CAPITAL ADEQUACY AND RISK MANAGEMENT REPORT 2012

PILLAR 3

SEK

CONTENTS

1. 2012 IN BRIEF

During 2012, 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. However, the reported exposure to different types of spread risks, such as credit spread risk, credit spread risk on own debt and currency basis spread risk, increased, primarily as a result of refined methods for calculating market values in SEK's valuation process. The methodological improvements are expected to result in greater volatility in operating income related to basis spreads and credit spreads on own debt attributable to structured borrowings. As a result, SEK implemented additional market risk measures for spread risks. In autumn 2011 the company[1] began introducing its revised framework for managing operational risk. This work continued in 2012 primarily through the further development of certain procedures. Know-how about the importance of identifying and managing operational risks has increased within SEK. In addition, the results of the annual risk analysis have been incorporated into the business planning for respective functions. SEK has also further developed the company's liquidity risk management in 2012 and the focus has primarily been on the introduction of new quantitative requirements for liquidity risk. Regulation of financial institutions continues to undergo significant change. The challenges within strategic risk involve preparing for and adapting the company to forthcoming regulatory reforms. During 2012 SEK put much effort into preparing for the regulatory reforms and is well prepared to meet the new requirements.

On December 31, 2012 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 71.5 billion, which implies a Tier-1 Capital ratio of 23.0 percent and a Total Capital Adequacy ratio of 23.1 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 71.5 billion, which also implies a Tier-1 Capital ratio of 23.0 percent and a Total Capital Adequacy ratio of 23.1 percent. Common Equity Tier-1 Capital Adequacy ratio amounted to 19.8 percent as of December 31, 2012.

SEK's capital adequacy assessment process is deemed to be well 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 results of the financial crisis, in combination with new regulations, has further strengthened SEK's role in the market, partly because the market participants and regulators have pursued, and continue to pursue, more stringent regulation for the financial market. This regulatory pressure 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.

[1] The company means SEK, which also means parent company.

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 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 the approach required by 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 6.10).
- In regard to market risks, institutions are allowed to choose between a simple method or an 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. Under Pillar 1, SEK's only market risks exists in the form of foreign exchange risk (see section 8).
- For measuring 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 such institutions's credit risks, market risks and operational risks. This is calculated in accordance with the Capital Adequacy Act (2006:1371), as well as the Swedish Financial Supervisory Authority's regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1).

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. SEK believes that capital does not constitute a risk reducing factor for these types of risks (such as reputation and liquidity risk). Instead, SEK applies active risk mitigation for these risks.

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 regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5).

2.2 SEK'S OPERATIONS

SEK is a lending institution that arranges financing for exporters and exporters' customers. The aim of all its business operations is to strengthen the Swedish export industry and Swedish competitiveness internationally. The various financing techniques used by the company for each transaction are combined to provide the best solution for each customer's financing requirements, an approach referred to as modular customer offering. SEK is a niche operator that offers loans to Swedish exporters, their subcontractors and foreign buyers of Swedish goods and services. The principal interested party in a transaction is the exporter. Lending to customers usually takes place in EUR, USD or Skr, but there is a gradually increasing trend for companies to borrow in other currencies that commercial banks cannot or will not offer.

Lending to exporters' customers, known as End-customer Finance, is today carried out across four business areas: Export Finance, Customer Finance, Project Finance and Trade Finance. The largest volume is provided in the form of Export Finance (Skr 142 billion outstanding of a total volume of Skr 162 billion as of December 31, 2012). Transactions are carried out together with Swedish or foreign commercial banks and an export credit agency (ECA) such as EKN, the Swedish Export Credits Guarantee Board, which normally guarantees 95 percent of the credit risk in a transaction. The remaining 5 percent of credit risk and documentation risk can be assumed by the commercial bank (with SEK acting as a funding partner) or the risks are shared with SEK (with SEK acting as a co-arranging partner). The second-largest portfolio is Project Finance (Skr 14 billion outstanding as of December 31, 2012). Project Finance is cash flow-based finance involving the pledging of assets. SEK always participates in this type of financing jointly with one or several commercial banks. Trade Finance mainly involves short-term discounting of receivables, with SEK participating together with commercial banks or working directly with the exporter. The outstanding volume of this portfolio is Skr 5 billion as of December 31, 2012. Customer Finance is asset backed finance (credit sale or cross border leasing) offered to the exporters' customer. Such financing normally range from USD 0.5 million to USD 20 million. This financing is conducted in partnership with the Swedish exporter and is primarily aimed at large companies with the capacity to share the credit risks with SEK and assist in recovering and re-market the equipment from defaulting borrowers. The outstanding volume of this portfolio is currently Skr 0.6 billion as of December 31, 2012. SEK is also lending working capital to Swedish exporters and its subsidiaries, "Direct Finance". A credit can be provided by SEK as the sole arranger or together with one of the customer's commercial banks. The outstanding volume of this portfolio is Skr 91 billion as of December 31, 2012. SEK also provides financing in local currencies as part of Direct Finance. Some exporters have signed a framework agreement with SEK and are then able to order financing in a number of local currencies, while other exporters work on a deal by deal basis. This makes it easier for Swedish exporters to finance their operations in different markets. In 2012, for example, SEK for the first time was able to offer lending in the Chinese currency, RMB, direct to Swedish exporters.

2.3 SEK GROUP

The information in this risk report refers to the consolidated group of SEK. The 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, 2012, 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.

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.

TABLE 2.1: SPECIFICATION OF SUBSIDIARIES INCLUDED IN THE FINANCIAL GROUP AS OF DECEMBER 31, 2012

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**			

2.4 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 2011.

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 reviewed for accuracy, 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.

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

Chapter 13 (Reporting of credit risk exposures in accordance with Basel II and SEK's 2012 Annual Report, respectively) 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 recognized 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 different 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 manage the risks that these imply – the company can satisfy investor demands regarding risk exposure while also obtaining funding on favorable terms.

SEK's business model is, in essence, simple and transparent. The company borrows money in the form of bonds. Regardless of the conditions with regard to debt investors, borrowings are swapped to a floating interest rate. Funds that are not used immediately for lending (at a floating rate of interest) are retained to provide lending capacity in the form of liquidity placements (at a floating rate of interest). Market risks are therefore limited and primarily occur in the form of unrealized changes in value as a result of various spread risks that can have a significant impact on both overall market risk and earnings. To ensure access to competitive funding in both good and difficult times, the company's funding is diversified. SEK's strategy is to be flexible and available on all markets, and, using derivatives, to "create" borrowing in the currency that the company (and ultimately the exporter) requires. This enables SEK to take advantage of the best funding opportunities irrespective of market, which contributes to diversification and risk reduction.

Risk management in SEK is composed of 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.
- In order to avoid refinancing risk, it is SEK's policy that for all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available through maturity. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility.
- SEK shall at all times have a capital base that is well above regulatory requirements.

As described in chart 3.1, in order to avoid refunding risk, it is SEK's policy that for all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. "Credit commitments" mean outstanding credits as well as agreed, but undisbursed credits.

SEK defines risk 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 procedures, 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 the 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.

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

i. The Common Equity Tier-1-ratio is the ratio of Common Equity Tier-1-capital (CET1) to Risk-weighted Assets (RWA) calculated in accordance with applicable regulation, 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 the Common Equity Tier-1-capital.

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

1. SEK's target of profitability is a rate of return on equity that in the long term equals the risk-free interest rate plus 5 percent.
2. SEK's annual dividend shall amount to 30 percent of net profit for the year. However, dividends shall take into account the capital target, future need of capital, and investments.
3. The target ratio of Common Equity Tier-1-capital to Risk-weighted Assets is 16 percent, however not below 12 percent.
4. In order to avoid refinancing risk, it is SEK's policy that for SEK's total credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period (referred to as positive availability). For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. The company consequently adopts a zero tolerance approach to refinancing risk.
5. SEK's borrowing shall cover agreed but undisbursed credits. SEK shall also maintain readiness for new lending, the size of which shall also ensure the company's new lending capacity during period of stress. The size shall be adapted based on the assessed need for new lending and the time horizon that this capacity is intended to cover. In addition, SEK has a liquidity buffer for potential payments under collateral agreements (ISDAs).
6. The ratio between Tier-1 capital and exposures (in accordance with the leverage limit rules, which are expected to be introduced from 2018) may not be less than 3.0 percent, which corresponds to maximum leverage of 33x.
7. The target for SEK's external rating is 'AA+', or one notch below the owner's sovereign rating.
8. Business risk is quantified by measuring volatility in operating profit, excluding effects attributable to unrealized changes in fair value, credit losses and repurchase of own debt.
9. SEK's appetite for operational risk is low.[2] 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 provided and reported to the Board at its meetings.

Table 3.2 describes the tasks and the composition of SEK's various committees as of January 1, 2013:

[2] SEK applies a three-point scale for evaluating operational risk; low, medium and high.

TABLE 3.2: TASKS AND COMPOSITION OF SEK'S VARIOUS COMMITTEES, AS OF JANUARY 1, 2013

COMMITTEE	FOCUS	ATTENDÉES
The Board's Finance Committee	The Board's Finance Committee handles overall questions relating to the company's long-term and short-term borrowing, liquidity management, risk measurement and risk limits, and matters relating to policy or quality assurance. The Finance Committee is empowered to decide on interest rate limits and currency risk limits. The Board of Directors has established a Finance Policy. The committee has issued a Finance Instruction.	Four board members (one of these members is the chairperson) The President, Executive Director – COO, Head of Risk Control and Head of Treasury and Funding attend the meetings. Executive Director – Strategic Analysis acts as the secretary to the committee.
The Board's Credit Committee	The Board's Credit Committee handles matters relating to credits and credit decisions. The Board of Directors has drawn up a credit policy for the Credit Committee. Upon the request of the Board, the committee has issued a credit instruction that has been reported to the Board. Decision-making rights regarding credits follow an order of delegation established by the Board of Directors.	Four board members (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.

COMMITTEE	FOCUS	ATTENDÉES
The Board's Audit Committee	The Board's Audit Committee (established in accordance with the Swedish Companies Act) acts as a working committee for matters relating to the company's financial reporting and corporate governance report (including the Board's internal audit report) in accordance with the Code. The Audit Committee establishes overall instructions for the company's auditing work.	Four board members (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.
The Board's Remuneration Committee	The Board's Remuneration Committee handles matters relating to salaries, pensions and other benefits for the Senior Executives and overall issues relating to salaries, pensions and other benefits. The Board of Directors has established a Remuneration policy and a Remuneration instruction.	Three board members (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.
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 and Executive Director – Vice COO.
Asset and Liability Committee	The Asset and Liability Committee is responsible for matters relating to SEK's financial activities, including SEK's short- and long-term financial stability. The Asset and Liability Committee is 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 President (chairman), Executive Director – COO, Head of Treasury and Funding and Head of Risk Control.
The Executive Committee's Credit Committee	The Executive Committee's Credit Committee is responsible for matters concerning credits and credit risk management within SEK. The Executive Committee's 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	The Internal Control Committee is responsible for the management and monitoring of operational risks. The Internal Control Committee is 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. The Internal Control Committee is 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	The Business Committee assesses, among other things, whether individual transactions fulfill the criteria set out in SEK's owner's policy.	The Executive Director – COO (chairman), Executive Director – Vice COO, Head of Structured Finance, Head of CRM and Head of Credit Management.

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 line of defense and the second line of defense.

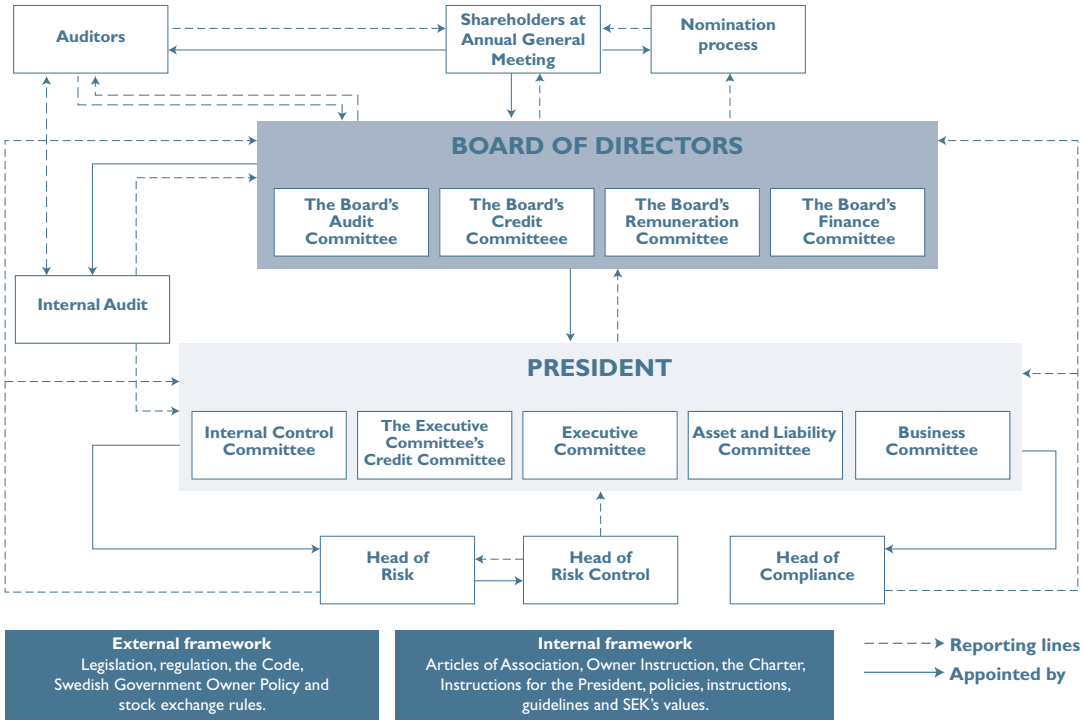
SEK's independent risk control is carried out by the *Risk Control function*, which reports to the Head of Risk and provides reports to the President. The Head of Risk reports to the President and provides reports to the Board. Based on a portfolio perspective, Risk Control is responsible for the control, 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 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 Internal Control Committee. In 2011 the Board took the decision to outsource the Internal Audit function to an external party. 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 in relation to 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 total capital adequacy ratio as of December 31, 2012, calculated according to Basel II, Pillar 1, was 23.1 percent (without taking into account the effects of currently applicable transitional rules). When taking the transitional rules into account, the Total Capital Adequacy ratio was still 23.1 percent. Common Equity Tier-1 ratio amounted to 19.8 percent as of December 31, 2012.

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 may include different types of loss absorption clauses, and the amount of each type that may be included in the capital base is restricted by the capital adequacy rules. All of 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. Details of the calculation of SEK's capital base are shown in tables 4.1 and 4.2.

TABLE 4.1: CAPITAL BASE AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn		
Common Equity Tier-1[1]	14,171	(12,952)
Additional Tier-1	2,281	(2,423)
Total Tier-1 capital	**16,452**	**(15,375)**
Tier-2 capital	**49**	(–)
Total capital base[2]	**16,501**	**(15,375)**

[1] According to SEK's definition, Common Equity Tier-1 constitutes of Tier-1 capital excluding Additional Tier-1 capital in the form of perpetual subordinated debt. The definition of what to be included in Common Equity Tier-1 capital in future capital adequacy regulations has not yet been determined.

[2] Total capital base, including expected loss adjustment in accordance with the IRB approach.

TABLE 4.2: CAPITAL BASE AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn	2012	2011
Equity	3,990	(3,990)
Retained earnings	9,972	(9,684)
Other reserves	450	(294)
Total shareholders' equity per accounting balance sheet	*14,412*	*(13,968)*
Proposed dividend	–213	(–420)
Other deductions	–21	(–33)
Intangible assets	–113	(–88)
100% of deficits in accordance with IRB-calculation	–	(–)
Total regulatory adjustments to accounting basis	*–347*	*(–541)*
Adjustment Available-for-sale securities	19	(–2)
Adjustment own creadit spread	556	(–154)
Adjustment cash flow hedges	–469	(–319)
Total prudential filters	*106*	*(–475)*
Total Common Equity Tier-1 capital	**14,171**	**(12,952)**
Tier-1-eligible subordinated debt[1]	2,281	(2,423)
Total Tier-1 capital	**16,452**	**(15,375)**
Tier-2-eligible subordinated debt	n.a.	(–)
Deduction from Tier-2 capital	n.a.	(–)
100% of surplus in accordance with IRB-calculation[2]	49	(–)
Total Tier-2 capital	**49**	**(–)**

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

(i) Nominal value USD 200 million. Interest payments quarterly in arrears at a rate of 5.40 percent per annum. Redeemable, in two alternatives at SEK's option only; (i) at the end of any financial quarter, in whole or in part, (ii) in case the instruments are not eligible for inclusion in the Tier-1 capital of SEK, at 100 percent of the nominal value. Redemption under (ii) above requires the prior approval of the Swedish Financial Supervisory Authority. Interest payments are limited to and may not exceed available distributable funds as of the previous year. 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, in two alternatives at SEK's option only; (i) at the end of any financial quarter, in whole or in part, (ii) in case the instruments are not eligible for inclusion in the Tier-1 capital of SEK, at 100 percent of the nominal value. Redemption under (ii) above requires the prior approval of the Swedish Financial Supervisory Authority. Interest payments are limited to and may not exceed the available distributable funds as of the end of the previous year. 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.

[2] Expected loss is calculated according to law and regulations, based on information from SEK's internal ratings-based approach (IRB-approach). Such expected loss does not represent real, individually anticipated losses, but reflects a theoretically calculated amount. Expected loss is a gross deduction from the capital base. This deduction is decreased by impairments of financial assets for which expected loss is calculated. The difference between recorded impairment and expected loss will adjust the capital base, by a reduction or an addition, as the case might be. As of December 31, 2012 the adjustment was an addition to the capital base by Skr 49 million. As of December 31, 2011, the adjustment was a deduction from the capital base by Skr 0 million. The amount reduces Tier-1 capital.

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.

