has overall responsibility for liquidity risk management and also establishes policies for liquidity risk management. Operational responsibility for liquidity risk management lies with SEK's Treasury function. Short-term liquidity is monitored and managed on a daily basis, while long-term liquidity planning is monitored on a monthly basis and reported to account managers, Risk Control, the Asset and Liability Committee, the Executive Committee, the Finance Committee and the Board of Directors. Funding managers ensure that funding always exceeds credit commitments – outstanding credits as well as agreed but undisbursed credits – through maturity. Responsibility for ensuring that short-term and long-term liquidity risk limits are adhered to lies with the Asset and Liability Committee, while Risk Control is responsible for the control, analysis and reporting of liquidity risks.

9.2 LIQUIDITY AND FUNDING RISK MANAGEMENT

SEK's liquidity and funding risk is measured on the basis of different forecasts regarding the development of available funds in comparison with credit commitments. Available funds are defined as shareholders' funds, borrowing in the financial markets, and a credit facility with the Swedish National Debt Office. Credit commitments are defined as outstanding credits and agreed but undisbursed credits. See also chart 9.3 "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.
- All credit commitments – outstanding credits as well as agreed but undisbursed credits – must be fully financed throughout maturity, 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.

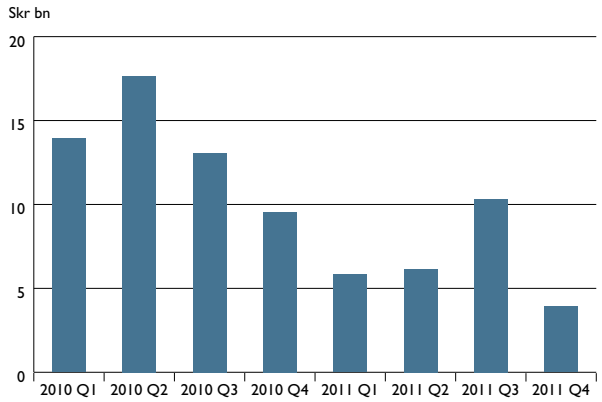
SEK also publishes periodical information on the liquidity situation of the company in order to be as transparent as possible with its investors and to retain their trust at all times.

9.2.1 LIQUIDITY RISK FROM A SHORT-TERM PERSPECTIVE

Short-term liquidity risk is managed by a combination of a large volume of liquid assets[1], strict rules for funding needs and back-up facilities. In 2009, the government granted SEK a credit facility of Skr 100 billion through the Swedish National Debt Office. This facility was extended, first in December 2010 and then also in December 2011, and is now valid through December 31, 2012. 80 percent of this facility is allocated to the S-system.[2]

In day-to-day management, deficits must be avoided. This is regulated with the help of established limits and liquidity forecasts, by currency, for the following 8 days. As mentioned, SEK also has back-up facilities that serve as a buffer in the event of possible deficits. In addition, during turbulent times a larger portion of liquid funds are invested via so-called O/N investments (deposits) to further ensure access to liquid funds.

CHART 9.1: AVERAGE SURPLUS INVESTED IN O/N DURING 2010 AND 2011



Cash flows are forecast, reported and monitored carefully so that possible deficits can be avoided, firstly through new funding, and ultimately through the sale of liquid assets. SEK also performs stress tests of cash flows for different exceptional, but plausible, scenarios. Chart 9.2 shows the development of accumulated cash flows for two scenarios, one in which the market is stressed (i) and one which represents a company-specific stress scenario (ii). General assumptions for these scenarios include, but are not limited to, the following: SEK meets all of its previously agreed credit commitments. SEK also continues to grant new credits in accordance with the business plan. Account is also taken of the fact that SEK's liquidity reserve can be quickly converted into liquid funds. In addition to these general assumptions, the scenarios also include some scenario specific assumptions, which include, but are not limited to, for:

i. Market stress: not all funding that matures can be refinanced and cash needs to be paid out under collateral agreements.
ii. Company-specific stress: only a small fraction of all funding that matures can be refinanced.

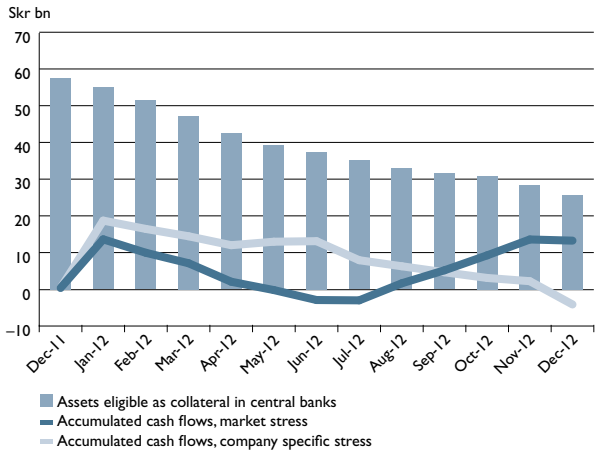
[1] A fundamental concept in SEK's liquidity and funding risk management is that the liquidity placements will be held to maturity. Instead of selling assets as funds are needed, the very short maturity profile of the liquidity placements is matched against funds expected to be paid out. See section 9.2.3.

[2] The State-supported system ("S-system"). SEK administers, for compensation, the Swedish State's export credit support system, and the State's related aid credit program (together the "S-system"). For more information see SEK's Annual Report.

In addition to what is mentioned above for the two scenarios, SEK holds a significant amount of assets that are eligible to be held as collateral at central banks. These have not been utilized in the stressed scenarios. Instead, they serve as an additional reserve in case market conditions should become even more disadvantageous. This extra reserve would be used to off-set the potential small deficit in accumulated cash flows under the two scenarios in the chart below. See section 9.6 "Stress testing" for more information on these tests.

As a complement to the stressed scenarios, the probability distribution of future cash flows is analyzed. This enables the company to assess the size and likelihood of extreme cash flows. This Value-at-Risk-based approach enables analysis of the sensitivity of the cash flows as well as of the risk factors that drive the refinancing risk.

CHART 9.2: STRESS TESTS AND CASH FLOWS IN MARKET AND COMPANY SPECIFIC STRESS SCENARIOS



SEK analyzes the effect on the requirement for regulation of net exposures, when the credit rating of the company is stressed. The largest amount that could be claimed from SEK in the event of a downgrade of SEK's rating from 'AA+' to 'A+' was Skr 0.6 (1.2) billion at December 31, 2011.

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) and a European Commercial Paper program (ECP), with the latter of these allowing borrowing in multiple currencies. Table 9.1 illustrates these funding sources. The total volume of short-term funding programs was USD 7.0 billion, of which USD 0.0 (0.0) billion had been utilized as of December 31, 2011. SEK also has swing lines that function as back up-facilities for the commercial paper programs.