TABLE 4.3: CAPITAL BASE – CHANGE 2012 (AND 2011)

Skr mn	2012	2011
Opening Common Equity Tier-1	12,952	(12,051)
Untaxed reserves (capital-portion)	n.a.	n.a.
Expected dividend	–213	(–420)
Profit for the year	709	(1,400)
Intangible assets	–25	(–71)
Other, of which	748	(–8)
– Adjustment own credit spread	*710*	*(–75)*
– Price adjustment	*12*	*(–32)*
– IRB-calculation, deficits	*0*	*(85)*
– Other	*26*	*(14)*
Closing Common Equity Tier-1	**14,171**	**(12,952)**
Opening Tier-1-eligible subordinated debt 2012	2,423	(2,381)
Currency exchange effects	–142	(42)
Closing Tier-1 capital	**16,452**	**(15,375)**
Opening Tier-2-eligible subordinated debt 2012	–	(–)
IRB-calculation, surplus/deficit	49	(–)
Closing Tier-2-eligible subordinated debt	**49**	**(–)**
Total capital base	**16,501**	**(15,375)**

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 above mentioned Basel I-based rules has constituted the minimum capital requirement. In 2009 the Swedish legislator decided to extend the transitional rules until the end of 2011, and in 2012 the legislator determined to further extend the transitional rules until the end of 2013. 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 2012, SEK's total capital requirement (excluding application of the Basel I-based transitional requirements) amounted to Skr 5,720 million (year-end 2011: Skr 5,475 million). See table 4.4 for a detailed calculation of this amount.

TABLE 4.4: CAPITAL REQUIREMENTS (PILLAR 1), AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn	EAD		Risk-weighted assets		Capital requirement	
Credit risk standardized method						
Central governments	9,607	(12,246)	820	(1,341)	66	(107)
Government export credit agencies	138,987	(112,361)	315	(178)	25	(14)
Regional governments	23,510	(19,002)	–	(–)	–	(–)
Multilateral development banks	422	(423)	–	(–)	–	(–)
Householdexposures	1	(1)	1	(1)	0	(0)
Corporates	373	(247)	373	(247)	30	(20)
Total credit risk standardized method	**172,900**	**(144,280)**	**1,509**	**(1,767)**	**121**	**(141)**
Credit risk IRB method						
Financial institutions[1]	76,789	(86,188)	19,612	(22,335)	1,569	(1,787)
Corporates	61,977	(53,898)	36,202	(31,119)	2,896	(2,489)
Securitization positions	10,021	(16,115)	8,254	(5,807)	660	(465)
Without counterparty	149	(128)	149	(128)	12	(10)
Total credit risk IRB method	**148,936**	**(156,329)**	**64,217**	**(59,389)**	**5,137**	**(4,751)**
Currency exchange risks	n.a.	(n.a.)	2221	(2,486)	178	(199)
Operational risk	n.a.	(n.a.)	3,549	(4,799)	284	(384)
Total Basel II	**321,836**	**(300,609)**	**71,496**	**(68,441)**	**5,720**	**(5,475)**
Basel I–based additional requirement[2]	n.a.	(n.a.)	–	(–)	–	(–)
Total Basel II incl. additional requirement	321,836	(300,609)	71,496	(68,441)	5,720	(5,475)
Total Basel I	**n.a.**	**(n.a)**	**84,754**	**(81,146)**	**6,780**	**(6,492)**

[1] Of which counterparty risk in derivatives: Exposure At Default (EAD) Skr 9,269 mn (11,279), risk-weighted assets Skr 3,442 mn (4,082) and required capital Skr 275 mn (327).

[2] The item "Basel I based additional requirements" is calculated in accordance with § 5 of the law (2006:1372) on implementation of the capital adequacy requirements (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 23.1 percent as of December 31, 2012 before consideration of the transitional rules (year-end 2011: 22.5 percent). With the transitional rules taken into consideration, the Capital Adequacy ratio totaled 23.1 percent (year-end 2011: 22.5 percent), of which the Tier-1 ratio was 23.0 percent (year-end 2011: 22.5 percent). Common Equity Tier-1 adequacy amounted to 19.8 percent as of December 31, 2012 (year-end 2011: 18.9 percent). Table 4.5 provides the breakdown of these ratios.

TABLE 4.5: CAPITAL ADEQUACY ANALYSIS (PILLAR 1), AS OF DECEMBER 31, 2012 (AND 2011)

	Excl. Basel 1-based add. requirement		Incl. Basel 1-based add. requirement	
Total Capital Adequacy ratio	23.1%	(22.5%)	23.1%	(22.5%)
of which related to Common Equity Tier-1 capital	*19.8%*	*(18.9%)*	*19.8%*	*(18.9%)*
of which related to Tier-1 capital	*23.0%*	*(22.5%)*	*23.0%*	*(22.5%)*
of which related to Tier-2 capital	*0.1%*	*(n.a)*	*0.1%*	*(n.a)*
Capital Adequacy quota (total capital base/total required capital)	2.89	(2.81)	2.89	(2.81)

4.3 LARGE EXPOSURES

Large exposure limits prevent an institution from incurring disproportionately large losses as a result of the failure of an individual counterparty (or a group of connected counterparties) due to the occurrence of unforeseen events. According to Swedish Financial Supervisory Authority regulations, exposure to a single counterparty or a group of connected counterparties 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 Credit Committee, 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 counterparties 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 counterparties that have connections with one another. Identification of possible connections between a group of counterparties from a risk perspective forms an integral part of SEK's credit process. Client Relationship Management and Credit Management are the internal entities responsible for identifying these connections and documenting them in the credit/limit application. SEK has developed guidelines that regulate the identification of connected counterparties.

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 institutions are treated in the same way as corporates. A 100 percent weighting is applied for these exposures to financial institutions, instead of the previous 20 percent weighting. SEK has applied 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 had 100 percent weighting. These transitional rules, however, only applied until December 31, 2012. In order to ensure that the company could meet the new rules from January 1, 2013, SEK has successfully adapted the size of its exposures to different counterparties in the financial institutions category.

TABLE 4.6: SEK'S LARGE EXPOSURES AS OF DECEMBER 31, 2012 (AND 2011)

The aggregate amount of SEK's large exposures as a percentage of SEK's total regulatory capital base:	282% (year-end 2011: 308 percent)[1]
Exposure between 10% and 20% of capital base:	21 exposures totaling Skr 46,574 million (year-end 2011: 21 exposures totaling Skr 44,258 million)
Exposure >20% of capital base:	None (year-end 2011: one exposure totaling Skr 3,085 million)
Breaches of 25% large exposure limit:	None (year-end 2011: none)

[1] The aggregate amount consisted of risk-weighted exposures to 21 counterparties or counterparty groups (year-end 2011: 22 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 LEVERAGE RATIO

In addition to the risk-based capital adequacy requirements, Basel III/CRD IV introduces a minimum leverage ratio requirement for institutions. The leverage ratio is expected to be calculated as Tier-1 capital divided by non-risk-weighted total assets (including off-balance sheet assets). The leverage ratio proposed by the Basel Committee is calibrated at 3 percent.

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 could be 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 leverage ratio will not be a binding measure for institutions from the start. Nonetheless, according to the original plan, institutions would still need to report their leverage ratio to supervisory authorities from the start, i.e. from January 1, 2013. However, finalization of CRD IV has been delayed and CRD IV/CRR is currently being negotiated among the EU institutions in the context of the 'trilogue' discussions, as part of the process for its final adoption by the EU legislators, the European Parliament and the Council of the EU. During 2012 the EBA developed draft technical standards on supervisory requirements for leverage ratio reporting. These templates and instructions are still preliminary due to the pending and still forthcoming adoption of the CRD IV/CRR text. The EBA acknowledges that a longer time period may be needed, after the entry into force of CRD IV/CRR, to prepare some of the reporting systems. The EBA also envisages that the first remittance dates will fall in the first quarter of 2014 for the full ITS leverage ratio requirements. Disclosure of the leverage ratio and its components will begin on January 1, 2015. It is still unclear whether the leverage ratio will become a binding minimum requirement in 2018.

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, 2012, SEK's Tier-1 Leverage ratio was 4.58 percent.*

* Correction to earlier reported made as of March 6, 2013.

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 market risk. 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

Economic capital required on account of 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.

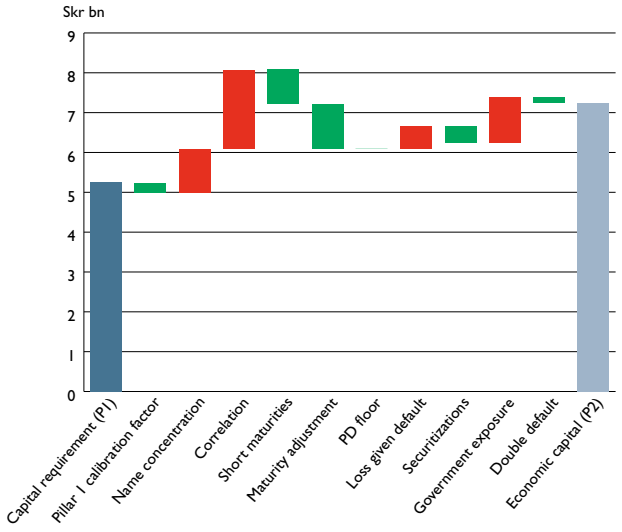
9. Government exposures
For exposures to governments in Pillar 1, SEK uses the standardized approach, yielding a capital requirement of zero for exposures to governments with a high credit rating. SEK's government exposures are mainly of this type.

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, 2012
Chart 5.2 shows the result of the decomposition for SEK's portfolio as of December 31, 2012.

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 5,258 million, and the right (light blue) column represents the total Pillar 2 capital requirement for credit risk, Skr 7,243 million. Thus, these columns represent the starting point and endpoint of the decomposition.

The total additional capital required under Pillar 2 is Skr 1,985 million (7,243 minus 5,258). 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

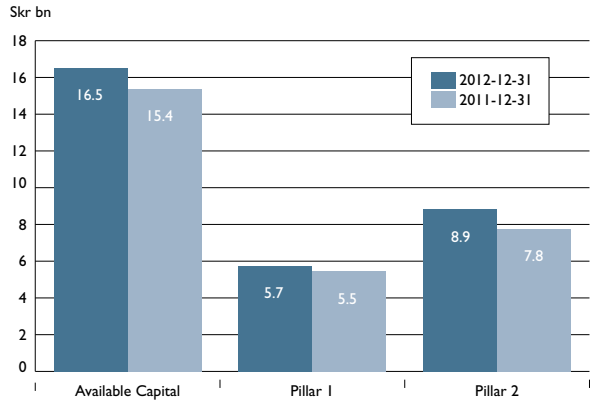
SEK annually assesses the development of its future capital requirements and available capital, primarily in connection with the the three-year business plan being updated. One purpose behind the capital assessment is to ensure that the size of SEK's capital is sufficiently in line with risks and supports a high level of creditworthiness. The assessment covers the group. The business plan for the period 2013–2015 was formulated based on conditions during the situation in September 2012, 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 2012 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, 2012 (AND 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, 2012, the total capital requirement under Pillar 2 was Skr 8,862 million, of which Skr 7,243 million was due to credit risk, Skr 321 million was due to operational risk and Skr 1,298 million was due to market risk.

5.3.3 CREDIT RISKS IN SEK'S CREDIT PORTFOLIO AS OF DECEMBER 31, 2012

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 to these types of exposures in table 5.3. 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: COMPOSITION OF EXPOSURE, PILLAR 1 CREDIT RISK CAPITAL REQUIREMENT AND CREDIT RISK ECONOMIC CAPITAL AS PERCENTAGES OF TOTAL BY CREDIT RATING AS OF DECEMBER 31, 2012 (EXCLUDING ASSETS WITHOUT COUNTERPARTIES)

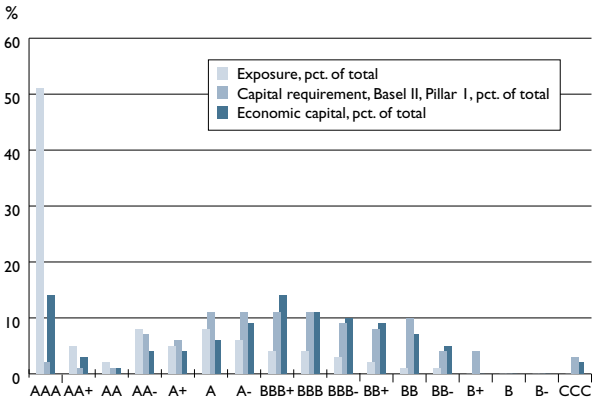


Table 5.2 shows exposures and capital measures by geographic region. The concentration in respect of Sweden is reflected primarily in the fact that the economic capital of exposures to counterparties domiciled in Sweden is significantly higher than the minimum capital requirement under Pillar 1 for the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

Table 5.3 shows exposures and capital measures by sector. There are two main reasons for the capital requirement under Pillar 1 being larger than the economic capital for financial institutions. First of all, a large portion of the liquidity portfolio is allocated to this sector. These exposures have a short average maturity, resulting in a difference due to the capital requirement under Pillar 1 being independent of maturity whereas the calculation of economic capital is not. Secondly, this sector is where most of the risk mitigated exposures are allocated. These generally have a larger capital requirement under Pillar 1 than under Pillar 2 due to differences in the quantification of the capital requirement for what are known as "double default" exposures, for example when SEK owns a credit derivative.

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, 2012 (AND 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	216,180	(178,739)	62%	(57%)	2,154	(2,148)	41%	(44%)	4,641	(4,872)	64%	(69%)
remaining Nordic region	25,531	(28,786)	7%	(9%)	651	(730)	13%	(15%)	736	(810)	10%	(12%)
remaining Europe	62,754	(74,718)	18%	(24%)	1,429	(1,367)	27%	(28%)	952	(932)	13%	(13%)
North America	22,840	(20,047)	7%	(6%)	564	(434)	11%	(9%)	522	(311)	7%	(4%)
Oceania	11,425	(7,999)	3%	(3%)	167	(96)	3%	(2%)	31	(38)	1%	(1%)
Asia	5,296	(3,126)	2%	(1%)	150	(98)	3%	(2%)	122	(86)	2%	(1%)
South America	2,334	(191)	1%	(0%)	110	(9)	2%	(0%)	224	(28)	3%	(0%)
Africa	289	(–)	0%	(–)	21	(–)	0%	(–)	15	(–)	0%	(–)
Grand total	**346,649**	**(313,606)**	**100%**	**(100%)**	**5,246**	**(4,882)**	**100%**	**(100%)**	**7,243**	**(7,077)**	**100%**	**(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, 2012 (AND 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	161,991	(123,069)	47%	(39%)	25	(14)	0%	(0%)	970	(767)	13%	(11%)
Financial institutions	77,206	(86,455)	22%	(28%)	1,569	(1,787)	30%	(37%)	972	(1,091)	14%	(15%)
Corporates	63,585	(55,409)	18%	(18%)	2,926	(2,509)	56%	(51%)	4,687	(4,696)	65%	(66%)
Regional governments	23,620	(19,127)	7%	(6%)	–	(–)	–	(–)	247	(127)	3%	(2%)
Securitization positions	10,021	(16,115)	3%	(5%)	660	(465)	13%	(10%)	219	(243)	3%	(4%)
Central governments	9,803	(13,007)	3%	(4%)	66	(107)	1%	(2%)	145	(153)	2%	(2%)
Multilateral development banks	422	(423)	0%	(0%)	–	(–)	–	(–)	3	(0)	0%	(0%)
Retail	1	(1)	0%	(0%)	0	(0)	0%	(0%)	–	(–)	–	(–)
Grand Total	**346,649**	**(313,606)**	**100%**	**(100%)**	**5,246**	**(4,882)**	**100%**	**(100%)**	**7,243**	**(7,077)**	**100%**	**(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 CREDIT RISK MANAGEMENT AT SEK

6.1.1 INTERNAL GOVERNANCE AND RESPONSIBILITY

The management of SEK's credit risk is governed by the Credit Policy and Credit Instructions, steering documents that are issued by the Board and its Credit Committee, respectively. These steering documents set out the framework for the level of credit risk assumed by SEK, describe decision-making bodies and their remit, the credit process, fundamental principles for limits and problem loan management. The Credit Management function is responsible for developing and updating this framework. Credit analysts, which are part of Credit Management, are responsible for ongoing analysis of a counterparty and, where necessary, prepare the data for the classification on counterparties as approved counterparties and the data for internal ratings of counterparties and ensure that internal ratings are reviewed at least once a year. At the request of and in cooperation with the account manager and the transaction manager, credit analysts also prepare credit proposal documentation.

Overall responsibility for the relationship with all of SEK's counterparties lies with Lending & Funding account managers. They are responsible for assessing the customer's product needs, credit risk assessment (with the support of credit analysts), limit and exposure management and have ultimate responsibility for credit risk and its impact on SEK's income statement and balance sheet. Account managers are responsible for credit proposals. Account managers are responsible for ensuring that limits are reviewed continually, on at least an annual basis.

Credit Control is the Credit Management function that ensures control of compliance by limit and credit decisions and administers limit and credit decisions taken by SEK's decision-making bodies. This function thus operates as a control authority, as well as providing support for relevant departments on matters relating to limits and exposures.

Decisions on limits and credits are taken in line with a special decision-making hierarchy, in which the lowest decision-making body for granting limits is the Credit Committee. The Rating Committee takes decisions on internal ratings, which cannot be changed by another decision-making body.

6.1.2 MANAGEMENT

Credit risk is mitigated through a methodical and risk-based selection of counterparties and is managed by such measures as the use of guarantees and credit derivatives, as a result of which SEK assumes relatively little credit risk in most individual lending transactions. Counterparty risk in derivative contracts is normally regulated on an ongoing basis under ISDA Master Agreements with associated Credit Support Annexes, usually by means of cash, and to a limited extent in government bonds. Exemptions from entering into ISDA agreements require special decisions.

SEK uses limits to manage lending operations and to mitigate risks to a defined extent. Limits express the highest permitted amounts of exposure to a risk counterparty for each particular point in the future. For example, SEK has sublimits that mitigate exposures resulting from derivative contracts in respect of a risk counterparty. A limit defined by the relevant competent body entitles SEK's commercial units to enter, within this limit, commercial agreements in the name of SEK, implying a credit risk in respect of the relevant counterparty. All limits and risk classifications are subject to review at least once a year. Exposures that are assessed to be problem loans[3] are subject to more frequent analysis, and limits are also blocked[4] for these credits. The aim is to be able, at an early stage, to identify exposures with an elevated risk of loss and to ensure that the risk classification reflects the real risk in respect of the counterparty.

To provide guidance for lending and limit-setting, there is a specified standard within SEK that clarifies requirements that must be met in order for a credit or a limit with acceptable risks to be granted. This standard is set out in six sub-areas:

1. Operational criteria
2. By sector and/or by customer
3. Risk level standard
4. Credit terms standard
5. Know your customer (KYC)
6. Corporate and social responsibility (CSR) related risks.

In addition, the requirements set out in the owner's directive (including operational criteria) must always be met in order for a credit or limit to be granted at any level. Calculation of the amount that defines the decision-making remit of the Executive Committee's Credit Committee is based on the formula for calculating the capital requirement under Pillar 1.

Exposures deemed to be problem credits, are managed in line with special guidelines. It is the account manager's responsibility to continually monitor the (risk) counterparty for problem loans and, together with the responsible credit analyst, regularly report problem exposures to the Credit Committee and, where necessary, to the Executive Committee's Credit Committee. Certain matters are referred to the Board's Credit Committee.

6.1.3 MEASUREMENT

Two measures are key to the measurement of credit risk: (1) Expected Loss, EL and (2) Unexpected Loss, UL (see also section 6.3.1). EL gives an indication of the mean of the credit losses that SEK expects to incur. This is calculated in accordance with capital adequacy regulations and is deemed to be a cost in running lending operations. EL is a component in the calculation of the price of a credit. In addition, the amount of the expected loss is deducted from the capital base. Unexpected loss, UL, consists of losses in excess of the expected levels and it is unknown when they will occur or how large the losses will be. In order to also absorb unexpected losses, SEK also maintains risk capital in accordance with capital adequacy regulations.

SEK calculates UL using the company's internal model for calculating economic capital need for credit risk, under Pillar 2. Section 5.2.2 describes the difference in methodology between the calculation of the capital need under Pillar 2 and the corresponding value, the capital requirement, under Pillar 1. The main purpose of the comparative analysis of the capital requirement is

[3] An exposure in respect of a risk counterparty that SEK assesses to have a high probability of being unable to fulfill all of its commitments under the original contractual terms on time.

[4] A blocked limit means that no new transactions may be undertaken with the relevant counterparty.

to assess whether the total capital need should be set higher than the calculated capital requirement.

SEK's management and monitoring of credit risk in its operations takes place through the use of nominal amounts broken down by, for example, ratings category, sector and region.

Calculation of the amount that determines which decision-making body establishes applicable limits is 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.

6.1.4 PROVISIONING PROCESS

Any need for provisioning is assessed based on two tests, an individual provisioning test for assets that are significant individually and a provisioning test for assets that are not significant individually. The assessment criteria and reasons for proposed provisioning decisions are summarized in data used for decision-making.

The assessed provisioning requirement and the noted loan losses are minuted in full in the Credit Committee and Executive Committee's Credit Committee and used in the process of drawing up the accounts. The draft provision is prepared by the Board's Credit Committee. Finally, a decision on provisioning requirements is taken by the Board.

6.2 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 6.2.4). 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.

6.2.1 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.

6.2.2 RISK CLASSIFICATION

6.2.2.1 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.

6.2.2.2 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 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 639 counterparties that SEK has allocated an internal rating to, 279 counterparties have an external rating from Standard & Poor's.

TABLE 6.1: EXTERNAL RATING AGENCIES' COVERAGE OF SEK'S COUNTERPARTIES AS OF DECEMBER 31, 2012

SEK	S&P	Moody's	Fitch
639	279	283	216

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.

6.2.3 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.

6.2.4 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, 2015, 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[5] 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.

6.2.5 RATING METHODOLOGY

6.2.5.1 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.

6.2.5.2 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.

6.2.5.3 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. During the year two insurance companies have been given an internal rating and a limit.

6.2.5.4 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 and therefore the highest creditworthiness). All of SEK's exposures are currently attributable to categories 1, 2 and 4.

47 percent of SEK's exposures that fall into the specialized lending category are guaranteed by central governments or regional 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 in the specialized lending category amounted to Skr 2,529 million as of December 31, 2012. The increase in specialized lending in 2012 is mainly due to new transactions.

TABLE 6.2: SPECIALIZED LENDING AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn

Category	EAD*	
1	2,011	(445)
2	379	(–)
3	–	(–)
4	139	(163)
5	–	(–)
Total	**2,529**	**(608)**

* 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. See section 6.3.1.

5 Customer Finance: The Customer Finance business area offers financing solutions for end-customers

6.2.5.5 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.

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. See table 6.3. Since 2007, SEK no longer invests in securitization positions.

TABLE 6.3: SECURITIZATION POSITIONS[1], AFTER CREDIT RISK MITIGATION, PER RISK WEIGHT, AS OF DECEMBER 31, 2012 (AND 2011)

	Risk weight																	
Skr mn	7–10%		12–18%		20–35%		40–75%		100%		425%		1 250%		Total exposure	
Traditional securitizations	4,415	(10,185)	225	(195)	712	(661)	–	(283)	538	(180)	459	(220)	178	(–)	6,527	(11,724)
Synthetic securitizations	16	(56)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	16	(56)
Resecuritizations[2]	–	(–)	–	(–)	2,884	(3,034)	–	(658)	–	(–)	–	(–)	594	(641)	3,478	(4,333)
Total	**4,431**	**(10,241)**	**225**	**(195)**	**3,596**	**(3,695)**	–	(941)	**538**	(180)	**459**	(220)	**772**	**(641)**	**10,021**	**(16,113)**

[1] Exposures before impairments.
[2] According to Swedish Financial Supervisory Authority's regulations, resecuritization positions receive a higher risk weight as of December 31, 2012.

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 2012 apart from one repurchase at par by the originator.

ASSET-BACKED SECURITIES HELD

The tables below include current aggregated information regarding SEK's total net exposures (after effects related to risk-coverage) related to asset-backed securities held and to current rating. Ratings in the table as of December 31, 2012 are stated as the second lowest of the ratings from Standard & Poor's, Moody's and Fitch. When 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, 2012

Net exposures, Skr mn

Exposure[1]	RMBS[2]	Auto Loans	CMBS[2]	Consumer loans	CDO[2]	CLO[2]	Total	... of which 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 'A–'	... of which rated 'BBB+'	... of which rated 'BBB-'	... of which rated 'BB'	... of which rated 'B+'	... of which CDO rated 'CCC'
Australia	2,555	–	–	–	–	–	2,555	2,555	–	–	–	–	–	–	–	–	–	–	–
Germany	–	26	66	–	–	–	92	26	66[3]	–	–	–	–	–	–	–	–	–	–
Ireland	815	–	–	–	–	1,408	2,223	1,408	–	–	–	–	–	–	–	379[3]	258[3]	178[3]	–
Netherlands	652	–	–	–	–	–	652	652	–	–	–	–	–	–	–	–	–	–	–
Portugal	315	–	–	–	–	–	315	–	–	–	–	–	–	156[3]	–	159[3]	–	–	–
Spain	819	28	–	23	–	131	1,001	–	–	–	28[3]	57[3]	225[3]	97[3]	393[3]	–	201[3]	–	–
United Kingdom	598	–	–	–	–	17	615	437	–	161[3]	17[3]	–	–	–	–	–	–	–	–
United States	–	–	–	–	133	1,978	2,111	1, 978	–	–	–	–	–	–	–	–	–	–	133[4]
Total 2012	**5,754**	**54**	**66**	**23**	**133**	**3,534**	**9,564**	7,056	**66**	**161**	**45**	57	**225**	**253**	**393**	**538**	**459**	**178**	**133**
Total 2011	**10,623**	**191**	**70**	**66**	**151**	**4521**	**15,622**	**12,363**	**778**	**275**	**541**	**44**	**195**	**592**	**283**	**180**	**220**	**–**	**151**

[1] Exposures are assessed on the domicile of the issuance which is consistent with the underlying assets' domicile except for Ireland where the majority of the underlying assets are in France, United Kingdom and Germany.
[2] RMBS = Residential mortgage-backed securities
CMBS = Commercial mortgage-backed securities
CDO = Collateralized debt obligations
CLO = Collateralized loan obligations
[3] Of these assets amounting to Skr 2,375 million, still Skr 244 million have the highest-possible rating from at least one of the rating institutions.
[4] These assets consist of two CDOs (first-priority tranches) with end-exposure to the U.S market. There have been no delays with payments under the tranches. However, the ratings of the assets have been downgraded dramatically during 2008 to 2012, 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 the dramatic rating downgrades, SEK has analyzed the expected cash flows of the assets and has recorded related impairments. The impairments amounted to Skr 462 million in total as of December 31, 2012.

6.3 CALCULATION OF RISK-WEIGHTED ASSETS

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

Exposure at default (EAD) measures the utilised exposure at default. For on-balance sheet exposures, EAD is the gross value of the exposure without taking provisions into account. For off-balance-sheet exposures, EAD is calculated using a credit conversion factor (CCF) which estimates the future utilization level of unutilised amounts. 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

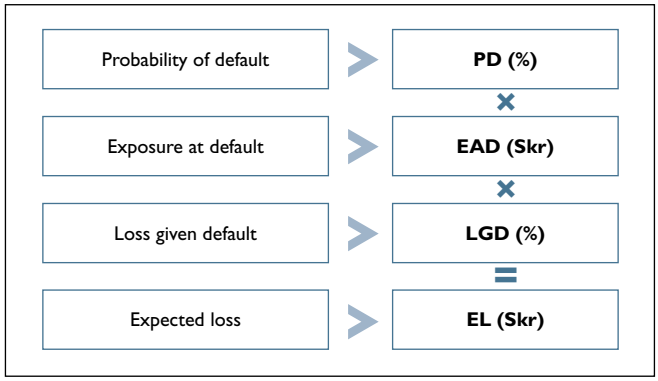


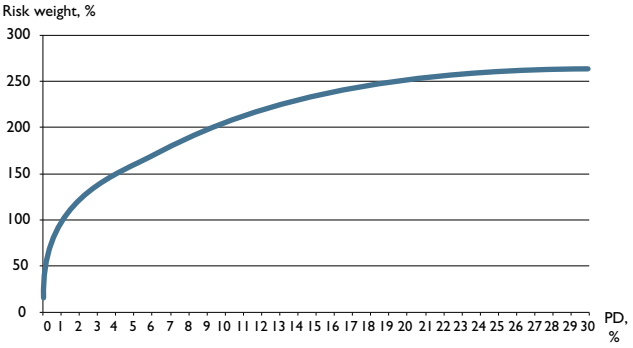
TABLE 6.5: RISK PARAMETERS

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 "one-year horizon PD" for exposures to institutions and exposures to corporates.

CHART 6.2: RISK-WEIGHT FUNCTION



The table below shows SEK's credit exposure, EAD, risk-weighted assets (RWA), capital requirement for credit risk and average risk-weight by exposure type as of December 31, 2012 (and 2011). The average risk weight for SEK's credit portfolio is approximately 18 percent and the average risk weight for SEK's total portfolio is 20 percent.

TABLE 6.6: ORIGINAL EXPOSURE, RWA AND CAPITAL REQUIREMENTS BY EXPOSURE TYPE AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	On-balance sheet items		Off-balance sheet items		Derivatives		Total	
Original Exposure	276.3	(274.6)	61.0	(27.7)	9.3	(11.3)	346.6	(313.6)
EAD	276.3	(274.7)	36.2	(14.6)	9.3	(11.3)	321.8	(300.6)
RWA	59.8	(55.3)	2.5	(1.8)	3.4	(4.1)	65.7	(61.2)
Capital requirements	4.8	(4.4)	0.2	(0.1)	0.3	(0.4)	5.3	(4.9)
Average risk weight	21.6%	(20.1%)	6.9%	(12.3%)	36.6%	(36.3%)	20.4%	(20.3%)

The table below shows credit conversion factor and off-balance exposure split by exposure class as of December 31, 2012 (and 2011). SEK uses the credit conversion factors established by the Swedish Financial Supervisory Authority.

TABLE 6.7: CREDIT CONVERSION FACTOR AND OFF-BALANCE EXPOSURE BY EXPOSURE CLASS AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	Exposure after risk mitigation		EAD		CCF	
Standardized approach						
Institutions	–	(–)	–	(–)	–	(–)
Corporate	0.4	(0.4)	0.4	(0.3)	100%	(75.0%)
IRB method						
Institutions	63.2	(86.5)	62.0	(86.2)	98.1%	(98.0%)
Corporate	77.2	(55.0)	76.8	(53.9)	99.5%	(99.6%)

6.3.2 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. See table 6.8. 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. See table 6.9.

TABLE 6.8: 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 6.9: NET EXPOSURES UNDER THE STANDARDIZED APPROACH PER QUALITY STEP AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	1		2		3–6		Total	
Central governments	5.9	(8.3)	3.0	(3.7)	0.9	(1.0)	9.8	(13.0)
Government export credit agencies	160.8	(122.2)	0.6	(0.9)	0.6	(–)	162.0	(123.1)
Regional governments	23.6	(19.1)	–	(–)	–	(–)	23.6	(19.1)
Multilateral development banks	0.4	(0.4)	–	(–)	–	(–)	0.4	(0.4)
Corporates	0.0	(–)	–	(–)	0.4	(0.4)	0.4	(0.4)
Total	**190.7**	**(150.0)**	**3.6**	**(4.6)**	**1.9**	**(1.4)**	**196.2**	**(156.0)**

6.4 MONITORING OF SEK'S IRB SYSTEM

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 Credit Committee and the Executive Committee's Credit Committee receive 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.

6.4.1 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.

6.4.2 INFORMATION ABOUT MIGRATION BETWEEN RISK CLASSES

The tables below show the rating distribution as of December 31, 2012 based on rating levels as of December 31, 2011. The migration matrix below, overall shows a more negative migration for risk classes AAA to BBB and a more neutral trend for other risk classes. The number of counterparties that received a modified risk class is less than in 2011.

TABLE 6.10: MIGRATION MATRIX 2012

The table should be read row by row. The first row shows the percentage breakdown as of December 31, 2012 for those counterparties that as of December 31, 2011 were rated 'AAA'. The second row displays the percentage breakdown as of December 31, 2012 for those counterparties that as of December 31, 2011 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, 2012, compared with December 31, 2011.

	2012																		
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC/C	D	Sum
AAA	85%	15%																	100%
AA+		97%	3%																100%
AA	3%	12%	65%	20%															100%
AA-		2%	2%	76%	8%			10%		2%									100%
A+					67%	28%		5%											100%
A					3%	81%	9%	7%											100%
A-							97%	3%											100%
BBB+								88%	12%										100%
BBB								5%	86%	9%									100%
BBB-									12%	82%	3%	3%							100%
BB+										10%	69%	21%							100%
BB											17%	77%	6%						100%
BB-													100%						100%
B+														100%					100%
B															80%	20%			100%
B-																100%			100%
CCC																	100%		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 2012.