TABLE 9.1: SHORT-TERM FUNDING PROGRAMS

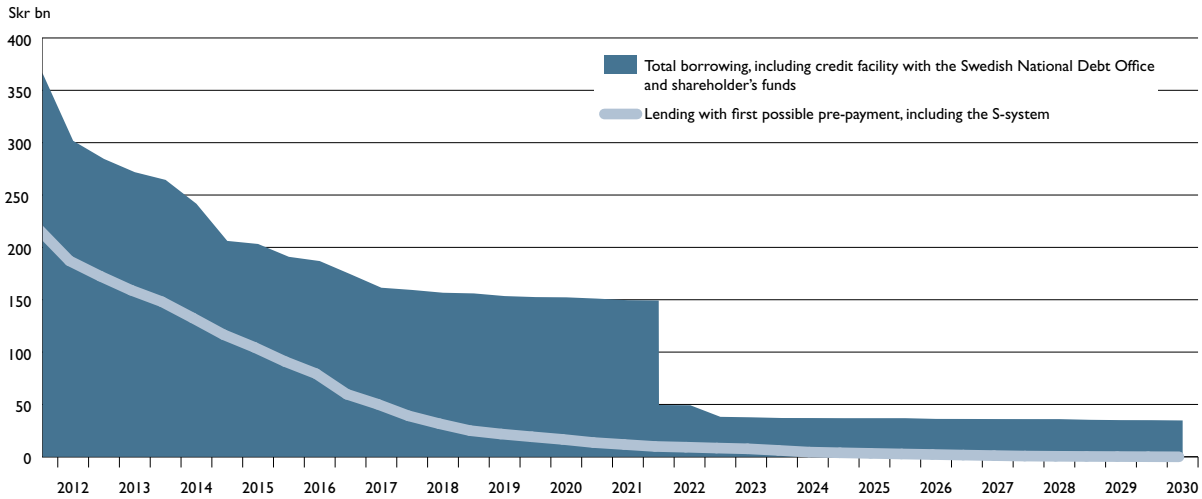
Program type	UCP	ECP
Currency	USD	Multiple currencies
Number of dealers	4	4
"Dealer of the day facility"	No	Yes
Program size	USD 3,000 mn	USD 4,000 mn
Usage as of Dec. 31, 2011	USD 0 mn	USD 0 mn
Maturity	Maximum 270 days	Maximum 364 days

9.2.2 LIQUIDITY RISK FROM A LONG-TERM PERSPECTIVE

All SEK's credit commitments – outstanding credits as well as agreed but undisbursed credits – are financed through maturity. Consequently, additional funding is not required to manage commitments with regard to existing credits. This policy is monitored through the reporting of maturity profiles for lending and borrowing in accordance with chart 9.3.

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 9.3 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.

CHART 9.3: DEVELOPMENT OVER TIME OF SEK'S AVAILABLE FUNDS AS OF DECEMBER 31, 2011



9.2.3 LIQUIDITY PLACEMENTS AND THEIR COMPOSITION

SEK's liquidity and funding risk management is based in part on the fundamental concept of liquidity placements and the assessment that these assets 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. It could be said that these liquidity placements consist of all assets that are not credits. However, this is too general a definition. SEK's need and strategy for short-term placements, known as liquidity placements, is an integral and important part of the company's business model. Liquidity placements serve an important purpose by ensuring lending capacity at times of market stress, or if market conditions are deemed disadvantageous, and are necessary to meet SEK's policy on liquidity and funding risk.

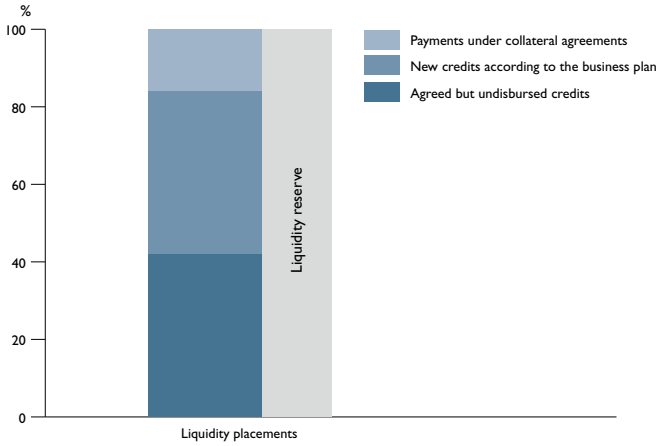
The size of the liquidity placements is determined based on the size of different building blocks. As a result of the business model used by SEK, which entails dependence on the capital markets, funds reserved for agreed but undisbursed credits are invested

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 ensures that the company maintains readiness to be able to grant new credits, in accordance with the business plan for an extended period of time without having to raise new funds if market conditions are deemed disadvantageous. In addition to the above, a proportion of the liquidity placements also serves as a buffer for potential payments under collateral agreements. Chart 9.4 illustrates the size and composition of the liquidity placements.

9.2.4 DETAILS ON LIQUIDITY PLACEMENTS

To meet the financing requirements for long-term lending, liquid assets surpluses need to be invested in assets with good credit quality. It is the company's assessment that the liquidity placements will be held to maturity. As of December 31, 2011, the size of SEK's liquidity placements was Skr 84.9 billion (116.6). The decrease in volume of SEK's liquidity placements emanates primarily from a lower volume of undisbursed credit commitments; see section 9.2.3 for an explanation on the composition of the liquidity placements. The decrease in volume is also a result of, and in line with, a strategic decision to bring the volume down by not refinance all maturing debt. Hence, reducing the expected timeframe the company can continue to grant new loans to the usual extent, even if the funding markets are completely closed. The charts below provide a breakdown of SEK's liquidity placements by exposure type, maturity, rating and country as of December 31, 2011. The remaining maturity in the liquidity placements decreased further in 2011. Furthermore, credit quality declined in 2011 owing mainly to the build-up of the liquidity placements, see chart 9.5, which mainly consists of financials that in general have had their credit ratings downgraded during 2011. Finally, the composition of SEK's liquidity reserve is presented in table 9.4.

CHART 9.4: SIZE AND COMPOSITION OF LIQUIDITY PLACEMENTS



The liquidity reserve is a part of SEK's liquidity placements. SEK's liquidity reserve comprises high-liquid assets in accordance with the Basel Committee's definition (see the definition of Level 1 and Level 2 assets in the Basel Committee publication "Basel III: International framework for liquidity risk measurement, standards and monitoring", December 2010). In addition, overnight deposits in banks and assets that are assumed to be eligible in the Riksbank (the central bank of Sweden) and/or confirmed to be eligible in the ECB, are also included in SEK's liquidity reserve. See table 9.4 in section 9.2.4. Assets that are assumed to be eligible in the Riksbank are not explicitly listed by the Riksbank but meet their criteria for central bank eligible assets.

CHART 9.5: SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2011, AND DECEMBER 31, 2010, BY EXPOSURE TYPE

Total amount of SEK's liquidity placements: Skr 84.9 billion, as of December 31, 2011.

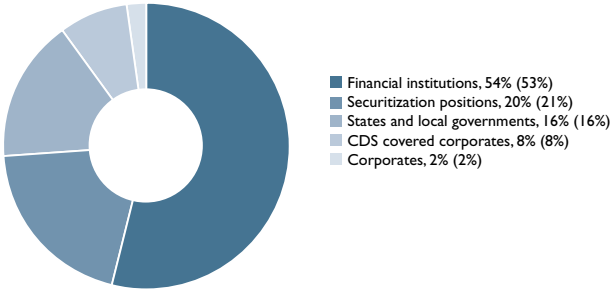


CHART 9.6: REMAINING MATURITY IN SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2011 AND DECEMBER 31, 2010

Total amount of SEK's liquidity placements: Skr 84.9 billion, as of December 31, 2011.