CHART 6.3: NUMBER OF MIGRATED COUNTERPARTIES WHOSE RISK CLASS CHANGED DURING 2012

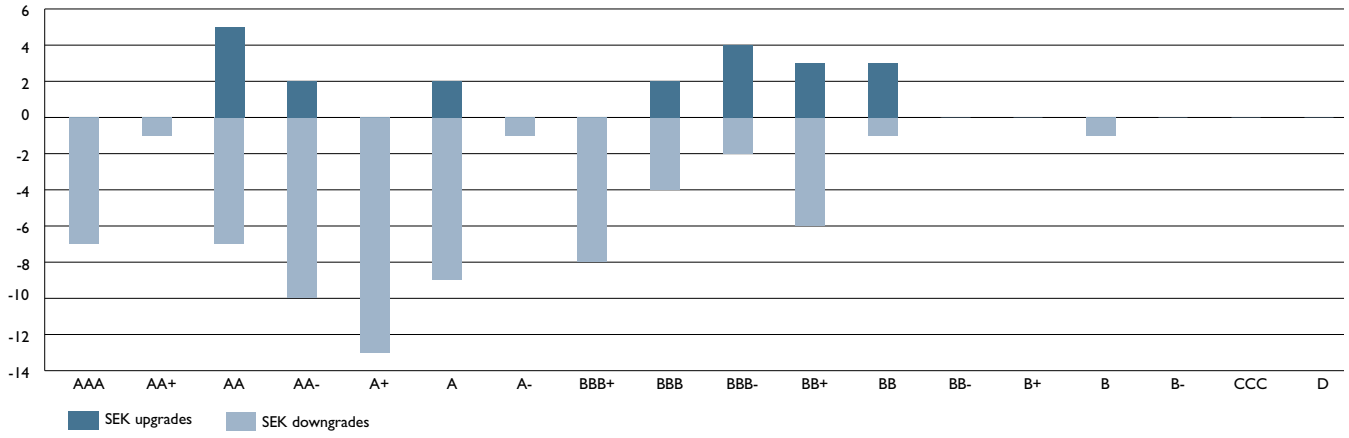


CHART 6.4: PERCENTAGE OF COUNTERPARTIES WHOSE RISK CLASS IN THE RESPECTIVE RATING CLASS CHANGED DURING 2012

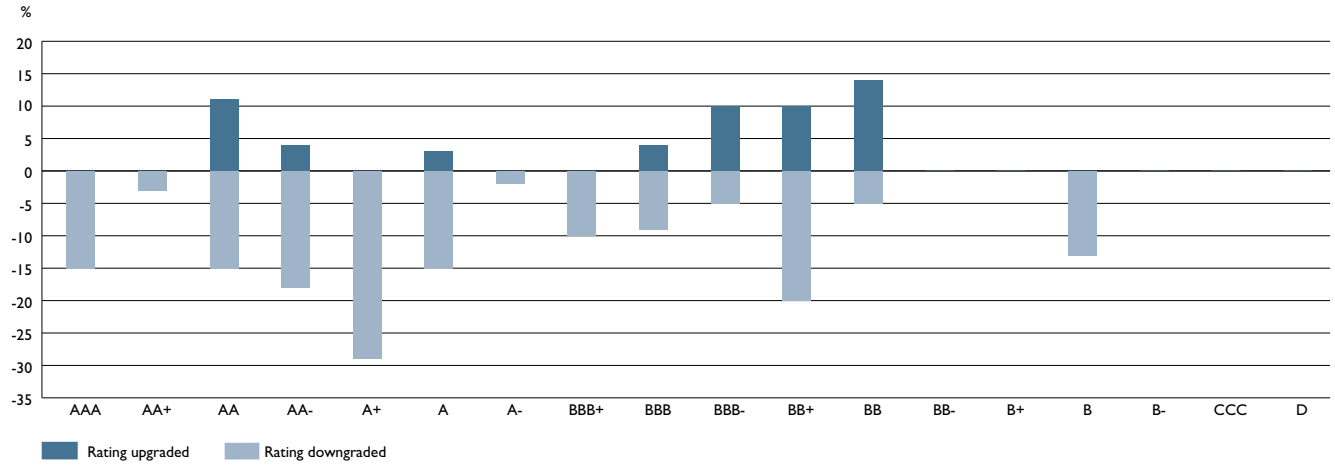
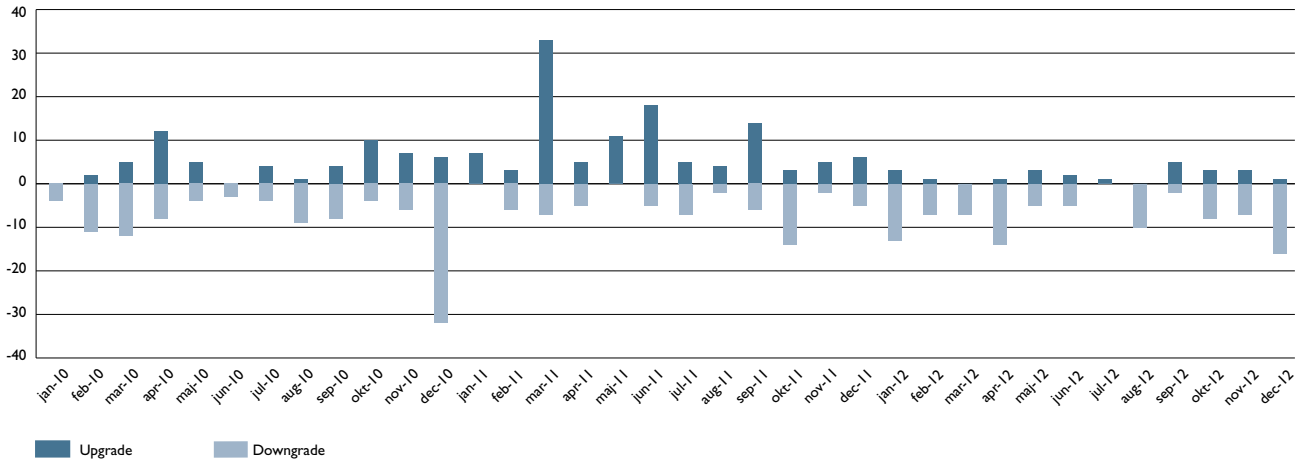


CHART 6.5: NUMBER OF COUNTERPARTIES WHOSE RISK CLASS CHANGED DURING 2010–2012 (PER MONTH)



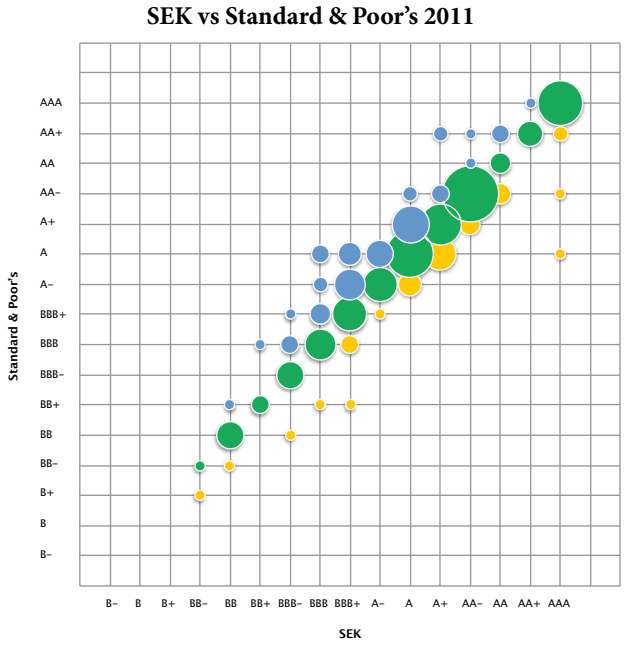
6.4.3 INFORMATION ABOUT THE CORRELATION BETWEEN INTERNAL AND EXTERNAL RATINGS

In order to identify the differences between SEK's risk classification and the ratings of external rating agencies, SEK conducts outcome analyses on an ongoing basis showing the correlation between the company's internal risk classification and the ratings of rating agencies. These differences can be due to both differences in the analytical assessment and the date of the analyses.

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 2011 AND 2012, RESPECTIVELY



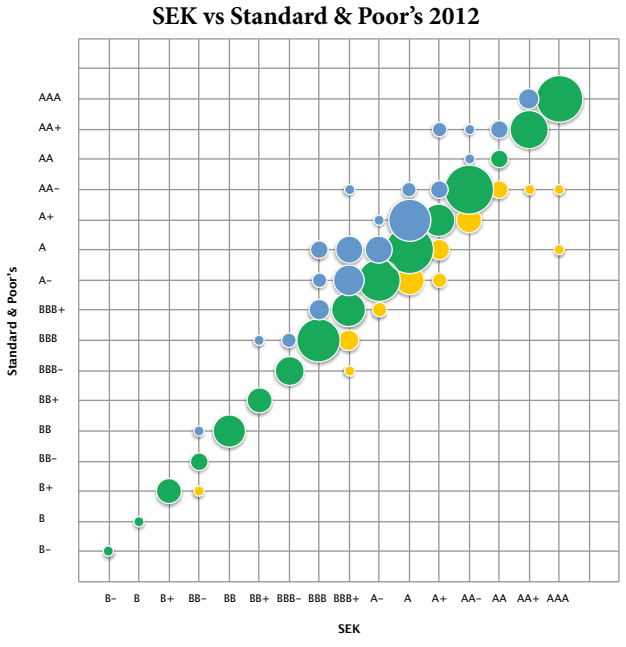


CHART 6.7: CORRELATION BETWEEN SEK'S INTERNAL RATINGS-BASED APPROACH AND MOODY'S AT THE END OF 2011 AND 2012, RESPECTIVELY

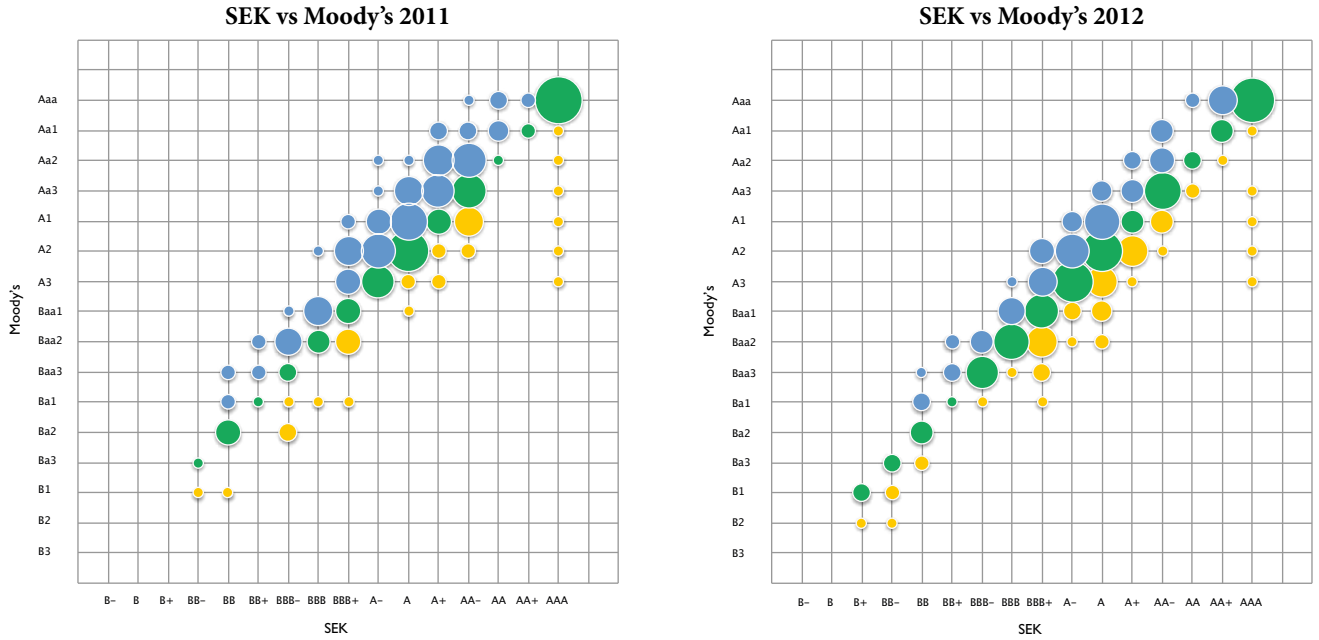
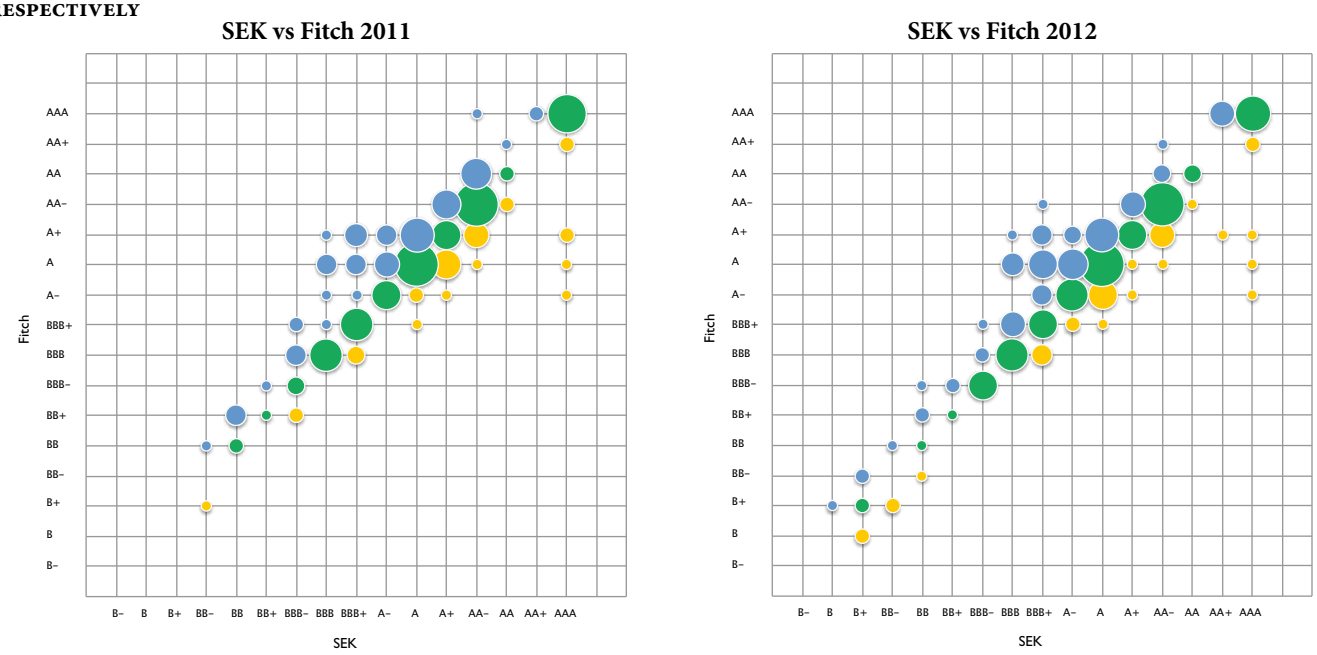


CHART 6.8: CORRELATION BETWEEN SEK'S INTERNAL RATINGS-BASED APPROACH AND FITCH'S AT THE END OF 2011 AND 2012, RESPECTIVELY



6.5 INFORMATION ABOUT THE CREDIT PORTFOLIO

In 2012, the level of risk in SEK's total net exposures, defined as the average risk weight, increased marginally and the total volume of risk-weighted assets (RWA) increased slightly. During 2012, SEK has changed its approach to provide offers. The revised method involves providing binding or non-binding offers. Binding offers are included in commitments and in SEK's total net exposures. In addition there have been minor changes in the composition of SEK's total net exposures. During 2012 the exposures to corporates have increased, while exposures to financial institutions have declined.The main reason of the reduction in exposures to financial institutions is that CDS-covered exposures to corporate have matured during the year. The increase in net exposures to Government export credit agencies is mainly due to the revised method.

The table 6.11 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 6.11: TOTAL NET EXPOSURES AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	Total				Credits & interest-bearing securities				Undisbursed credits, derivatives etc.			
Classified by exposure class	Amount		%		Amount		%		Amount		%	
Central Governments	9.8	(13.0)	3	(4)	9.0	(11.5)	3	(4)	0.8	(1.5)	1	(4)
Government export credit agencies[1]	162.0	(123.1)	47	(39)	107.0	(101.7)	39	(37)	55.0	(21.4)	78	(55)
Regional governments	23.6	(19.1)	7	(6)	23.4	(18.8)	8	(7)	0.2	(0.3)	0	(1)
Multilateral development banks	0.4	(0.4)	0	(0)	0.4	(0.4)	0	(0)	–	(–)	–	(–)
Financial institutions	77.2	(86.5)	22	(28)	66.3	(74.0)	24	(27)	10.9	(12.5)	16	(32)
Asset backed securities	10.0	(16.1)	3	(5)	10.0	(16.1)	4	(6)	–	(–)	–	(–)
Corporates	63.6	(55.4)	18	(18)	60.1	(52.1)	22	(19)	3.5	(3.3)	5	(8)
Total	**346.6**	**(313.6)**	**100**	**(100)**	**276.2**	**(274.6)**	**100**	**(100)**	**70.4**	**(39.0)**	**100**	**(100)**

[1] During 2012, SEK has changed its approach to providing offers. The revised method involves providing binding or non-binding offers. Binding offers are included in commitments and in SEK's total net exposures. The increase in net exposures to Government export credit agencies is mainly due to the revised method.

The following applies to all the tables presented in this section 6.5:

(i) The amount for gross exposure is reported before taking into account credit-risk protection (guarantees and credit derivatives) while net exposures are reported after taking into account guarantees and credit derivatives.

(ii) 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 risk-weighted and covered by capital according to the regulations.

6.5.1 EXPOSURES BY EXPOSURE CLASS

Table 6.12 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 50 percent (2011: 43 percent) of SEK's total net exposures.

TABLE 6.12: CREDIT-RISK EXPOSURES, AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	Gross exposure, December 31, 2012		Share		Average gross exposure 2012[1]		Net exposure December 31, 2012		Share		Average net exposure 2012[1]	
Central governments	42.7	(15.4)	12%	(5%)	31.6	(18.9)	9.8	(13.0)	3%	(4%)	10.9	(15.7)
Government export credit agencies	2.9	(0.7)	1%	(0%)	1.1	(0.0)	162.0	(123.1)	47%	(39)%	148.8	(116.5)
Regional governments	16.3	(11.0)	5%	(4%)	17.1	(13.3)	23.6	(19.1)	7%	(6%)	24.7	(21.7)
Multilateral development banks	0.0	(0.0)	0%	(0%)	0.6	(0.0)	0.4	(0.4)	0%	(0%)	1.0	(0.4)
Financial institutions	70.6	(75.8)	20%	(24%)	76.2	(87.1)	77.2	(86.5)	22%	(28%)	83.9	(100.0)
Corporates	204.1	(194.6)	59%	(62 %)	200.9	(182.3)	63.6	(55.4)	18%	(18%)	58.6	(48.7)
Securitization positions	10.0	(16.1)	3%	(5 %)	12.4	(20.1)	10.0	(16.1)	3%	(5%)	12.0	(18.7)
Total	**346.6**	**(313.6)**	**100%**	**(100%)**	**339.9**	**(321.7)**	**346.6**	**(313.6)**	**100%**	**(100%)**	**339.9**	**(321.7)**

[1] The average exposure figures are calculated on a monthly basis.

6.5.2 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, 2012. 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 6.13. For other exposure classes, the capital requirement calculations are established by the supervisory authority (standardized approach).

Note that the PD estimates shown in table 6.13 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

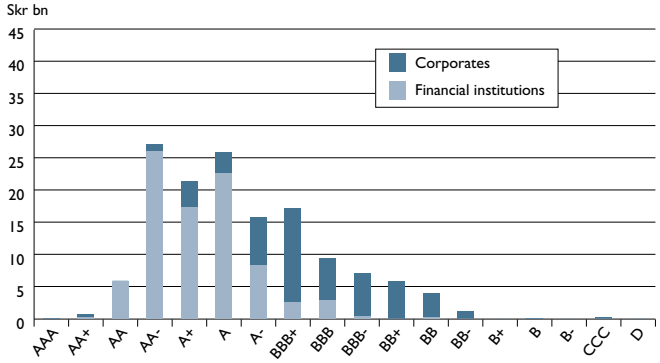


TABLE 6.13: NET EXPOSURES BY RATING AND PD AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn

Rating	PD		Financial institutions		Corporates	
AAA	0.02%	(0.02%)	0.9	(–)	0.9	(0.1)
AA+	0.02%	(0.02%)	1.1	(0.2)	1.2	(0.5)
AA	0.04%	(0.04%)	3.8	(5.9)	–	(–)
AA-	0.05%	(0.05%)	22.4	(26.0)	0.6	(1.0)
A+	0.07%	(0.07%)	11.1	(17.3)	4.6	(4.0)
A	0.10%	(0.10%)	24.1	(22.6)	3.3	(3.3)
A-	0.15%	(0.15%)	8.9	(8.3)	9.6	(7.5)
BBB+	0.21%	(0.21%)	2.4	(2.6)	12.0	(14.6)
BBB	0.31%	(0.31%)	2.1	(2.9)	10.3	(6.5)
BBB-	0.44%	(0.44%)	0.2	(0.4)	7.5	(6.6)
BB+	0.79%	(0.79%)	0.2	(0.0)	6.0	(5.9)
BB	1.03%	(1.03%)	–	(0.3)	4.4	(3.6)
BB-	1.56%	(1.56%)	–	(–)	2.4	(1.1)
B+	2.91%	(2.91%)	–	(–)	0.1	(–)
B	6.44%	(6.44%)	–	(–)	0.2	(0.1)
B-	10.05%	(10.05%)	–	(–)	–	(0.0)
CCC	28.98%	(28.98%)	–	(–)	0.1	(0.2)
D	100%	(100%)	–	(–)	0.0	(0.0)
Total			**77.2**	**(86.5)**	**63.2**	**(55.0)**

The table 6.14 illustrates the exposure at default (EAD), the portion of the exposure that will be lost in the event of a default (LGD) and the probability of default or cessation of payments by a counterparty (PD) for the exposure classes where PD is estimated internally.

TABLE 6.14: EAD, AVERAGE PD, LGD AND RISK WEIGHT BY PD GRADE AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn	AAA 0.02%		AA+ to A– 0.02–0.15%		BBB+ to BBB– 0.21–0.44%		BB+ to B– 0.79–10.05%		CCC to D 28.98–100%	
Financial institutions										
EAD	899	(–)	70,969	(80,089)	4,678	(5,836)	243	(263)	–	(–)
Average PD in %	0.02	(–)	0.07	(0,08)	0.21	(0.28)	0.79	(1.09)	–	(–)
Average LGD in %	45.0	(–)	42.2	(43.5)	45.0	(45.0)	45.0	(45.0)	–	(–)
Average risk weight in %	15.3	(–)	23.8	(23.6)	50.7	(54.1)	89.4	(99.8)	–	(–)
Corporates										
EAD	898	(70)	19,062	(15,871)	29,482	(27,243)	12,344	(10,497)	191	(217)
Average PD in %	0.02	(0.02)	0.11	(0.11)	0.30	(0.29)	1.09	(1.02)	33.8	(33.4)
Average LGD in %	45.0	(45.0)	45.0	(45.0)	45.0	(45.0)	45.0	(45.0)	45.0	(45.0)
Average risk weight in %	15.3	(19.0)	33.9	(33.1)	57.8	(55.9)	98.2	(96.2)	235.8	(237.3)

6.5.3 EXPOSURES BY REGION

Tables 6.15 and 6.16 illustrate SEK's gross and net exposures as of December 31, 2012 (and 2011) by region.

TABLE 6.15: GROSS EXPOSURE BY EXPOSURE CLASS AND REGION

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
Central governments	0.9	(0.0)	6.9	(7.6)	–	(–)	–	(–)	30.2	(0.2)	3.9	(3.3)	0.8	(2.5)	0.0	(1.8)	42.7	(15.4)
Government export credit agencies	–	(0.7)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.0)	2.9	(–)	2.9	(0.7)
Regional governments	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	9.9	(9.7)	1.5	(1.3)	4.9	(–)	16.3	(11.0)
Multilateral development banks	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.0)	0.0	(0.0)
Financial institutions	0.5	(0.6)	0.9	(1.2)	9.1	(6.7)	8.8	(4.4)	–	(–)	18.6	(22.0)	10.1	(10.6)	22.6	(30.3)	70.6	(75.8)
Corporates	1.5	(2.0)	42.4	(34.8)	24.1	(18.6)	0.6	(0.8)	7.6	(3.9)	71.1	(71.1)	13.4	(17.1)	43.4	(46.3)	204.1	(194.6)
Securitization positions	–	(–)	–	(–)	2.6	(3.4)	2.5	(3.6)	–	(–)	–	(–)	–	(–)	4.9	(9.1)	10.0	(16.1)
Total	**2.9**	**(3.3)**	**50.2**	**(43.6)**	**35.8**	**(28.7)**	**11.9**	**(8.8)**	**37.8**	**(4.1)**	**103.5**	**(106.1)**	**25.8**	**(31.5)**	**78.7**	**(87.5)**	**346.6**	**(313.6)**

TABLE 6.16: NET EXPOSURE BY EXPOSURE CLASS AND REGION

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
IRB-method																		
Financial institutions	–	(–)	1.0	(0.8)	11.9	(9.7)	8.8	(4.4)	–	(–)	13.6	(19.1)	13.6	(13.3)	28.3	(39.2)	77.2	(86.5)
Corporates	0.3	(–)	3.5	(1.5)	3.1	(0.5)	0.1	(–)	2.1	(–)	40.6	(39.1)	6.2	(9.0)	7.3	(4.9)	63.2	(55.0)
Securitization positions	–	(–)	–	(–)	2.6	(3.4)	2.5	(3.6)	–	(–)	–	(–)	–	(–)	4.9	(9.1)	10.0	(16.1)
Standardized approach																		
Central governments	–	(–)	–	(0.7)	–	(–)	–	(–)	–	(–)	4.2	(3.9)	2.0	(2.5)	3.6	(5.9)	9.8	(13.0)
Government export credit agencies	–	(–)	0.6	(–)	5.3	(6.4)	–	(–)	–	(–)	140.3	(99.2)	1.9	(2.4)	13.9	(15.1)	162.0	(123.1)
Regional governments	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	17.5	(17.5)	1.7	(1.6)	4.4	(–)	23.6	(19.1)
Multilateral development banks	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.4	(0.4)	0.4	(0.4)
Corporates	0.0	(–)	0.2	(0.1)	0.0	(0.0)	–	(–)	0.2	(0.2)	–	(–)	–	(–)	0.0	(0.1)	0.4	(0.4)
Total	**0.3**	**(–)**	**5.3**	**(3.1)**	**22.9**	**(20.0)**	**11.4**	**(8.0)**	**2.3**	**(0.2)**	**216.2**	**(178.8)**	**25.4**	**(28.8)**	**62.8**	**(74.7)**	**346.6**	**(313.6)**

Table 6.17 and 6.18 illustrate SEK's gross and net exposures as of December 31, 2012 (and 2011) by European countries, excluding Nordic countries.

TABLE 6.17: 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	–	(–)	–	(–)	–	(–)	–	(–)	6.0	(8.9)	5.7	(6.3)	0.6	(3.2)	12.3	(18.4)
The Netherlands	–	(–)	–	(–)	–	(–)	–	(–)	8.7	(5.1)	1.8	(1.3)	0.7	(0.9)	11.2	(7.3)
Russia	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	10.7	(11.4)	–	(–)	10.7	(11.4)
Spain	–	(–)	–	(–)	–	(–)	–	(–)	0.1	(0.5)	8.4	(8.9)	1.0	(1.3)	9.5	(10.7)
Germany	–	(1.3)	1.0	(–)	4.3	(–)	–	(–)	1.6	(4.7)	0.2	(0.6)	–	(–)	7.1	(6.6)
France	–	(–)	–	(–)	–	(–)	–	(–)	3.7	(6.1)	1.7	(1.9)	–	(–)	5.4	(8.0)
Turkey	–	(–)	–	(–)	0.6	(–)	–	(–)	–	(0.1)	4.4	(5.5)	–	(–)	5.0	(5.6)
Ireland	–	(–)	–	(–)	–	(–)	–	(–)	0.6	(1.3)	1.8	(2.0)	2.5	(2.6)	4.9	(5.9)
Poland	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	3.0	(3.1)	–	(–)	3.0	(3.1)
Italy	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	2.9	(3.2)	–	(–)	2.9	(3.2)
Luxembourg	–	(–)	1.7	(–)	–	(–)	0.0	(0.0)	0.1	(–)	0.5	(0.3)	–	(–)	2.3	(0.3)
Austria	–	(–)	0.2	(–)	–	(–)	–	(–)	1.3	(0.5)	0.0	(–)	–	(–)	1.5	(0.5)
Portugal	–	(0.5)	–	(–)	–	(–)	–	(–)	–	(–)	0.4	(–)	0.1	(0.3)	0.5	(0.8)
Belgium	–	(–)	–	(–)	–	(–)	–	(–)	–	(0.9)	0.3	(0.3)	–	(0.8)	0.3	(2.0)
Greece	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.1	(–)	–	(–)	0.1	(–)
Switzerland	–	(–)	–	(–)	–	(–)	–	(–)	–	(1.7)	–	(0.3)	–	(–)	–	(2.0)
Other countries	0.0	(–)	–	(–)	–	(–)	–	(–)	0.5	(0.5)	1.5	(1.2)	–	(–)	2.0	(1.7)
Total	**0.0**	**(1.8)**	**2.9**	**(–)**	**4.9**	**(–)**	**0.0**	**(0.0)**	**22.6**	**(30.3)**	**43.4**	**(46.3)**	**4.9**	**(9.1)**	**78.7**	**(87.5)**

TABLE 6.18: 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	–	(–)	3.1	(4.9)	–	(–)	–	(–)	10.8	(13.2)	1.1	(0.7)	0.6	(3.2)	15.6	(22.0)
Germany	–	(2.3)	5.5	(5.7)	4.4	(–)	–	(–)	2.9	(5.3)	1.0	(0.4)	–	(–)	13.8	(13.7)
The Netherlands	–	(–)	–	(–)	–	(–)	–	(–)	8.0	(5.9)	0.8	(1.3)	0.7	(0.9)	9.5	(8.1)
France	–	(–)	2.9	(3.5)	–	(–)	–	(–)	4.1	(7.9)	–	(–)	–	(–)	7.0	(11.4)
Spain	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(0.7)	1.8	(1.3)	1.0	(1.3)	3.1	(3.3)
Poland	3.0	(3.1)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	3.0	(3.1)
Ireland	–	(–)	–	(–)	–	(–)	–	(–)	–	(1.2)	0.4	(0.5)	2.5	(2.6)	2.9	(4.3)
Luxembourg	–	(–)	1.8	(–)	–	(–)	0.4	(0.4)	0.0	(–)	0.5	(0.1)	–	(–)	2.7	(0.5)
Austria	0.2	(–)	–	()	–	(–)	–	(–)	1.3	(0.5)	–	(–)	–	(–)	1.5	(0.5)
Italy	0.0	(–)	0.6	(0.9)	–	(–)	–	(–)	–	(–)	0.1	(–)	–	(–)	0.7	(0.9)
Portugal	0.4	(0.5)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(–)	0.1	(0.3)	0.5	(0.8)
Switzerland	–	(–)	0.0	(0.1)	–	(–)	–	(–)	0.4	(3.1)	–	(0.1)	–	(–)	0.4	(3.3)
Belgium	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.9)	0.3	(0.1)	–	(0.8)	0.3	(1.8)
Greece	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Other countries	0.0	(0.0)	–	(–)	–	(–)	–	(–)	0.5	(0.5)	1.3	(0.5)	–	(–)	1.8	(1.0)
Total	**3.6**	**(5.9)**	**13.9**	**(15.1)**	**4.4**	**(–)**	**0.4**	**(0.4)**	**28.3**	**(39.2)**	**7.3**	**(5.0)**	**4.9**	**(9.1)**	**62.8**	**(74.7)**

6.5.4 EXPOSURES BY REMAINING MATURITY

Table 6.19 and 6.20 below show SEK's exposures in maturity buckets, both gross and net, as of December 31, 2012 (and 2011). The average maturity for SEK's exposures including binding offers was 6.4 years, and excluding binding offers 4.5 years as of December 31, 2012.

TABLE 6.19: GROSS EXPOSURE BY EXPOSURE CLASS AND MATURITY (M)

Skr bn	M ≤ 1 year		1 year < M ≤ 3 years		3 years < M ≤ 5 years		M > 5 years		Total	
Central governments	4.6	(5.2)	0.5	(2.1)	0.2	(2.2)	37.4	(5.9)	42.7	(15.4)
Government export credit agencies	2.7	(0.0)	0.2	(0.1)	–	(0.1)	–	(0.5)	2.9	(0.7)
Regional governments	12.1	(7.9)	2.7	(2.0)	0.7	(0.7)	0.8	(0.4)	16.3	(11.0)
Multilateral development banks	–	(–)	–	(–)	0.0	(0.0)	–	(–)	0.0	(0.0)
Financial institutions	46.5	(50.1)	9.8	(12.6)	2.2	(3.8)	12.1	(9.3)	70.6	(75.8)
Corporates	17.2	(34.6)	39.2	(49.6)	64.6	(48.4)	83.1	(62.0)	204.1	(194.6)
Securitization positions	1.3	(5.3)	3.0	(4.0)	1.5	(1.6)	4.2	(5.2)	10.0	(16.1)
Total	**84.4**	**(103.1)**	**55.4**	**(70.5)**	**69.2**	**(56.8)**	**137.6**	**(83.3)**	**346.6**	**(313.6)**

TABLE 6.20: NET EXPOSURE BY EXPOSURE CLASS AND MATURITY (M)

Skr bn	M ≤ 1 year		1 year < M ≤ 3 years		3 years < M ≤ 5 years		M > 5 years		Total	
IRB-method										
Financial institutions	47.8	(55.6)	16.5	(19.5)	8.1	(6.1)	4.8	(5.3)	77.2	(86.5)
Corporates	13.9	(14.2)	14.0	(11.1)	17.4	(10.7)	17.9	(19.0)	63.2	(55.0)
Securitization positions	1.3	(5.3)	3.0	(4.0)	1.5	(1.6)	4.2	(5.2)	10.0	(16.1)
Standardized approach										
Central governments	4.7	(5.0)	0.4	(1.1)	1.4	(2.3)	3.3	(4.6)	9.8	(13.0)
Government export credit agencies	4.2	(14.1)	18.7	(31.8)	39.3	(34.6)	99.8	(42.6)	162.0	(123.1)
Regional governments	12.5	(8.5)	2.8	(2.8)	1.0	(1.5)	7.3	(6.3)	23.6	(19.1)
Multilateral development banks	–	(0.4)	–	(–)	0.4	(0.0)	–	(–)	0.4	(0.4)
Corporates	0.0	(0.0)	0.0	(0.1)	0.1	(0.0)	0.3	(0.3)	0.4	(0.4)
Total	**84.4**	**(103.1)**	**55.4**	**(70.4)**	**69.2**	**(56.8)**	**137.6**	**(83.3)**	**346.6**	**(313.6)**

6.5.5 EXPOSURES BY INDUSTRY

Table 6.21 below summarizes the distribution of SEK's exposures to corporates by industry as of December 31, 2012 (and 2011).

TABLE 6.21: CORPORATE EXPOSURE BY INDUSTRY (GICS)

Skr bn	Gross exposure		Net exposure	
IT and telecom	75.3	(66.4)	6.8	(6.2)
Financials	31.7	(20.9)	13.4	(2.5)
Industrials	28.8	(39.2)	15.0	(22.3)
Materials	28.4	(26.3)	10.3	(8.2)
Consumer goods	14.8	(14.6)	10.3	(6.9)
Utilities	12.4	(15.8)	3.6	(5.7)
Health Care	7.3	(6.8)	2.8	(2.1)
Energy	4.9	(3.3)	1.4	(1.3)
Other	0.5	(1.3)	0.0	(0.2)
Total	**204.1**	**(194.6)**	**63.6**	**(55.4)**

6.5.6 NUMBER OF EXPOSURES BY INDUSTRY AND RISK CLASS

Table 6.24 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 6.21 and that all exposure classes have been included.)

6.5.7 EXPOSURES BY BUSINESS SEGMENT

SEK has the following two business segments: direct finance and end-customer finance. Direct finance concerns financing that SEK arranges directly to, or for the benefit of Swedish exports companies. End-customer finance refers to financing that SEK arranges for buyers of Swedish goods and services. Table 6.22 and table 6.23 illustrate SEK's gross and net exposures as of December 31, 2012 by business segment and region. 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 6.5.

TABLE 6.22: GROSS EXPOSURES BY BUSINESS SEGMENT AND REGION

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
End-customer finance	2.8	(3.3)	48.0	(41.4)	19.3	(15.9)	0.5	(0.8)	35.7	(3.2)	11.5	(13.0)	0.5	(1.2)	43.5	(46.2)	161.8	(125.0)
Direct finance	0.1	(0.0)	1.6	(1.5)	3.3	(3.8)	0.1	(0.1)	2.1	(1.1)	67.1	(69.6)	12.2	(16.1)	4.2	(4.2)	90.6	(96.4)
Total	**2.9**	**(3.3)**	**49.6**	**(42.9)**	**22.6**	**(19.7)**	**0.6**	**(0.9)**	**37.8**	**(4.3)**	**78.6**	**(82.6)**	**12.7**	**(17.3)**	**47.7**	**(50.4)**	**252.4**	**(221.4)**

TABLE 6.23: NET EXPOSURES BY BUSINESS SEGMENT AND REGION

Skr bn	Africa		Asia		North America		Oceania		South America		Sweden		Other Nordic countries		Other European countries		Total	
End-customer finance	0.3	(–)	1.8	(1.3)	5.6	(6.7)	–	(–)	0.4	(0.2)	129.7	(89.0)	2.2	(3.9)	21.8	(23.9)	161.8	(125.0)
Direct finance	–	(–)	1.8	(1.3)	2.7	(3.7)	0.1	(–)	1.9	(–)	63.3	(66.6)	11.6	(13.9)	9.2	(10.9)	90.6	(96.4)
Total	**0.3**	**(–)**	**3.6**	**(2.6)**	**8.3**	**(10.4)**	**0.1**	**(–)**	**2.3**	**(0.2)**	**193.0**	**(155.6)**	**13.8**	**(17.8)**	**31.0**	**(34.8)**	**252.4**	**(221.4)**

TABLE 6.24: 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	2
Automobile Manufacturers			9	5	2
Brewers				2	
Consumer Electronics				1	
Household Appliances				2	
Household Products			1	1	
Tobacco					1
Agricultural Products					1
Distributors				1	
Home Furnishings			3		1
Publishing					1
Department Stores			1		
Homebuilding				1	
Homefurnishing Retail			2		
Energy					
Coal & Consumable Fuels				1	
Oil & Gas Refining & Marketing				2	3
Oil & Gas Exploration & Production				1	1
Financials					
Asset Management & Custody Banks		1	4	4	
Consumer Finance				1	
Diversified Banks	3	30	44	25	2
Diversified Capital Markets		1	7	1	
Investment Banking & Brokerage		1	10	15	2
Multi-Sector Holdings			2	1	
Other Diversified Financial Services	1		8	13	2
Property & Casualty Insurance	1				
Regional Banks	2	2	7	5	
Specialized Finance	12[1]	7[2]	7[3]	7[4]	2
Thrifts & Mortgage Finance			8		
Diversified Real Estate Activities	1	4			
Real Estate Development		2			7
Real Estate Operating Companies				1	
Retail REITs			3		
Reinsurance			4		
Health care					
Health Care Distributors		1			
Health Care Equipment				4	
Health Care Facilities				2	
Pharmaceuticals			1		1
Health Care Services		1			
Industrials					
Aerospace & Defense			1	1	
Air Freight & Logistics					2
Building Products				1	
Construction & Engineering				5	8
Construction & Farm Machinery & Heavy Trucks				6	
Environmental & Facilities Services					3
Heavy Electrical Equipment			3	1	
Highways & Railtracks			3	1	
Industrial Conglomerates			3	1	3
Industrial Machinery			5	7	1
Marine				1	2
Railroads	1			1	1
Security & Alarm Services				1	
Trucking				1	2
Airlines					1
Trading Companies & Distributors					1
Marine Ports & Services					1
IT and Telecom					
Communications Equipment			1	8	
Electronic Equipment & Instruments				5	
Integrated Telecommunication Services			4	14	5
Wireless Telecommunication Services			1	14	6
Electronic Manufacturing Services			1		
IT Consulting & Other Services			1		
Technology Distributors			1		
Materials					
Commodity Chemicals				2	
Construction Materials					3
Diversified Metals & Mining				1	3
Forest Products			1	1	5
Paper Packaging					3
Paper Products				4	10
Steel				1	1
Industrial Gases			1		
Sovereign and Municipalities					
Regional/Local Government	6	64	2		1
Sovereign	14	13	4	17	16
Central Government Agency	3				
Utilities					
Electric Utilities		4	3	3	4
Independent Power Producers & Energy Traders				1	1
Multi-Utilities		1			
Grand Total	44	132	156	196	111

[1] of which 7 are government export credit agencies
[2] of which 2 are government export credit agencies
[3] of which 1 is a government export credit agency
[4] of which 1 is a government export credit agency

6.6 COMPARISON OF EXPECTED LOSSES AND ACTUAL LOSSES (IRB)

SEK's estimated expected loss amount (EL), for non-defaulted exposures, as of December 31, 2012 totaled Skr 159.7 million, of which Skr 133.3 million was attributable to exposures to corporates and Skr 26.4 million was attributable to exposures to financial institutions. 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 2013.