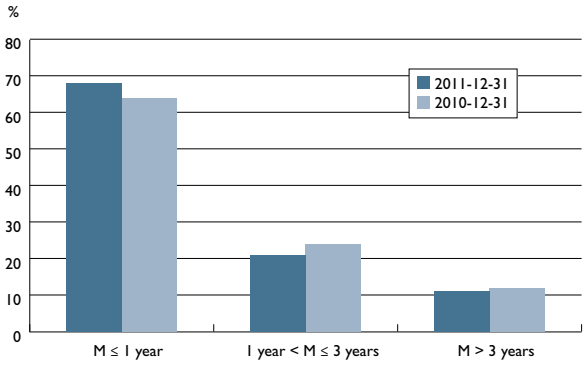


CHART 9.7: SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2011 AND DECEMBER 31, 2010, BY RATING

Total amount of SEK's liquidity placements: Skr 84.9 billion, as of December 31, 2011.

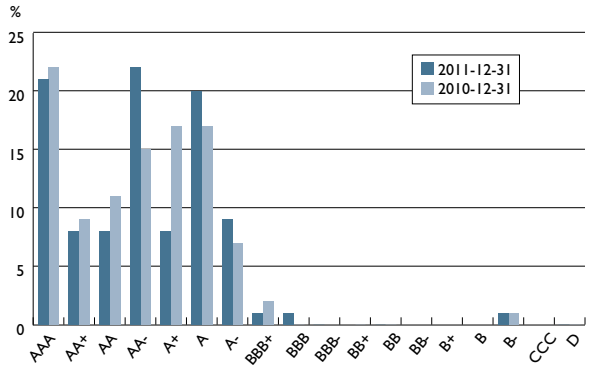


TABLE 9.2: LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2011 BY COUNTRY AND EXPOSURE TYPE

Net Exposures

Skr bn Country	Financial institutions	Securitization positions	Regional/Local Government	CDS covered corporates	States	Corporates	Total[1]
Sweden	9.5	–	7.8	1.7	2.0	1.5	22.4
Australia	4.4	3.6	–	–	–	–	8.0
United Kingdom	2.3	3.3	–	2.0	–	–	7.6
Netherlands	5.0	0.8	–	–	–	–	5.9
Germany	2.9	0.2	2.4	–	–	–	5.5
Denmark	3.3	–	1.0	0.1	–	–	4.5
France	2.7	0.0	–	1.2	–	–	3.9
Canada	3.8	–	–	–	–	–	3.8
Norway	3.6	–	–	–	–	–	3.6
United States	0.1	2.9	–	0.4	–	–	3.4
Ireland	0.3	2.4	–	–	–	–	2.7
Finland	2.2	–	–	–	–	0.2	2.4
Switzerland	1.7	–	–	0.6	–	–	2.3
Belgium	0.9	0.8	–	–	–	–	1.7
Spain	0.4	1.3	–	–	–	–	1.7
Austria	0.5	–	–	–	–	–	0.5
Portugal	–	0.4	–	–	–	–	0.4
Japan	0.0	–	–	–	–	0.2	0.2
Latvia (Republic of)	–	–	–	–	0.0	–	0.0
Total	**43.6**	**15.6**	**11.1**	**6.1**	**2.0**	**1.8**	**80.3**

[1] Total amounts in this table exclude collateral deposited.

TABLE 9.3: LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2011 BY COUNTRY AND RATING

Net Exposures
Skr bn

Country	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB	CCC	Total[1]
Sweden	2.8	4.8	0.6	7.2	0.3	4.6	1.9	0.2	–	–	–	–	22.4
Australia	3.6	–	–	4.4	–	–	–	–	–	–	–	–	8.0
United Kingdom	3.0	–	0.3	0.6	1.0	2.7	–	–	–	–	–	–	7.6
Netherlands	0.8	–	1.9	–	–	3.1	–	0.1	–	–	–	–	5.9
Germany	1.2	0.9	0.5	–	0.6	2.0	0.3	–	–	–	–	–	5.5
Denmark	1.0	–	–	–	–	0.9	2.5	–	–	–	–	–	4.5
France	0.0	–	–	0.7	1.8	1.3	–	–	–	–	–	–	3.9
Canada	–	–	2.8	0.6	0.4	–	–	–	–	–	–	–	3.8
Norway	–	–	–	1.1	–	0.8	1.8	–	–	–	–	–	3.6
United States	2.1	0.7	–	–	0.1	0.1	–	0.2	0.1	–	–	0.2	3.4
Ireland	1.5	–	–	0.0	–	–	–	0.6	0.4	0.1	–	–	2.7
Finland	–	–	0.1	2.2	–	–	–	–	–	–	0.1	–	2.4
Switzerland	–	–	–	–	2.3	–	–	–	–	–	–	–	2.3
Belgium	0.8	–	–	0.1	–	–	0.8	–	–	–	–	–	1.7
Spain	0.5	0.0	0.0	0.9	0.0	0.0	–	–	–	–	0.2	–	1.7
Austria	–	–	–	–	–	0.5	–	–	–	–	–	–	0.5
Portugal	–	–	–	–	–	0.2	–	–	–	0.2	–	–	0.4
Japan	–	–	–	–	–	0.2	–	0.0	–	–	–	–	0.2
Latvia (Republic of)	–	–	–	–	–	–	–	–	–	0.0	–	–	0.0
Total	**17.2**	**6.4**	**6.1**	**17.9**	**6.6**	**16.3**	**7.3**	**1.1**	**0.5**	**0.4**	**0.3**	**0.2**	**80.3**

[1] Total amounts in this table exclude collateral deposited.

TABLE 9.4: LIQUIDITY RESERVE[1] AS OF DECEMBER 31, 2011

Exposures			of which		
Skr mn	Total	SKR	EUR	USD	Other
Cash and holdings in banks available overnight	3,517,834	1,550,000	1,967,834	–	–
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,990,000	1,990,000	–	–	–
Securities issued or guaranteed by municipalities or other public entities	5,381,661	4,617,600	764,061	–	–
Covered bonds issued by other institutions	3,019,800	3,019,800	–	–	–
Securities issued by non-financial corporates	62,400	62,400	–	–	–
Total Liquidity Reserve	**13,971,695**	**11,239,800**	**2,731,895**	**–**	**–**

[1] The liquidity reserve is a part of SEK's liquidity placements

9.3 DIVERSIFICATION

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 geographic markets. To manage and ensure market access at all times, SEK seeks to establish and maintain relationships with its investors. Chart 9.8, 9.9, 9.10 and table 9.5 illustrate some of the aspects of the diversification of SEK's funding.

CHART 9.8: LONG-TERM MARKET FUNDING AS OF DECEMBER 31, 2011 (AND 2010) BY CURRENCY

Net total long-term funding amount when swaps are taken into account: Skr 250.6 billion as of December 31, 2011.

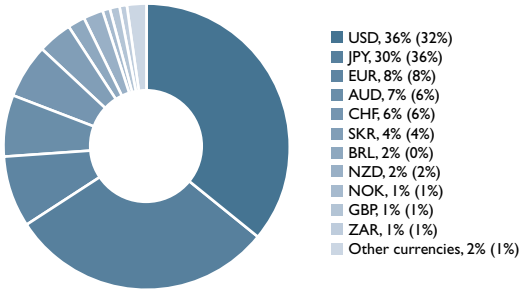


CHART 9.9: LONG-TERM MARKET FUNDING AS OF DECEMBER 31, 2011 (AND 2010) BY STRUCTURE TYPE

Net total long-term funding amount, when swaps are taken into account: Skr 250.6 billion as of December 31, 2011.

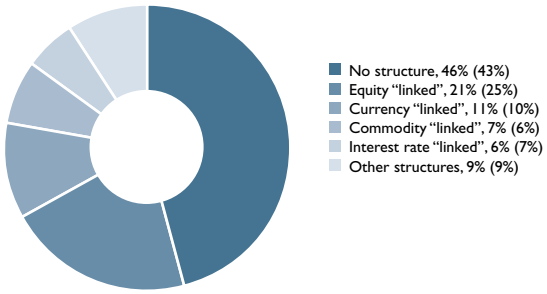


CHART 9.10: LONG-TERM MARKET FUNDING IN 2011 (AND 2010) BY MARKET

Total long-term funding amount in 2011: Skr 47.7 billion.

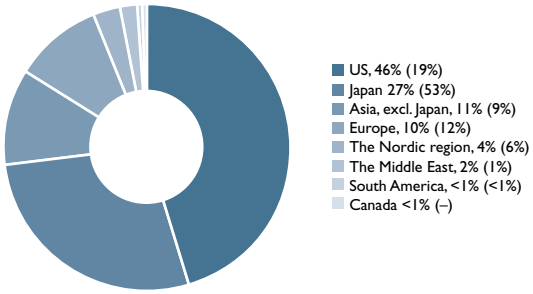


TABLE 9.5: NET LONG-TERM MARKET FUNDING AMOUNT, AS OF DECEMBER 31, 2011, BY COUNTRY AND STRUCTURE TYPE

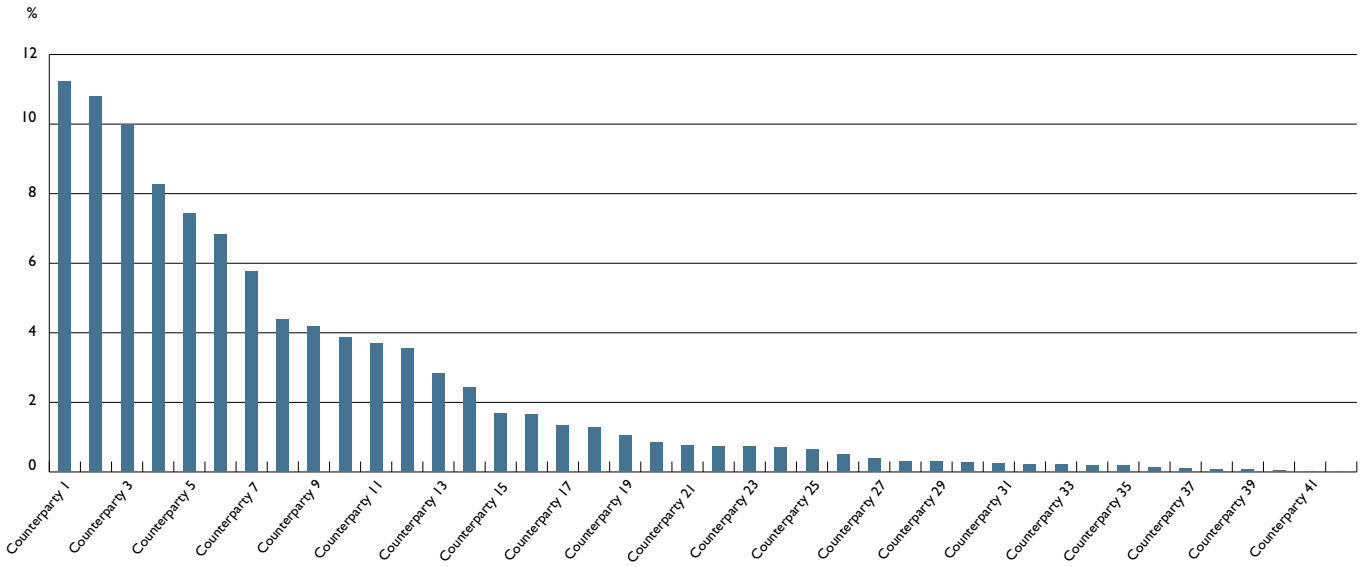
Net total long-term funding amount when swaps are taken into account: Skr 250.6 billion as of December 31, 2011.

Skr bn Market	No structure	Equity "linked"	Currency "linked"	PRDC	Commodity "linked"	Interest rate "linked"	Credit "linked"	Fund "linked"	Total
Japan	19.8	36.8	25.0	20.3	2.0	3.2	0.1	0.1	107.3
Europe	46.1	1.5	0.5	–	0.4	2.8	0.1	0.3	51.7
US	28.1	8.4	0.0	–	14.1	–	–	0.0	50.6
Asia, excl. Japan	12.3	0.0	1.0	–	0.1	8.7	0.9	0.1	23.1
The Nordic region	4.1	5.9	1.2	–	0.3	1.5	0.3	0.2	13.5
Canada	1.8	0.0	–	–	–	–	–	–	1.8
Middle East	2.2	–	–	–	–	–	–	0.3	2.5
South America	–	0.1	–	–	0.0	–	–	–	0.1
Total	**114.4**	**52.7**	**27.7**	**20.3**	**16.9**	**16.2**	**1.4**	**1.0**	**250.6**

As mentioned in section 9.2.2 "Liquidity risk from a long-term perspective", some of SEK's structured long-term borrowing includes early-redemption clauses that will be triggered if certain market conditions are met. For the long-term market funding, 33 percent (39 percent) of the outstanding volume includes such early-redemption clauses as of December 31, 2011.

Structured bonds often create exposures to underlying market risks, mostly to an equity index or to a foreign-exchange rate. By using derivatives, SEK converts these flows to purely interest-based flows, which is why the net market risk is only interest rate risk. Since SEK has a large number of swap counterparties, the impact of individual default risk is reduced. Chart 9.11 shows the percentage of SEK's total long-term funding that has been converted in this manner by swap counterparty.

CHART 9.11: LONG-TERM FUNDING BY SWAP COUNTERPARTY



9.4 SEK AND THE NEW LIQUIDITY REGULATIONS UNDER BASEL III

During 2011, SEK continued preparing for future regulations in the field of liquidity. The focus has mainly been on studying the effects and preparing for the two new quantitative measures proposed by the Basel Committee on Banking Supervision, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

9.4.1 LIQUIDITY COVERAGE RATIO

In accordance with the new liquidity risk reporting framework in Sweden, the short 30-day quantitative liquidity risk measure LCR is already being reported to the regulatory authority. In addition, the regulatory authority in Sweden has declared its intention to make LCR binding as of January 2013, two years ahead of the timetable proposed by the Basel Committee.

As of December 2011, SEK does not report an LCR ratio above the, according to the regulations, proposed level of 100 percent. Instead, the ratio SEK reported was 99 percent. The reason why SEK does not currently meet the ratio is explained below. SEK's liquidity strategy states that at times when the financial markets are considered turbulent, a larger portion of liquid funds is invested via O/N investments (depos), see also section 9.2.1 "Liquidity risk from a short-term perspective". By doing so, the company assures itself that it has access to a large amount of funds the following day. In LCR, this strategy is not considered robust enough. If all inflows and outflows are matched, the company still has to hold highly liquid assets of at least 25 percent of the outflows predicted by the model. This is the result of capping inflows at 75 percent of outflows. Thus, even though the company may have a predicted positive net cash flow in the stressed scenario represented by the model, the company cannot utilize more than 75 percent of the outflows as inflows. Instead, it has to buy highly liquid, low-yielding assets that can be sold or used as collateral to generate liquid funds. SEK has made the decision to stay with its present liquidity strategy, which was tested and proved to work in the 2008 financial crisis, even though this means reporting a lower LCR. However, since SEK holds a large amount of liquid funds in the O/N, the outcome of the ratio can be adjusted to meet the required level of 100 percent in literally a matter of hours. Should the regulatory authority come to another conclusion regarding SEK's current liquidity strategy, the company will listen to its opinion and adjust the level of the ratio before the end of 2012. Furthermore, once the ratio becomes binding, SEK will increase the amount invested in these highly liquid assets, thus increasing the ratio to above the required 100 percent.