The table below provides a comparison for the years 2008–2012, 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[6] 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 classes exposures to corporates and exposures to financial institutions during the years 2008–2012. 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 five years which totaled Skr 602 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 6.25: COMPARISON OF EXPECTED LOSSES 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	–	–	–
2012			
Expected loss amount	111	36	147
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.

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

6.7 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 2012 amounted to a net recovery of Skr 13.7 million (2011: Skr 4.2 million). Write-downs of financial assets amounted to Skr 71.7 million 2012 (2011: Skr 125.1 million). The credit losses includes a provision of Skr 40.0 million (2011: Skr 110.0 million) related to bad debts not linked to a specific counterparty. This results in the provision for bad debts not linked to a specific counterparty amounting to Skr 200.0 million (Year-end 2011: Skr 160.0 million). The provision for bad debts not linked to a specific counterparty relates to deterioration in credit quality related to assets not individually reserved for. The increase in the reserve resulted from the higher inherent credit risk in SEK's portfolio as a whole due to uncertainties in the European financial markets and related adverse economic conditions. The reserve was increased due to the risk of losses that are currently unknown to SEK. SEK assessed the reserve according to a methodology based on both quantitative and qualitative analysis of all exposures accounted for at amortized cost.

TABLE 6.26: EXPOSURES WITH A NEED FOR WRITE-DOWN AND PAST-DUE EXPOSURES, BY EXPOSURE CLASS

Skr mn	Past-due exposures		Exposures with a need for write-down		Accumulated individual write-downs	
Government export credit agencies	1,574	(1,046)	–	(–)	–	(–)
Financial institutions	–	(–)	–	(–)	–	(–)
Corporates	–	(–)	84	(48)	61	(40)
Securitization positions	–	(–)	594	(641)	451	(483)
Total	**1,574**	**(1,046)**	**678**	**(689)**	**512**	**(523)**

TABLE 6.27: 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	–	(–)	594	(641)	451	(483)
Sweden	1,574	(1,046)	67	(26)	44	(18)
Other European countries	–	(–)	17	(22)	17	(22)
Other Nordic countries	–	(–)	–	(–)	–	(–)
Total	**1,574**	**(1,046)**	**678**	**(689)**	**512**	**(523)**

TABLE 6.28: CHANGES IN WRITE-DOWNS IN 2012

Skr mn	
Opening balance January 1, 2012	684
Write-downs 2012	72
Reversal of previous write-downs	–35
Closing balance December 31, 2012	**721**

6.7.1 LEHMAN BROTHERS

On April 11, 2012, the Swiss company Lehman Brothers Finance AG. (in liquidation, with PricewaterhouseCoopers as appointed liquidators) ('LBF') filed a lawsuit against SEK in the Stockholm District Court. LBF claims that SEK miscalculated the termi-

nation payment that was due to LBF when certain derivative transactions were terminated following the September 2008 bankruptcy of LBF's parent company, Lehman Brothers Holding Inc. LBF also claims that SEK was late in paying the amount that SEK calculated as being due. In its lawsuit, LBF is seeking a payment of approximately USD 37 million, plus default interest of approximately USD 45 million through March 30, 2012, for a total of USD 82 million. SEK filed a response with the Stockholm District Court on August 31, 2012, stating that it has already paid all amounts that were properly due to LBF. A first hearing at the Stockholm District Court for the litigation is scheduled for January 2013. SEK believes that LBF's claims are without merit and intends to vigorously defend its position. SEK does not believe it will suffer any significant losses related to the bankruptcy of Lehman Brothers, including the current lawsuit filing. No guarantees on the outcome of SEK's dispute with LBF can be given.

6.8 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 ("CDS"). 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 6.9, 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 6.8.2.

6.8.1 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, 2012, government export credit agencies guaranteed a total of Skr 159.4 billion (year-end 2011: Skr 123.1 billion), which was equivalent to 46 percent (year-end 2011: 39 percent) of total credit exposures. Skr 116.3 billion (year-end 2011: Skr 110.0 billion) covered corporate exposures, Skr 4.7 billion (year-end 2011: Skr 5.3 billion) covered exposures to financial institutions, and Skr 37.9 billion (year-end 2011: Skr 7.8 billion) covered government exposures. See also table 6.30 in section 6.8.2.

TABLE 6.29: CREDIT EXPOSURES GUARANTEED BY GOVERNMENT EXPORT CREDIT AGENCIES AS OF DECEMBER 31, 2012 (AND 2011)

Skr bn	Guaranteed exposure		Share	
The Swedish Export Credits Guarantee Board	140.3	(99.2)	88%	(81%)
Export-Import Bank of the United States	5.3	(6.4)	3%	(5%)
Euler Hermes Kreditversicherungs AG	4.6	(5.7)	3%	(5%)
UK Export Finance	3.1	(4.9)	2%	(4%)
Other	6.1	(6.9)	4%	(5%)
Total	**159.4**	(123.1)	**100%**	(100%)

6.8.2 CREDIT DERIVATIVE TRANSACTIONS

At year-end 2012, SEK had purchased CDS-protection (described in table 6.30) in respect of claims (assets) totalling Skr 11.6 billion (year-end 2011: Skr 19.4 billion). CDS protection was purchased from 18 (year-end 2011: 19) different financial institutions. Of these, Skr 11.6 billion (year-end 2011: Skr 19.4 billion) covered exposures to corporates.

As described in more detail in section 6.9, SEK has ISDA Master Agreements and Credit Support Annexes or recouponing/repricing arrangements in place with CDS protection sellers. As also described in section 6.9, 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 oblige 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 2012, the notional amount of CDSs in respect of which SEK acted as seller of protection was Skr 0.0 billion (year-end 2011: Skr 0.4 billion). All the underlying exposures were exposures to corporates.

CHART 6.10: BREAKDOWN OF CDS-PROTECTED EXPOSURES BY THE CDS-PROTECTION SELLERS' RISK CLASS AS A PERCENTAGE OF THE TOTAL CDS-PROTECTED EXPOSURE AS OF DECEMBER 31, 2012

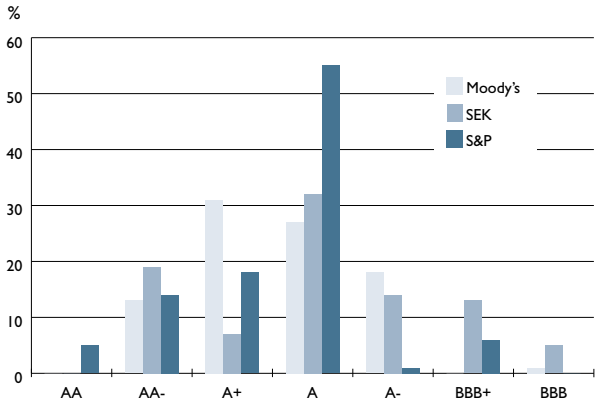
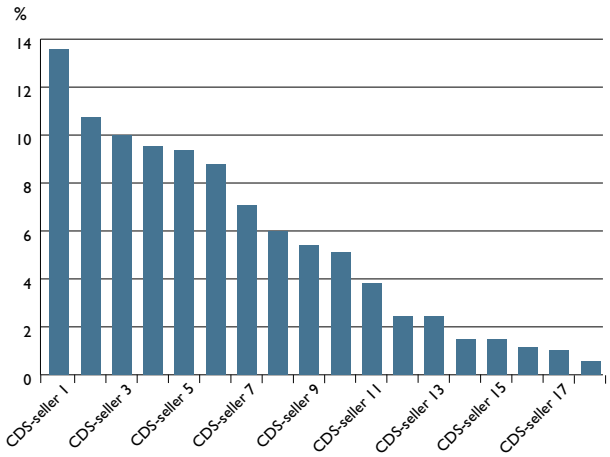


CHART 6.11: ALL SEK'S CDS-COUNTERPARTIES AND THEIR PERCENTAGE OF TOTAL PROTECTED AMOUNTS AS OF DECEMBER 31, 2012



The table below shows SEK's exposures mitigated by guarantees or CDS contracts, by exposure class as of December 31, 2012.

TABLE 6.30: EXPOSURES MITIGATED BY GUARANTEES OR CREDIT DERIVATIVES, BY EXPOSURE CLASS

Skr bn

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	0.3	(0.0)	0.4	(0.1)	7.2	(7.4)	–	(–)	–	(1.6)	4.7	(5.3)	12.6	(14.3)
Corporates	Credit Derivative	11.6	(19.4)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	11.6	(19.4)
	Guarantee	7.5	(5.5)	4.9	(7.5)	0.5	(0.8)	0.4	(0.4)	4.7	(3.8)	116.3	(109.3)	134.3	(127.3)
Local governments	Guarantee	–	(–)	0.0	(–)	0.0	(0.0)	–	(–)	–	(–)	0.5	(–)	0.5	(0.0)
Central governments and central banks	Guarantee	0.0	(0.0)	–	(–)	–	(–)	–	(–)	–	(1.5)	37.9	(7.8)	37.9	(9.3)
Government export credit agencies	Guarantee	–	(–)	–	(–)	0.1	(–)	–	(–)	0.2	(–)	–	(0.7)	0.3	(0.7)
Total		**19.4**	**(24.9)**	**5.3**	**(7.6)**	**7.8**	**(8.2)**	**0.4**	**(0.4)**	**4.9**	**(6.9)**	**159.4**	**(123.1)**	**197.2**	**(171.1)**

6.8.3 COLLATERAL

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.

6.8.4 CREDIT EXPOSURES TO EUROPEAN COUNTRIES BY RISK MITIGATION METHOD

In light of the ongoing European sovereign debt crisis, the tables below aim to describe SEK's exposures to European countries. The effects of the crisis are observed and analyzed using scenario analyses as part of the internal capital adequacy assessment (ICAAP). In order to avoid refinancing risk, it is SEK's policy that for all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available through maturity. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. SEK ensures that it does not purchase credit derivatives (CDSs) with shorter maturities than the assets whose risk the credit derivatives are intended to mitigate.

The first column of the risk mitigation tables shows gross exposures, i.e. exposures excluding guarantees and credit risk derivatives, for respective countries. The next two columns show decrease due to risk mitigation, in the form of guarantees and credit risk derivatives. A decrease due to risk mitigation results in a decrease in the exposure in the respective country as the original gross exposure is transferred to another country by means of risk mitigation. An increase due to risk mitigation means that an exposure, in the form of guarantees and credit risk derivatives, increases in the respective country as a result of including credit protection that is not reflected in the gross exposure. An increase due to risk mitigation results in increased exposure to the respective country. Figures in the column for net exposures, i.e. exposures after including guarantees and credit risk derivatives, are the sum of gross exposure, the decrease due to risk mitigation and the increase due to risk mitigation, for the respective country.

TABLE 6.31: GROSS AND NET EXPOSURES TO EUROPEAN COUNTRIES, EXCLUDING NORDIC COUNTRIES, BY RISK MITIGATION METHOD, AS OF DECEMBER 31, 2012 (AND 2011)

	Gross exposure		Decrease due to risk mitigation				Increase due to risk mitigation				Net exposure	
			Guarantee		CDS		Guarantee		CDS			
Skr bn												
United Kingdom												
Sovereign	–	(–)	–	(–)	–	(–)	3.1	(4.9)	–	(–)	3.1	(4.9)
Non-sovereign	12.3	(18.4)	–3.5	(–4.5)	–1.1	(–1.9)	1.0	(0.4)	3.8	(4.7)	12.5	(17.1)
France												
Sovereign	–	(–)	–	(–)	–	(–)	2.9	(3.5)	0	(–)	2.9	(3.5)
Non-sovereign	5.4	(8.0)	–3.8	(–4.2)	–	(–)	0.3	(0.4)	2.2	(3.7)	4.1	(7.9)
Germany												
Sovereign	5.4	(1.3)	–	(–)	–	(–)	4.5	(6.7)	0	(–)	9.9	(8.0)
Non-sovereign	1.7	(5.3)	–	(–1.5)	–	(–0.3)	1.1	(0.5)	1.1	(1.7)	3.9	(5.7)
The Netherlands												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	11.2	(7.3)	–1.6	(–0.3)	–0.3	(–)	0.2	(1.1)	–	(–)	9.5	(8.1)
Belgium												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	0.3	(2.0)	–	(–0.2)	–	(–)	0.0	(0.0)	–	(–)	0.3	(1.8)
Ireland												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0	(–)
Non-sovereign	4.9	(5.9)	–1.4	(–1.6)	–0.6	(–)	–	(–)	–	(–)	2.9	(4.3)
Spain												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	9.5	(10.7)	–6.6	(–7.6)	–	(–)	0.1	(–)	0.1	(0.2)	3.1	(3.3)
Poland												
Sovereign	–	(–)	–	(–)	–	(–)	3.0	(3.1)	–	(–)	3.0	(3.1)
Non-sovereign	3.0	(3.1)	–3.0	(–3.1)	–	(–)	–	(–)	–	(–)	–	(–)
Switzerland												
Sovereign	–	(–)	–	(–)	–	(–)	0.0	(0.1)	–	(–)	0.0	(0.1)
Non-sovereign	–	(2.0)	–	(–)	–	(–0.2)	0.4	(0.0)	–	(1.4)	0.4	(3.2)
Italy												
Sovereign	–	(–)	–	(–)	–	(–)	0.6	(0.9)	–	(–)	0.6	(0.9)
Non-sovereign	2.9	(3.2)	–2.9	(–3.2)	–	(–)	0.1	(–)	–	(–)	0.1	(–)
Portugal												
Sovereign	–	(0.5)	–	(–0.5)	–	(–)	0.4	(0.5)	–	(–)	0.4	(0.5)
Non-sovereign	0.5	(0.3)	–0.4	(–)	–	(–)	–	(0.0)	–	(–)	0.1	(0.3)
Turkey												
Sovereign	0.6	(–)	–0.6	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	4.4	(5.6)	–3.8	(–5.6)	–	(–)	–	(–)	–	(–)	0.6	(–)
Russia												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	10.7	(11.4)	–10.7	(–11.4)	–	(–)	–	(–)	–	(–)	0.0	(0.1)
Greece												
Sovereign	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Non-sovereign	0.1	(–)	–0.1	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Austria												
Sovereign	0.2	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.2	(–)
Non-sovereign	1.3	(0.5)	–	(–)	–	(–)	0.0	(0.0)	–	(–)	1.3	(0.5)
Luxembourg												
Sovereign	1.7	(–)	–	(–)	–	(–)	0.5	(0.4)	–	(–)	2.2	(0.4)
Non-sovereign	0.6	(0.3)	–0.1	(–0.2)	–	(–)	–	(–)	–	(–)	0.5	(0.1)
Other countries												
Sovereign	–	(0,0)	0.0	(–)	–	(–)	–	(0,4)	–	(–)	0	(0.0)
Non-sovereign	2.0	(1.7)	–0.6	(–0.7)	–0.2	(–)	0.0	(0,0)	–	(–)	1.2	(1.0)
Total	**78.7**	**(87.5)**	**–39.1**	**(–44.6)**	**–2.2**	**(–2.4)**	**18.2**	**(22.5)**	**7.2**	**(11.7)**	**62.8**	**(74.7)**

TABLE 6.32: GROSS AND NET EXPOSURES NORDIC COUNTRIES BY RISK MITIGATION, AS OF DECEMBER 31, 2012 (AND 2011)

	Gross exposure		Decrease due to risk mitigation				Increase due to risk mitigation				Net exposure	
			Guarantee		CDS		Guarantee		CDS			
Skr bn												
Sweden												
Sovereign	13.8	(13.0)	–	(–)	–	(–)	148.2	(107.6)	–	(–)	162.0	(120.6)
Non-sovereign	89.7	(93.1)	–31.4	(–34.1)	–5.9	(–12.2)	1.8	(7.5)	0.0	(3.9)	54.2	(58.2)
Norway												
Sovereign	–	(–)	–	(–)	–	(–)	0.6	(0.7)	–	(–)	0.6	(0.7)
Non-sovereign	4.5	(5.0)	0.0	(0.0)	–0.9	(–0.9)	1.3	(1.3)	–	(–)	4.9	(5.4)
Finland												
Sovereign	0.9	(2.3)	–	(–1.1)	–	(–)	2.0	(2.8)	–	(–)	2.9	(4.0)
Non-sovereign	11.1	(15.5)	–3.6	(–3.0)	– 1.5	(–3.3)	0.3	(0.4)	0.6	(–)	6.9	(9.6)
Iceland												
Sovereign	–	(0.5)	–	(–)	–	(–)	0.5	(–)	–	(–)	0.5	(0.5)
Non-sovereign	1.0	(0.5)	–0.8	(–0.3)	–	(–)	–	(–)	–	(–)	0.2	(0.2)
Denmark												
Sovereign	1.4	(1.0)	–	(–)	–	(–)	0.2	(0.3)	–	(–)	1.6	(1.3)
Non-sovereign	6.9	(6.7)	–	(0.3)	–0.3	(–0.3)	1.0	(0.7)	0.2	(0.3)	7.8	(7.1)
Total	**129.3**	**(137.6)**	**–36.0**	**(–38.8)**	**–8.6**	**(–16.7)**	**155.9**	**(121.3)**	**0.8**	**(4.2)**	**241.6**	**(207.6)**

6.9 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.