9.4.2 NET STABLE FUNDING RATIO

As described in section 9.2.2 "Liquidity risk from a long-term perspective", SEK has a zero tolerance approach to refinancing risk. All SEK's credit commitments – outstanding credits as well as agreed but undisbursed credits – are financed through maturity. As a result, the company does not have to change its present funding structure in order to adjust to the long-term, structural, quantitative liquidity risk measure NSFR. Instead, this new measure confirms the conservative strategy that SEK has used for a long time. This means that SEK is already able to report a ratio above the required level of 100 percent for NSFR. The ratio for December 2011 was 108 percent. However, it is important to point out that there is still some uncertainty about when this ratio will be binding, as well as about what the final version of the ratio will look like. SEK will continue to follow developments and evaluate any changes and their consequences for SEK's current business model.

9.5 STRESS TESTING

SEK conducts stress tests on a regular basis. The aim of liquidity stress testing within SEK is to improve readiness to face potential disruptive events and to identify possible vulnerabilities in liquidity management, as well as to ensure that appropriate mitigating actions are in place to avoid liquidity shortfalls. The tests estimate liquidity risk in various scenarios, including a company-specific scenario, a market-wide stress scenario and a combination of the two. The stress testing covers a time horizon of up to one year.

The results of these stress tests are discussed thoroughly by management, primarily by the Asset and Liability Committee and the Board's Finance Committee. SEK analyses the effect of different scenarios on its liquidity and on its access to central bank facilities. The results of the stress tests play a key role in shaping SEK's contingency planning. As a result, stress testing and contingency planning are closely integrated. The results of the 2011 stress tests show that SEK has, in line with SEK's liquidity and funding policy, a cash surplus to ensure readiness to be able to make payments in the form of agreed but undisbursed credits and payments under collateral agreements. The results also show that SEK has appropriate resources to meet the liquidity needs from granting new credits in accordance with the established business plan for the coming year. See also section 9.2.1 "Liquidity risk from a short-term perspective," for information on the outcome of stress tests performed as of December 31, 2011.

9.6 CONTINGENCY FUNDING PLANS

SEK has established a contingency funding plan for the management of liquidity crises. The plan describes what constitutes a liquidity crisis according to SEK and what measures SEK intends to take if such a crisis is deemed to have occurred. The plan also describes the roles and responsibilities during a liquidity crisis, including the authority to invoke the plan. It contains an escalation procedure, i.e., a description of when the plan should be activated and how the different actions should be prioritized in a liquidity crisis. Furthermore, an internal and external communication plan is included in SEK's contingency funding plan. As mentioned in section 9.5 "Stress testing" the contingency funding plan design and procedures are closely integrated with the results of the scenarios and assumptions used in stress tests.

9.7 CAPITAL REQUIREMENTS FOR LIQUIDITY RISK UNDER PILLAR 2

SEK does not allocate capital for liquidity risk. SEK regards liquidity risk as being, primarily, a contingent risk, since it is typically caused by credit losses or other problems in its own business in a general economic downturn or in a financial crisis. Although liquidity risk may arise due to the aforementioned reasons, SEK believes that the emergence and impact of a liquidity crisis is alleviated or discouraged if the exposure is limited and the company has a good contingency plan as well as professional risk management. SEK therefore focuses primarily on conservative and professional liquidity risk management.

10. REPUTATIONAL RISK

SEK is strongly averse to reputational risk and focuses on managing this risk in a proactive and professional manner.

10.1 MANAGEMENT OF REPUTATIONAL RISK

The company's communications plan forms the steering document that describes the principles that apply for both long-term and short-term management of reputational risk. The company's communications plan aims to ensure *proactive* management of communications challenges. The communications plan includes a (long-term) communication strategy, an activity plan and specific advice and guidance with regard to (short-term) media management.

The method used to assess the level of risk in the company is primarily based on experience and knowledge of how the media and other information channels operate and which areas are of greatest interest to them and which have a higher reputational risk.

10.2 CAPITAL REQUIREMENT FOR REPUTATIONAL RISK UNDER PILLAR 2

SEK assesses that capital does not provide adequate protection against reputational risk to the company. SEK therefore focuses on proactive and professional management of reputational risks.

11. BUSINESS AND STRATEGIC RISK

SEK 's focus on lending to Swedish exporters and their customers exposes the company in various ways to business cycle fluctuations to a greater extent than before. This has implications for both strategic and business risk. Demand for long-term financing from SEK is expected to remain counter-cyclical, implying that, in relative terms, the company will play a greater role at times when exporters' access to alternative financing is low.

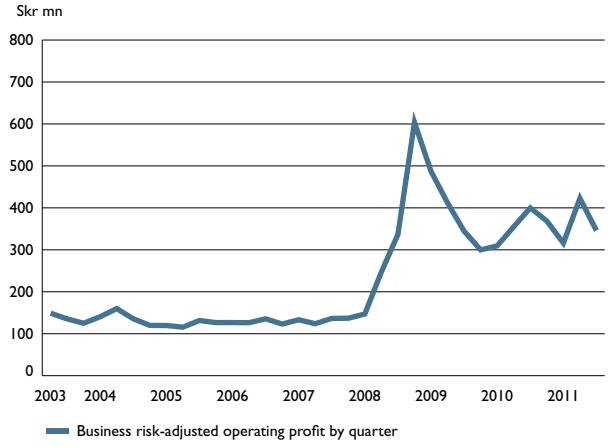
11.1 BUSINESS RISK

11.1.1 MEASURING BUSINESS RISK

The company defines business risk as the risk of an unexpected decline in revenues as a result of a reduction in volumes, pressure on margins or owing to competition in general. Business risk is measured based on the volatility in an adjusted operating profit that includes revenues and costs not directly attributable to (i) other types of risk or (ii) changes in value that relate to the type of transactions included in financial hedging or to repurchase own debt. The relationship between business risk and SEK's other risks comes into play, when deciding on the contribution of business risk to SEK's total capital requirement under Pillar 2.

The chart below provides an illustration of business risk by showing historical business risk-adjusted operating profit by quarter.

CHART 11.1: ILLUSTRATION OF BUSINESS RISK



The chart shows significantly higher volatility since 2008. The main reason for this increased volatility is the increased turbulence in the financial market, which has led to a significant change in margins. The higher level of earnings in recent years is partly due to SEK's conservative business model, which is based on being able to function counter to the economic cycle. This means that SEK should be able to generate better results during worse times, both relative to other financial institutions and to previous earnings (including any loan losses). The increase in earnings is in part also due to SEK receiving a capital contribution at the end of 2008, which essentially doubled the company's equity.

A consequence of SEK's conservative business model is that earnings tend to increase in stressed situations when the financial sector's lending capacity generally falls. It is also in these situations that it is considered most likely that SEK will suffer substantial loan losses. The negative earnings effect of increased loan losses thus tends to be compensated by increased earnings, which has also been demonstrated by empirical data. In addition to this correlation, there are two other factors that significantly reduce business risk:

- SEK has a low cost/income ratio, which means that SEK's earnings are less affected by relative decreases in revenue.
- SEK's positive availability results in SEK not having any refinancing risk. This means that the net margins of existing transactions are locked in and, therefore, that a large proportion of forecast net interest income for the coming year is locked in.

11.1.2 CAPITAL REQUIREMENT FOR BUSINESS RISK UNDER PILLAR 2

For the reasons described in section 11.1.1, business risk is deemed not to result in additional capital requirements under Pillar 2.

11.2 STRATEGIC RISK

11.2.1 MEASURING STRATEGIC RISK

The company defines strategic risk as the risk of reduced revenues as a result of misguided business decisions, incorrect implementation of decisions, or an inability to react adequately to changes in regulatory systems and the business environment. There are, therefore, two dimensions of strategic risk – the risk that the company may adopt the wrong strategy, and the risk that the company may be unable to adapt sufficiently to a situation.

SEK's business environment analysis focuses on factors that may have some future impact on the company and its business. Using information generated by its business environment analysis, SEK is able to have a greater influence over its own development and guide the business towards the targets set by the Board of Directors and the company's management. The business environment analysis is complemented by a situation analysis, which examines the current situation and focuses on SEK's own operations. The combined assessment is summarized in a "SWOT" analysis. SEK also conducts an extensive risk analysis that comprises strategic risk as well as business, reputation and operational risk.

11.2.2 CAPITAL REQUIREMENT FOR STRATEGIC RISK UNDER PILLAR 2

SEK assesses that capital does not constitute adequate protection against the company's strategic risk, and the company instead focuses on the active management of risk.

11.3 SEK'S OPERATING ENVIRONMENT

SEK's focus on lending to Swedish exporters and their customers exposes the company in various ways to business cycle fluctua-

tions to a greater extent than before. This has implications for both strategic and business risk. Demand for long-term financing from SEK is expected to remain counter-cyclical, implying that, in relative terms, the company will play a greater role at times when exporters' access to alternative financing is low.
The more stricter regulatory environment will affect business models and pricing and profitability in the financial sector. Profitability in the banking system will probably decline, not only because of higher capital requirements but also because of banks need to invest large volumes of capital in liquid and low-yielding assets, in combination with the need to extend debt maturity profiles. Banks will therefore need to focus on their most capital-efficient activities and on increasing cost-effectiveness to meet owners' required return.

The financial crisis, in combination with new regulations, has resulted in further strengthening SEK's role, partly because the market and politicians have pushed, and continue to push, the issue of tougher regulation for the financial market. As other market actors face stricter regulation, SEK stands to benefit from improved competitive neutrality. This provides greater scope for different types of niche operators, including government-owned credit institutions like SEK. This view has been strengthened by the prevailing debt crisis. The overall assessment is that SEK currently has a comparatively significant advantage as a result of its business model not permitting any refinancing risk. Unlike our competitors, therefore, SEK is not facing an extensive and expensive extension of its debt portfolio.

The financial crisis underlined the benefit with which the company provided the Swedish export industry, and SEK is now viewed by various stakeholder groups as an important and effective tool in the state's portfolio of companies. Moreover, from an international perspective the Swedish export credit system, with institutions such as EKN and SEK, stands out as a cost-effective system that was able to rapidly be of significant benefit during the financial crisis. While other countries' systems and institutions did not function and incurred substantial losses, the Swedish system operated with record volumes and record profits.

In a country like Sweden that is dependent on exports and in which large companies dominate, access to attractive long-term financial solutions is essential for business transactions to take place. As the desire and ability of other financial operators to provide long-term loans gradually declines, SEK's role is becoming more significant than before. In relative terms, SEK's overall competitiveness is considered to be strengthened by the new regulations.

12. SEK'S REMUNERATION SYSTEM

As from 2011 the company has only one general incentive system for variable remuneration. This covers all employees with the exception of members of the Executive Committee and the Head of Financial Control. No form of remuneration that is linked to financial instruments takes place within the company.

12.1 INTRODUCTION

On February 17, 2011 the Swedish Financial Supervisory Authority decided on new regulations on remuneration systems at credit institutions, securities companies and fund management companies licensed for discretionary portfolio management (FFFS 2011:1). The new regulations apply from March 1, 2011. The purpose of the new rules is to improve the relevant companies' management of risks in their remuneration systems by means of binding rules. The regulations stipulate specific requirements regarding adapting the structure of remuneration systems to risk, such as rules on performance assessment, risk adjustment and the deferment of variable remuneration. These companies must essentially base performance-related remuneration on risk-adjusted profit measures.

12.2 REMUNERATION POLICY, COMPOSITION OF THE REMUNERATION COMMITTEE AND AUTHORITY

The remuneration committee discusses matters relating to remuneration of the company's executive management and overall policy issues relating to remuneration. The Board of Directors has drawn up instructions for the Remuneration Committee, as well as a Remuneration Policy. Minutes from meetings of the committee are submitted to the Board and examined during Board meetings. The Board has appointed the following three members to the Remuneration Committee: Lars Linder-Aronson (Chairman), Lotta Mellström and Eva Walder. The President participated in meetings of the committee in matters that did not relate to the President's terms and conditions of employment. (The Board determines the President's terms and conditions of employment.) SEK's Human Resources Director also participated in the committee's meetings. Executive Director – Strategic Analysis acted as the secretary to the committee.

The Board has authorized the Remuneration Committee to prepare proposals for the Board regarding the President's remuneration, to prepare proposals regarding principles for the remuneration of members of the Executive Committee, to determine the remuneration of members of the Executive Committee, to prepare proposals for the Board regarding the terms and conditions and outcome of the general incentive system and to handle overall issues relating to remuneration, as well as to issue such overarching instructions regarding SEK's remuneration issues as the Remuneration Committee deems necessary.

The remuneration system is based on the owner's rules and guidelines, promotes the owner's long-term interests and is in line with rules and principles that protect SEK's clients and investors. Remuneration should be reasonable and well-balanced. It should also be competitive, capped and suitable for the work undertaken, as well as contribute to good ethical principles and corporate culture. Compensation should not be higher than at comparable companies, and should instead be marked by moderation.

12.3 THE GENERAL INCENTIVE SYSTEM

As from 2011 the company has only one general incentive system for variable remuneration. This covers all employees with the exception of members of the Executive Committee and the Head of Financial Control. Consequently, no form of variable remuneration is paid to members of the Executive Committee or the Head of Financial Control.

The reasons for SEK's incentive system are as follows: (i) Incentives are an instrument for attracting and retaining staff. (ii) Incentives promote the achievement of the company's long-term goals. (iii) Incentives encourage cooperation within the organization and progress towards common objectives.

If pre-tax profit (based on core earnings before any expenses for the general incentive system but after reversing any items of a non-operational nature) exceeds base profit, those staff included in the general incentive system receive a share of the excess amount, but no more than the equivalent of two months' salary, including employer social security contributions. This is on condition, however, that IFRS-based operating profit, taking into account the costs of the general incentive system, is positive. The size of the base profit is determined by the Board. Risk adjustment takes place by considering the development of the company's total risks.

The final decision on the amount to be paid out under the general incentive system is taken by SEK's Board of Directors.

12.4 PRINCIPLES ON DEFERRED PAYMENT

The company's remuneration policy is designed in such a way that the company may decide that remuneration for which payment has been deferred may not apply in part or in full, if it subsequently transpires that the respective employee, profit center or company has not fulfilled the performance criteria. The company may also refrain from paying deferred variable remuneration, if its financial position deteriorates significantly, particularly if the company can no longer be assumed to be able to continue its business operations or needs to receive state assistance in accordance with the Swedish Act (2008:814) on State Support for Credit Institutions.