The majority of SEK's derivative contracts are what are known as OTC (over the counter) derivatives, i.e. derivative contracts that are not completed on a stock exchange. At the end of 2012, SEK's OTC derivative contracts were not subject to central clearing.

6.9.1 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 2012, 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 2011: Skr 0.6 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, 2012 the positive gross value of derivative transactions on the balance sheet was Skr 25.7 billion (year-end 2011: Skr 31.5 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 12.8 billion (year-end 2011: Skr 16.7 billion), i.e. Skr 12.9 billion (year-end 2011: Skr 14.8 billion) less than the gross exposure. As of December 31, 2012, SEK's counterparties had provided credit support of Skr 14.3 billion (year-end 2011: Skr 15.6 billion). Due to a time lag (two business days) in the handling of the financial collateral, the value of the counterparty's pledged assets may exceed the netted market value. During 2012, credit support received amounted on average to Skr 16.8 billion (2011: Skr 12.9 billion). Chart 6.12 displays how transactions settled by counterparties under the ISDA Master Agreements varied over 2012.

CHART 6.12: NUMBER OF TRANSACTIONS SETTLED BY COUNTERPARTIES, AVERAGE PER MONTH DURING 2012

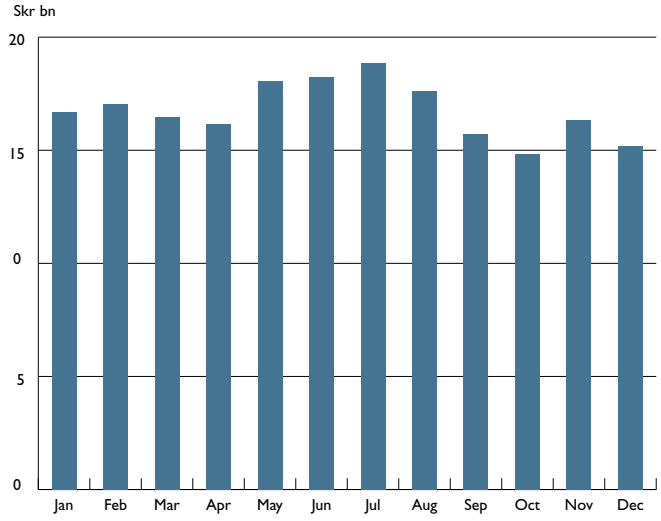


Table 6.33 shows values of derivative contracts on the balance sheet as of December 31, 2012 (and 2011).

TABLE 6.33: DERIVATIVE INSTRUMENTS, BY CATEGORY

Skr bn	Assets fair value		Liabilities fair value		Nominal amounts	
Currency related contracts	16.8	(23.2)	5.0	(5.1)	207.1	(231.6)
Interest rate related contracts	6.5	(6.2)	6.9	(7.2)	150.5	(143.5)
Equity related contracts	2.2	(2.0)	3.2	(8.7)	40.4	(58.5)
Others	0.1	(0.1)	1.3	(1.6)	16.1	(20.3)
Total	**25.6**	**(31.5)**	**16.4**	**(22.6)**	**414.1**	**(453.9)**
Collateral received			*14.3*	*(15.6)*	*15.6*	*(14.3)*
Reduction in exposure from applying netting			*12.6*	*(14.8)*	*14.8*	*(14.1)*

6.9.2 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, 2012, the capital requirement for counterparty risk in derivative transactions under Pillar 1 totaled Skr 275 million (2011: Skr 327 million). Table 6.34 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 6.34: CURRENT, POTENTIAL FUTURE EXPOSURE AND CAPITAL REQUIREMENT FOR COUNTERPARTY RISK, AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn	Current exposure		Potential future exposure		Total exposure		Risk-weighted amount		Capital requirement	
Public entities	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)
Institutions	45	(89)	9,222	(11,180)	9,267	(11,270)	3,440	(4,072)	275	(327)
Corporates	–	(–)	2	(9)	2	(9)	2	(5)	–	(–)
Total	**45**	**(89)**	**9,224**	**(11,189)**	**9,269**	**(11,279)**	**3,442**	**(4,077)**	**275**	**(327)**

6.9.3 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 (Title VII). OTC derivative regulations were to be complete by the end of 2012 or the start of 2013. Although much of the detailed regulations on EMIR and DFA Title VII have been drafted, there is still uncertainty over when exactly the rules will go into force. Under Dodd-Frank Section VII, the timetable for the various obligations depends on the type of market entity. SEK is not a swap dealer or a major swap counterparty under Dodd-Frank and therefore does not need to register as such in the US. SEK is, however, classed as a ”financial entity” and therefore needs to comply with certain requirements under Dodd-Frank Title VII given that it trades derivatives with US counterparties. However, SEK must comply in full with EMIR requirements as these apply to all financial institutions trading derivatives. No timetable has yet been set for when the clearing requirement will apply, as there are currently no authorized central counterparties. The clearing requirement will probably not apply until 2014.

The new regulation will have an effect on SEK's business model since SEK, to a large extent, uses derivatives for hedging purposes. The derivatives reform will introduce greater margin requirements, for both cleared and especially 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. SEK has put much effort into preparing for the forthcoming regulatory requirements regarding OTC derivatives and is prepared to meet the new requirements.

6.10 CAPITAL REQUIREMENT FOR CREDIT RISK

Table 6.35 summarizes the capital requirement for credit risk under Pillar 1, broken down by the IRB approach and the standardized approach.

TABLE 6.35: RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENT CREDIT RISK AS OF DECEMBER 2012 (AND 2011) BY METHOD

Skr mn	Risk-weighted assets		Capital requirement	
Standardized approach				
Central governments	820	(1,341)	66	(107)
Government export credit agencies	315	(178)	25	(14)
Corporates	373	(247)	30	(20)
Retail	1	(1)	0	(0)
Total capital requirement standardized approach	**1,509**	**(1,767)**	**121**	**(141)**
IRB-method				
Financial institutions	19,612	(22,335)	1,569	(1,787)
Securization positions	8,254	(5,807)	660	(465)
Corporates	36,202	(31,119)	2,896	(2,489)
Non-credit-obligation assets	149	(128)	12	(10)
Total capital requirement IRB method	**64,217**	**(59,389)**	**5,137**	**(4,751)**
Total credit risk[1]	**65,726**	**(61,156)**	**5,258**	**(4,892)**
[1] Of which **counterparty credit risk**	3,442	(4,082)	275	(327)

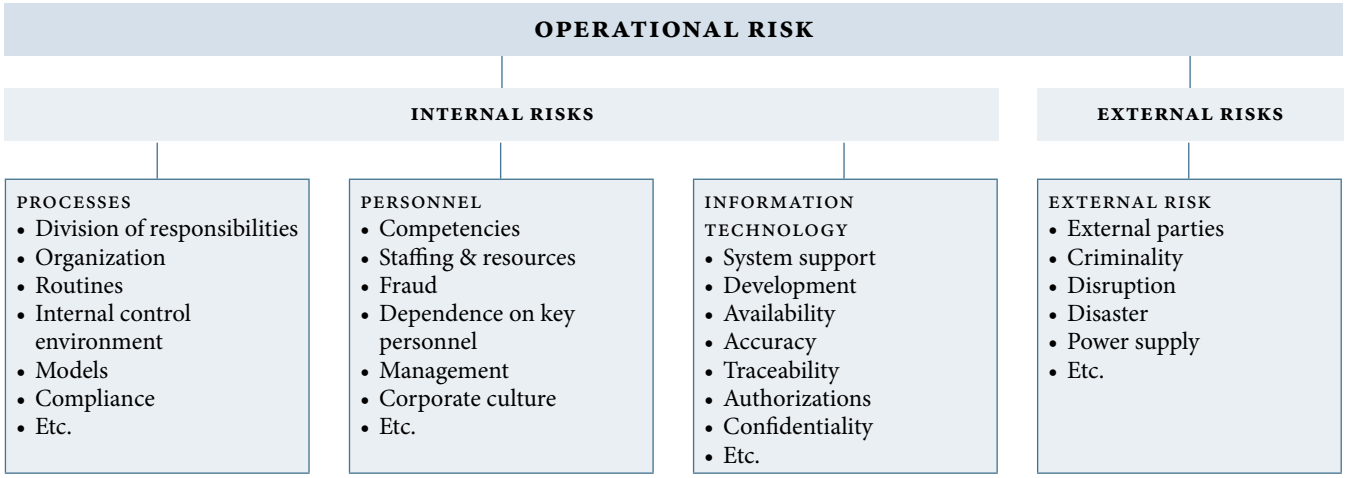
See also section 5.2.1 and 5.3.2 for description of measurement and calculation of economic capital under Pillar 2 for credit risk.

7. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate internal processes, human error, faulty systems or from external events. The definition includes legal risk. SEK's appetite for operational risk is low.[7] 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 2012

The intensified work on managing operational risk and increasing awareness about operational risk among employees, which began in 2011, has continued during 2012 and some procedures have been developed further. For example, the report to the Board of Directors is now more extensive and the results of the annual risk analysis have been integrated into the business plan at an operational level.

SEK works actively to prevent severe incidents and crises and works continually on planning and training procedures for managing incidents and crises if they were to occur. As part of this work, a detailed continuity plan was documented during the year to ensure that SEK is always able to maintain business continuity in its most critical processes, irrespective of what critical resources it might lose. Training for the plan was conducted, based on a scenario of the loss of critical IT resources. The training provided staff with a better understanding and resulted in further development of the continuity plan.

At SEK, regardless of the size of their impact on earnings, events related to deficiencies in management, processes, systems, compliance or similar are reported in accordance with the company's incident reporting procedure. During 2012 111 incidents were reported. The absolute sum of the effect on earnings from reported incidents was Skr 3.8 million.

7.2 INTERNAL GOVERNANCE

In order to support risk management, the company works in accordance with the framework for operational risk. 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 detailed 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.

7.3 RESPONSIBILITY

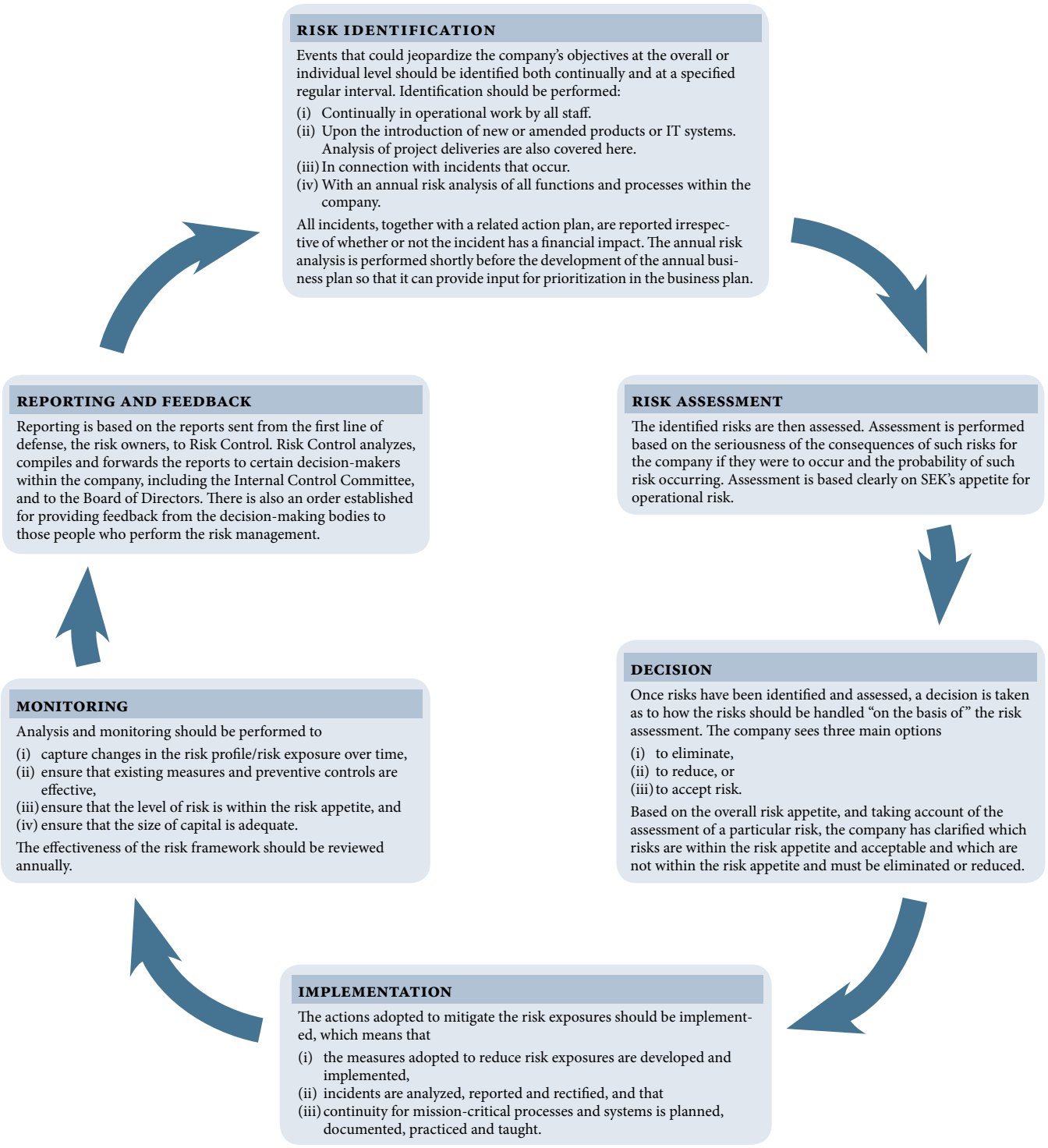
Operational risk occurs in potentially all business and support activities within SEK, which means that all functions within the company serve as part of the first line of defense in terms of the ownership of operational risks and have full responsibility for operational risks that occur within their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

7.4 RISK MANAGEMENT PROCESS

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

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

CHART 7.2: RISK MANAGEMENT PROCESS FOR OPERATIONAL RISK



7.5 MEASUREMENT OF RISK LEVEL

SEK measures the level of operational risk on an ongoing basis. The company's conclusion regarding the risk level is based on an assessment of primarily four components. In brief, these are:

(i) whether there are risks that have been assessed as primarily "high risk", but also whether there are risks that are assessed as "medium risk". Risks assessed as "high risk" fall well outside the risk appetite. It is interesting, for example, to note how many risks there are in these two categories, how well these risks are managed and what the consequences are if the risks were to occur.

(ii) whether severe incidents have been reported that are not acceptable.

(iii) the conclusion reached by management in its annual assessment of internal control in accordance with SOX 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 basis for meeting the company's objectives to prevent operational risk.

(iv) executive management's qualitative assessment of the level of risk.

Continual measures are taken in order for the level of risk to lie within the appetite for operational risk. Work is undertaken relating directly to operational risk, such as the activities that are part of the risk management process for operational risk, described in section 6.3.1 above, along with methodical and extensive work to maintain a high level of internal control. In addition, SEK's system environment and processes are being developed and will include such improvements as the introduction of a higher degree of automation and more effective processes, which are expected to have a positive effect on the level of 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 that 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 coefficient that can be either 12 percent, 15 percent or 18 percent (which is determined by the regulation), depending on the 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, 2012, the capital requirement under Pillar 1 for operational risk totaled Skr 284 million.

The capital requirement under Pillar 2 for operational risk is calculated based on the methodology for the standardized approach with the addition of an expert assessment. As of December 31, 2012, the capital requirement under Pillar 2 for operational risk totaled Skr 321 million.

8. MARKET RISK

SEK's business model leads to exposures to interest-rate risk, different types of spread risks and to currency risk. Note that in accordance with SEK's policies for risk management, foreign currency positions related to unrealized fair value changes are not hedged. 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 low levels.

8.1 INTEREST-RATE RISK IN THE BANKING BOOK

8.1.1 RISK MANAGEMENT AND REPORTING

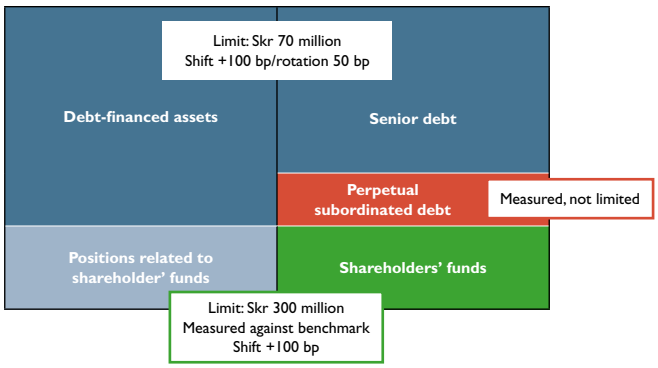
Risk neutrality for interest-rate risk in debt-financed assets and senior debt can only be achieved if currency, interest-rate terms and the overall maturity period for the liabilities match the corresponding assets. Conditions are different for shareholders' funds, as interest-rate terms cannot be matched. According to SEK's approach, risk neutrality should be based on the aim of minimizing earnings volatility and forming a link with shareholder's return-on-equity target. 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 1/10 of the total portfolio matures every year from year 1 to year 10.