For specially regulated staff, the basic principle regarding variable remuneration is that that if it exceeds Skr 100,000 then 40 percent of the payment shall take place in April in the year after the remuneration is earned and the remaining 60 percent must be deferred for three years. Other employees' variable remuneration is normally paid in April of the year after the year in which it is earned.

12.5 RISK ANALYSIS

In order to be able to identify, measure, manage, internally report and have control over the risks associated with the company's business, the company ensures that the remuneration system promotes and is consistent with effective risk management and does not encourage undesirable risk-taking.

As part of its strategic analysis and planning the company therefore undertakes an annual process for internal risk and capital assessment (ICAAP). The aim of this process is for the company to identify, in a combined and comprehensive way, its risks and evaluate its risk management and capital requirement. The purpose of this process is to link risk appetite and strategy, enabling the company to take account of risk appetite when assessing strategic options, when setting targets and developing mechanisms for managing relevant risks and when designing remuneration policy and reward systems. As part of this risk analysis, when designing reward systems the company especially analyzes the risk of negative effects.

The company's risk analysis focuses primarily on credit risk and concentration risk that is attributable to credit risk. Using proactive risk management methods in the form of pricing models that take account of different types of risk and in the form of ongoing monitoring of risk and performance, the company ensures that it takes account of risk adjustment both in connection with the company entering into its credit commitments and on a regular basis over the tenor of these commitments.

12.6 REMUNERATION IN THE FORM OF SHARES, SHARE-BASED INSTRUMENTS OR OTHER FINANCIAL INSTRUMENTS

No form of remuneration that is linked to financial instruments takes place within the company.

12.7 PUBLICATION OF TOTAL EXPENDITURE ON REMUNERATION

Total expenditure on remuneration in 2011 amounted to Skr 213.6 mn, with Skr 73.5 mn allocated to the business area Funding and Lending and Skr 140.1 mn allocated to other business areas.

Table 12.1 sets out the total amounts expensed for remuneration, broken down by different categories of employees and different types of remuneration. This information is published in accordance with section 7, para. 1, Chapter 11 of FFFS 2007:5. The left-hand column provides an exact reference to the regulations.

TABLE 12.1: TOTAL EXPENDITURE ON REMUNERATION

Reference to para. 1, Chapter 11 of FFFS 2007:5		Executive Committee	Specially Regulated Staff/Employees who may affect the company's level of risk (excluding members of the Executive Committee)	Other employees
7. a)	**Earned fixed remuneration in 2011**	25,633,945	85,676,363	82,845,611
7. a)	allocated across number of employees	9	75	212
7. a)	**Earned variable remuneration in 2011**	–	10,235,325	9,159,046
7. a)	allocated across number of employees	–	74	134
7. b)	**Earned total variable remuneration in 2011 per variable remuneration component: cash**	–	10,235,325	9,159,046
7. c)	**Deferred remuneration in 2011**	–	5,269,432	–
7. c)	proportion (%) of variable remuneration that employees may not have at their disposal	–	51	–
7. d)	**Remuneration pledged in 2011**	25,633,945	95,911,688	92,004,657
7. d)	**Remuneration paid in 2011**	31,447,928	87,572,086	83,751,513
7. d)	**Adjusted remuneration in 2011**	–	–	–
7. e)	**Total severance pay in 2011**	–	–	–
7. e)	allocated across number of employees	–	–	–
7. e)	**Total guaranteed variable remuneration in connection with new hirings in 2011**	–	–	–
7. e)	allocated across number of employees	–	–	–
7. f)	**Total pledged severance pay in 2011**	–	–	–
7. f)	**Total number of employees covered**	–	–	–
7. f)	highest individual pledged amounts	–	–	–

All amounts in the table are amounts expensed, excluding social security charges of 31.42 percent and are expressed in Skr.

13. CREDIT RISK EXPOSURES IN ACCORDANCE WITH BASEL II AND SEK'S 2011 ANNUAL REPORT

There are important differences between the group's financial statements and the information in this risk report. The Basel II disclosures are presented on the basis of a regulatory, rather than an accounting, consolidation. Therefore, disclosures in the Pillar 3 report may not always be directly comparable to the information in SEK's 2011 Annual Report.

This section describes the link between the credit risk exposure defined in accordance with Basel II and SEK's interest-bearing assets in the Consolidated Statement of Financial Positions in accordance with accounting standards. The major differences are as follows:

1. Credit risk exposures presented in this report are divided into exposure classes in accordance with the Basel II rules. Items presented in the Annual Report, are divided into different financial statement categories in accordance with International Financial Reporting Standards (IFRS).
2. The exposure amount in this report is generally determined as the nominal amount, in accordance with the loan agreements. Interest-bearing assets presented in SEK's annual report are based on book value.
3. Derivatives in this report are presented in accordance with Basel II rules based on the sum of current exposures and potential future exposures. In addition, the derivative exposure is determined net of collateral value. In accordance with accounting standards, derivatives in SEK's Annual Report are presented without netting.
4. SEK's agreed but undisbursed credits are included in the credit risk exposures presented in this report, in accordance with Basel II rules. Agreed but undisbursed credits are not included in the Consolidated Statements of Financial Positions in SEK's Annual Report. However, they are disclosed as "commitments" in connection with the Consolidated Statements of Financial Positions.

Table 13.1 below illustrates the link between the categories in the Statements of Financial Positions and exposures according to Basel II rules as of December 31, 2011. Reduction in derivative exposures from applying netting under current ISDA Master Agreements according to Basel II regulations regarding counterparty risk in derivative transactions amounts to 14.8 billion (2010: Skr 14.1 billion). For further information regarding counterparty risk in derivative transactions under Basel II, see section 6.8.

TABLE 13.1: CREDIT RISK EXPOSURES IN ACCORDANCE WITH BASEL II AND SEK'S 2011 ANNUAL REPORT AS OF DECEMBER 31, 2011

Skr bn	Book value	Adjustment from Book value to exposure	Adjustment to exposure class	Amendment for undisbursed loans and counterparty exposure	Exposure	Exposure class
Treasuries/government bonds	2.0	–	9.5	1.5	13	Central governments
Other interest-bearing securities except loans	74.7	–	27.0	21.4	123.1	Government export credit agencies
Loans in the form of interest-bearing securities	66.2	–0.3	–47.1	0.3	19.1	Regional governments
Loans to credit institutions including cash and cash equivalents[1]	29.5	–4.7	–24.4	–	0.4	Multilateral development banks
Loans to the public	107.9	–0.7	–33.2	12.5	86.5	Financial institutions, including equity exposures
Shares and participation	–	–	52.1	3.3	55.4	Corporates
Derivatives	31.5	–14.8	–16.7	–	–	
	–	–	16.1	–	16.1	Securitization positions
Total financial assets	**311.8**	**–20.5**	**–16.7**	**39.0**	**313.6**	

[1] At the end of 2011 SEK had provided credit support under Credit Support Annex with different counterparties amounting to Skr 4.3 billion (year-end 2010: Skr 0.7 billion)

14. DETERMINING FAIR VALUE OF FINANCIAL INSTRUMENTS

Market valuation and market data are included in the processes that are subject to testing within the scope of SEK's SOX regulations. The company has established a number of controls to ensure the quality of market valuation.

14.1 FAIR VALUE

Fair value is defined by IAS 39 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value measurements are categorized using a fair value hierarchy. The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy that reflects the significance of inputs. The categorization of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

14.2 FAIR VALUE HIERARCHY

SEK uses the following hierarchy for determining and disclosing the fair value of financial instruments based on valuation techniques:

1) **Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities
2) **Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
3) **Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

LEVEL 1

The best evidence of fair value is quoted prices in an active market. The majority of SEK's financial instruments are not publicly traded, and quoted market values are not readily available.

LEVEL 2

For all classes of financial instruments (assets and liabilities) fair value is established by using internally established valuation models, externally established valuation models, quotations furnished by external parties and dealers in such instruments or market quotations. If the market for a financial instrument is not active, fair value is established by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically, the valuation techniques are calibrated and tested for validity using prices from observable current market transactions in the same instruments or based on any available observable market data. In calculating fair value, SEK seeks to use observable market quotes (market data), to best reflect the market's view on prices. These market quotes are used, directly or indirectly, in quantitative models for the calculation of fair value. Examples of the indirect use of market data are:

- the derivation of discount curves from observable market data, which is interpolated to calculate the non-observable data points,
- quantitative models which are used to calculate fair value on a financial instrument, where the model is calibrated so that one can use available market data to recreate observable market prices on similar instruments, and

In some cases, due to low liquidity in the market, there is no access to observable market data. In these cases, SEK follows market practice by basing its valuations on:

- Historically observed market data. One example is a valuation depending on the correlation between two exchange rates, where the correlation is determined by time series analysis.
- Similar observable market data. One example is SEK's valuation of the volatility of a stock option whose maturity is longer than the longest option for which observable market quotes are available. In such a case SEK extrapolates a value based on the observable market quotes for shorter maturities.

For observable market data SEK uses third-party information based on purchased contracts (such as Reuters and Bloomberg). This type of information can be divided into the following two groups:

(i) directly observable prices
Examples from this group are, for various currencies and maturities, currency rates, stock prices, share index levels, swap prices, future prices, basis spreads and bond prices. The discount curves SEK uses, which are a cornerstone for valuation at fair value, are constructed from observable market data.

(ii) market data calculated from the observed prices
Examples from this group are the standard quote forms, such as call options in the foreign exchange market quoted through volatility which is calculated so that the so-called Black-Scholes model recreates observable prices. Further examples from this group are, for various currencies and maturities, currency volatility, swap volatility, cap/floor volatilities, stock volatility, and dividend schedules for equity and CDS spreads.

LEVEL 3

For transactions that cannot be valued based on observable market data, the use of non-observable market data is necessary. One example of non-observable market data that SEK uses consists

of discounts curves created using observable market data, but then extrapolated to calculate the non-observable data. Another example of non-observable data is when market correlation used in valuation models is based on transactions with low liquidity, for example spread options.

Tables 14.1 and 14.2 describe SEK's financial assets and liabilities in fair value hierarchy as of December 31, 2011 (and 2010).

TABLE 14.1: FINANCIAL ASSETS IN FAIR VALUE HIERARCHY

Consolidated Group	Financial assets at fair value through profit or loss or through other comprehensive income							Available-for-sale					
Skr mn	Level 1	Level 2		Level 3		Total		Level 1	Level 2		Level 3	Total	
Cash and cash equivalents	– (–)	–	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Treasuries/governments bonds	– (–)	–	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Other interest-bearing securities	– (–)	3,905.8	(5,522.5)	571.6	(0.2)	4,477.4	(5,522.7)	– (–)	9,197.6	(9,082.6)	– (–)	9,197.6	(9,082.6)
Loans in the form of interest-bearing securities	– (–)	1,779.4	(2,383.9)	509.5	(–)	2,288.9	(2,383.9)	– (–)	–	(–)	– (–)	–	(–)
Loans to credit institutes	– (–)	–	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Loans to the public	– (–)	–	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Shares and participation	– (–)	–	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Derivatives	– (–)	21,022.1	(16,872.0)	10,444.9	(20,787.8)	31,467.0	(37,659.8)	– (–)	–	(–)	– (–)	–	(–)
Total financial assets in fair value hierarchy	**– (–)**	**26,707.3**	**(24,778.4)**	**11,526.0**	**(20,788.0)**	**38,233.3**	**(45,566.4)**	**– (–)**	**9,197.6**	**(9,082.6)**	**– (–)**	**9,197.6**	**(9,082.6)**

TABLE 14.2: FINANCIAL LIABILITIES IN FAIR VALUE HIERARCHY

Consolidated Group	Financial liabilities at fair value through profit or loss or other comprehensive income						
Skr mn	Level 1	Level 2		Level 3		Total	
Borrowing from credit institutions	– (–)	–	(–)	–	(–)	–	(–)
Borrowing from the public	– (–)	–	(–)	–	(–)	–	(–)
Senior securities issued	– (–)	8,641.3	(9,286.3)	121,676.3	(153,308.7)	130,317.6	(162,595.0)
Derivatives	– (–)	9,134.8	(8,021.4)	13,470.0	(10,036.0)	22,604.8	(18,057.4)
Subordinated securities issued	– (–)	–	(–)	–	(–)	–	(–)
Total financial liabilities in fair value hiearchy	**– (–)**	**17,776.1**	**(17,307.7)**	**135,146.3**	**(163,344.7)**	**152,922.4**	**(180,652.4)**

14.3 SOX TESTING AND STEERING DOCUMENTS

As a registered issuer with the Security Exchange Commission (SEC) in the US, SEK is subject to the Sarbanes Oxley Act Section 404. This requires that the company's management must, on an annual basis, assess and express its opinion on the effectiveness of the company's internal controls relating to financial reporting and must report its assessment to the SEC. Its statement of opinion must be based on testing of the internal controls. Market valuation and market data are included in the processes that are subject to testing within the scope of SEK's SOX regulations. The company has established a number of controls to ensure the quality of market valuation.

SEK's Internal Control Committee (ICC) is a preparatory and decision-making body for matters such as SOX-related issues within SEK and comprises a decision-making body for new products, new methods and new fundamental rules for valuation within SEK. The ICC consists of the President and senior representatives with leading positions within Administration, Risk, Lending and Funding.

In order to regulate the allocation of responsibility for market valuation and to stipulate the principles that apply for the valuation of instruments, the ICC has issued instructions on market valuation, and steering documents set out the allocation of responsibility for market valuation, the principles for market valuation and how market parameters are to be chosen.

These instructions are to ensure that the company:

a) provides good-quality market valuations in its financial reporting;
b) complies with applicable regulation (IFRS, FFFS) concerning the market valuation of financial instruments;
c) regulates the principles that apply for the valuation of financial instruments;
d) has procedures and control systems for market valuation corresponding to the company's requirements for adequate internal control; and
e) has allocation of responsibility for market valuation that ensures independence.

The instructions are revised and established by the ICC on an annual basis.

GLOSSARY

CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CLO	Collateralized Loan Obligation
CMBS	Commercial Mortgage-Backed Security
CVA	Credit valuation adjustment
EAD	Exposure at default
EC	Economic capital
EKN	Swedish Exports Credits Guarantee Board
EL	Expected loss
EMIR	European Market Infrastructure Regulation
FFFS	Swedish Financial Supervisory Authority regulations and general guidelines
ICAAP	Intern capital adequacy assessment
IFRS	International Financial Reporting Standards
IRB	Internal ratings-based approach
LCR	Liquidity Coverage Ratio
LGD	Loss given default
M	Maturity
NSFR	Net Stable Funding Ratio
O/N	Over-night deposit
PD	Probability of default of a counterparty within one year
RMBS	Residential Mortgage-Backed Security
RWA	Risk-weighted assets
SEC	Security Exchange Commission
SOX	Sarbanes–Oxley Act
UL	Unexpected loss
VaR	Value-at-Risk

SEK

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