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.

8.1.2 INTEREST-RATE RISK MEASUREMENT

In order to distinguish the impact from different types of interest-rate risks SEK has divided the balance sheet based on the type of financing as shown in chart 8.1.

CHART 8.1: THE BALANCE SHEET



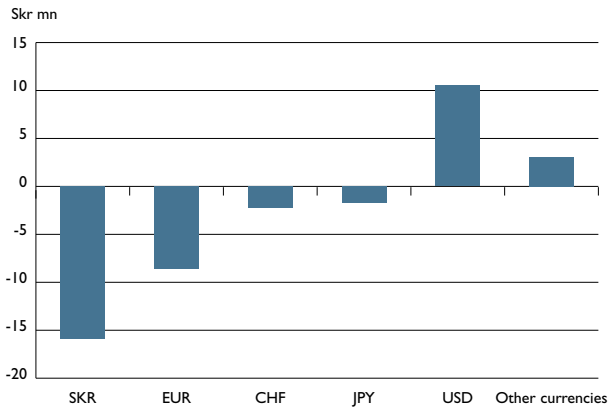
The following sections 8.1.2.1–8.1.2.5 describes how SEK measures and reports interest-rate risk in the banking book.

8.1.2.1 Interest-rate risk in debt-financed assets and senior debt

Interest-rate risk in debt-financed assets and senior 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 shift, depending on reset date, which varies between 0.5 percentage points and –0.5 percentage points). 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 describes SEK's interest-rate risk and limit for debt-financed assets and senior debt at the end of 2012.

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 2012.

CHART 8.2: INTEREST-RATE RISK BY CURRENCY



8.1.2.2 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, 2012, perpetual subordinated debt totaled USD 350 million (year-end 2011: USD 350 million), equivalent to Skr 2,280 million (year-end 2011: Skr 2,423 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 describes SEK's interest-rate risk in perpetual subordinated debt at the end of 2012. There is no specific limit for this risk.

8.1.2.3 Interest-rate risk in positions related to shareholders' funds

In order to ensure a long-term stable return on equity, SEK's policy is to invest shareholders' funds in securities or in the form of derivative transactions. At year-end 2012, the volume of transactions for this purpose amounted to approximately Skr 14.7 billion, with an average outstanding maturity of 4.1 years (year-end 2011: Skr 14.7 billion with an average outstanding maturity of 3.0 years). The interest-rate risk in positions related 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.

In 2012 SEK's return-on-equity target changed, which impacted risk management for positions related to shareholders' funds. The investment horizon for the benchmark portfolio has been changed from seven to ten years, which has led to an increase in the difference in the net present value versus the benchmark. This is the main reason for the significantly higher interest-rate risk compared with December 31, 2011. Adjustment of the maturity structure in line with the new benchmark portfolio has begun and will take place gradually. In 2012 the Board's Finance Committee also decided to limit the interest-rate risk for positions related to shareholders' funds.

Table 8.1 describes SEK's interest-rate risk in positions related to shareholders' funds (both with and without comparison to the benchmark portfolio) at the end of 2012.

8.1.2.4 Interest-rate risk by accounting classification

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 ten 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.

CHART 8.3: INTEREST-RATE RISK +100 BP BY ACCOUNTING CLASSIFICATION AS OF DECEMBER 31, 2012

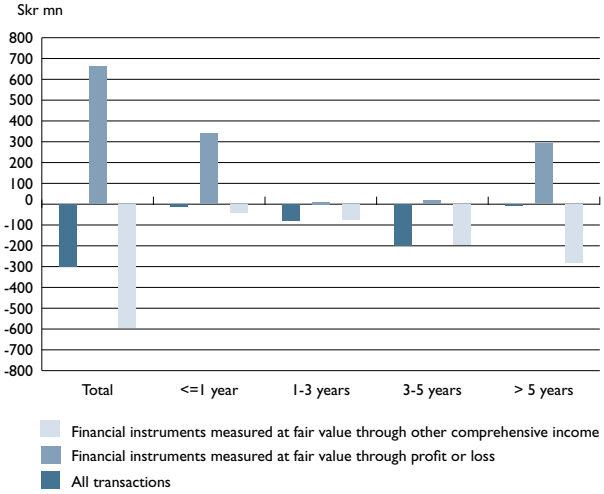


Chart 8.3 illustrates the effect of a one-percentage-point upward parallel shift in all interest rate curves as of December 31, 2012 on value of assets and liabilities, including derivatives.

8.1.2.5 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 measures a potential impact on SEK's net interest income. 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. Table 8.1 describes SEK's basis risk and basis risk limit at the end of 2012.

8.1.3 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 interest rate risk consists of the net sum of all SEK's exposures in the banking book that contain interest rate conditions, calculated for each currency separately. 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 in 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, 2012, the sensitivity was Skr –639 million (year-end 2011: Skr –547 million), which corresponds to 3.9 percent of SEK's capital base (year-end 2011: 3.6 percent). Given a negative parallel shift of 200 basis points the sensitivity was Skr +73 million (year-end 2011: +169 million), which corresponds to 0,4 percent of SEK's capital base (year-end 2011: 1.1 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.

8.2 SPREAD RISKS

8.2.1 RISK MANAGEMENT AND REPORTING

SEK's business model implies that assets and liabilities usually are held to maturity. Unrealized fair value changes due to changes in credit spreads, currency basis spreads and changes in SEK's own credit spread are therefore, for SEK, accrual effects that may

impact SEK's shareholders' funds and, for some of the fair value changes, also the capital base. During 2012 the reported sensitivity of SEK's shareholder's funds to different types of spread risks has increase, primarily as a result of refined methods for calculating market values in SEK's accounting. SEK has therefore, during 2012, developed and refined additional market risk measures for spread risks. The development will continue during 2013. Spread risks are continuously monitored and, on a monthly basis, reported to the Asset and Liability Committee and to the Board's Finance Committee.

8.2.1.1 Credit spread risk

A change in credit spreads affects the market value of investments. Credit spread risk is measured and has been limited for assets classified as financial assets at fair value through profit or loss and for financial assets classified as available-for-sale. Credit spread risk is measured as the difference between current market value and a scenario in which the market value is calculated after the credit spread has increased by 100 basis points. The credit spread risk measure was implemented during 2012. This is a step in the continuous process of developing SEK's market risk management. Table 8.1 describes SEK's credit spread risk and credit spread risk limit at the end of 2012.

8.2.1.2 Credit spread risk in own debt

A change in SEK's own credit spread affects the market value of SEK's debt. Credit spread risk in own debt is measured on the bonds issued by SEK that are classified as financial liabilities at fair value through profit or loss. Credit spread risk in own debt is measured as the difference between a calculated market value in a scenario where the credit spread in own debt has increased by 10 basis points and the current market value. The credit spread risk in own debt measure was implemented during 2012. This is a step in the continuous process of developing SEK's market risk management. Table 8.1 describes SEK's credit spread risk in own debt at the end of 2012.

8.2.1.3 Currency basis spread risk

A change in a currency basis spread affects the market value of the financial transactions whose market value is impacted by changes in currency basis spread curves. Currency basis spread risk is measured as the difference between a calculated market value in a scenario where the currency basis spread has increased by 10 basis points and the current market value for financial transactions whose market value is impacted by changes in currency basis spread curves. The risk for each currency basis spread curve is totaled as absolute figures. Table 8.1 describes SEK's currency basis spread risk at the end of 2012.

8.3 CURRENCY RISK

8.3.1 RISK MANAGEMENT AND REPORTING

In accordance with SEK's policies for risk management, foreign currency positions related to unrealized fair value changes are not hedged. The remaining currency risk, according to SEK's definition, mainly arises on an ongoing basis due to differences between revenues and costs (net interest margins) related to assets and liabilities in the respective currency. This currency risk is kept at a low level since SEK matches assets and liabilities in terms of 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 continuously monitored and, on a monthly basis, reported to the Asset and Liability Committee and to the Board's Finance Committee.

8.3.2 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. When calculating the risk foreign currency positions related to unrealized fair value changes are excluded. Table 8.1 describes SEK's currency risk and the internally established currency risk limit as of December 31, 2012.

8.4 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 maintaining a secondary market. 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 describes SEK's 'Other price risk' and the risk limit at the end of 2012.

TABLE 8.1: SEK'S INTEREST-RATE RISK IN BANKING BOOK, CURRENCY RISK, DIFFERENT TYPES OF SPREAD RISK AND PRICE RISK AS OF DECEMBER 31, 2012 (AND 2011)

Skr mn

Interest rate risk in the banking book	Limit 2012	Limit 2011	Risk 2012	Risk 2011
Interest-rate risk (parallel shift +1 %)	70	(70)	42	(37)
Interest-rate risk (rotation 0.5 %)	70	(70)	6	(5)
Interest-rate risk in perpetual subordinated debt	–	(–)	262	(280)
Interest-rate risk in positions related to shareholders' funds based on a comparison with a benchmark portfolio	300	(–)	136	(45)
Interest-rate risk in positions related to shareholders' funds	–	(–)	–553	(–490)
Basis risk	190	(190)	85	(102)
Spread risk	**Limit 2012**	**Limit 2011**	**Risk 2012**	**Risk 2011**
Credit spread risk	500	(–)	196	(–)
Credit spread risk on own debt	–	(–)	497	(–)
Currency basis spread risk	–	(–)	293	(–9)
Currency risk	**Limit 2012**	**Limit 2011**	**Risk 2012**	**Risk 2011**
Currency risk	15	(15)	3	(4)
Price risk	**Limit 2012**	**Limit 2011**	**Risk 2012**	**Risk 2011**
Other price risk	2.0	(2.0)	0.6	(0.5)

8.5 CAPITAL REQUIREMENT FOR MARKET RISK

SEK has only market risks under Pillar 1 in the form of foreign exchange risk. As of December 31, 2012 SEK's total net position in foreign currency exceeded two percent of the group's capital base, and SEK consequently had a capital requirement for foreign exchange risk amounting to Skr 178 million. As of the end of 2012, SEK was not exposed to any commodity risk. SEK had no trading book as of December 31, 2012.

Capital requirements for market risk, in the form of interest-rate risk, currency basis spread risk and credit spread risk, are under Pillar 2 calculated by using scenario analysis. All risks in a foreign currency are translated to Swedish krona in accordance with the current spot rate. As of December 31, 2012, this capital requirement amounted to Skr 942 million (year-end 2011: 246 million).

The currency risk under Pillar 2 is based on the Pillar 1 calculation, but also taking into account SEK's capital target. All risks in a foreign currency are translated to Swedish krona in accordance with the current spot rate. As of December 31, 2012, this capital requirement amounted to Skr 355 million (year-end 2011: 0 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 for all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. This means that SEK does not have to raise new borrowings if market conditions are deemed to be disadvantageous throughout life of the credit portfolio.

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 available funding always exceeds credit commitments – outstanding credits as well as agreed but undisbursed credits – throughout the maturity period of the credit portfolio. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. 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 loan 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 in combination with liquidity placements maturing in the short term.
- For all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility, and this requires large volumes of long-term funding.

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

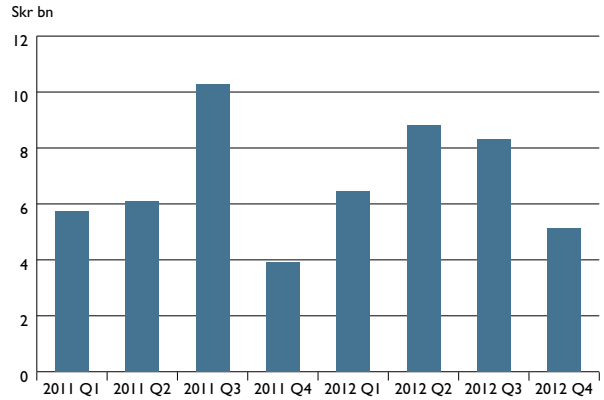
SEK also publishes periodical information on the liquidity situation of the company in order to be as transparent as possible with its investors and to retain their trust at all times.

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[8], strict rules on funding needs and a back-up facility. In 2009, the government granted SEK a loan facility of Skr 100 billion through the Swedish National Debt Office.[9] This facility was extended, first in December 2010 and then also in December 2011 and in December 2012, and is now valid through December 31, 2013. 80 percent of this facility is allocated to the S-system and cannot be used for other purposes.[10]

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 eight days. Liquidity forecasts for a period of up to one year are also produced on a regular basis. As mentioned, SEK also has a back-up facility that serves 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 in the short term.

CHART 9.1: AVERAGE SURPLUS INVESTED IN O/N DURING 2011 AND 2012



Cash flows are forecasted, 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

[8] 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.

[9] The loan facility with the Swedish National Debt Office allows SEK to receive funding with maturities of up to 10 years, which are assumed to be used in this scenario.

[10] 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.

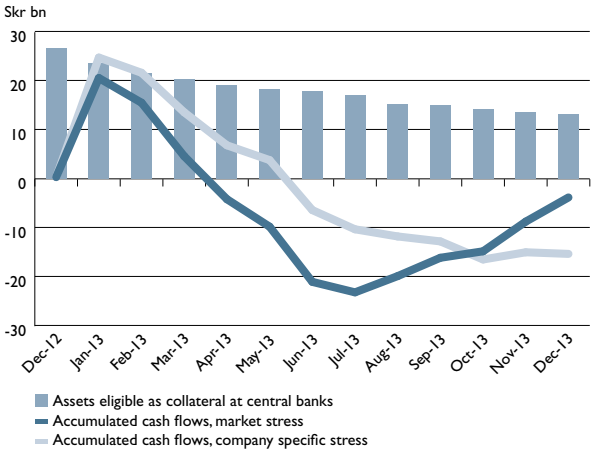
is stressed (i) and one which represents a company-specific stress scenario (ii). General assumptions for these scenarios include, but are not limited to, the following: SEK meets all of its previously agreed credit commitments. SEK also continues to grant new credits in accordance with the business plan. The fact that SEK's liquidity reserve quickly can be converted into liquid funds is also taken into account. In addition to these general assumptions, the scenarios also include some scenario-specific assumptions, which include, but are not limited to:

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.

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 back-up in case market conditions should become even more disadvantageous. This extra reserve would be used to off-set the potential 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 in the event that 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 0.2 (0.6 at year-end 2011) billion at December 31, 2012.

For the purpose of ensuring access to funding, SEK has several funding programs for maturities of up to one year. Short-term funding programs include a US Commercial Paper program (UCP) with maturities of up to 9 months, and a European Commercial Paper program (ECP) with maturities of up to one year. The latter of these programs allows borrowing in multiple currencies. Table 9.1 illustrates these funding sources. The total volume of short-term funding programs was USD 7.0 billion, of which USD 1.6 billion (0.0) had been utilized, as of December 31, 2012. SEK also has a swing line that functions as back up-facility for the commercial paper programs.

TABLE 9.1: SHORT-TERM FUNDING PROGRAMS

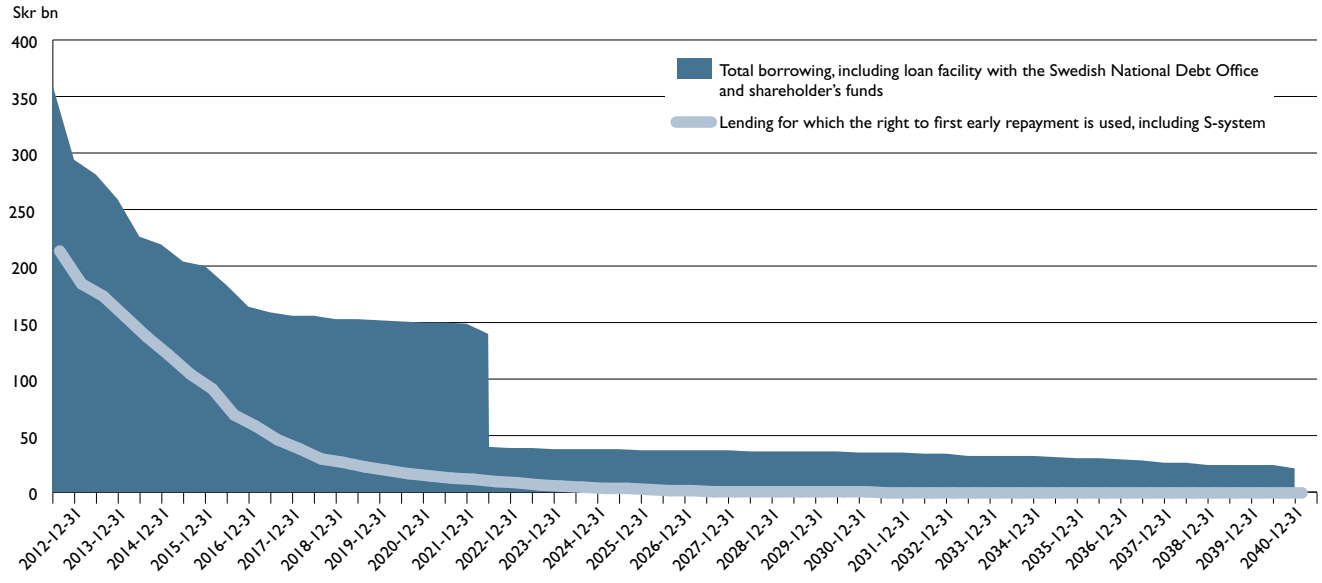
Program type	UCP	ECP
Currency	USD	Multiple currencies
Number of dealers	4	4
"Dealer of the day facility"	No	Yes
Program size	USD 3,000 mn	USD 4,000 mn
Usage as of Dec. 31, 2012	USD 1,616 mn	USD 0 mn
Maturity	Maximum 270 days	Maximum 364 days

9.2.2 LIQUIDITY RISK FROM A LONG-TERM PERSPECTIVE

For all SEK's credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. This strategy is a fundamental and integral part of SEK's business operations. 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, 2012



9.2.3 LIQUIDITY PLACEMENTS AND THEIR COMPOSITION

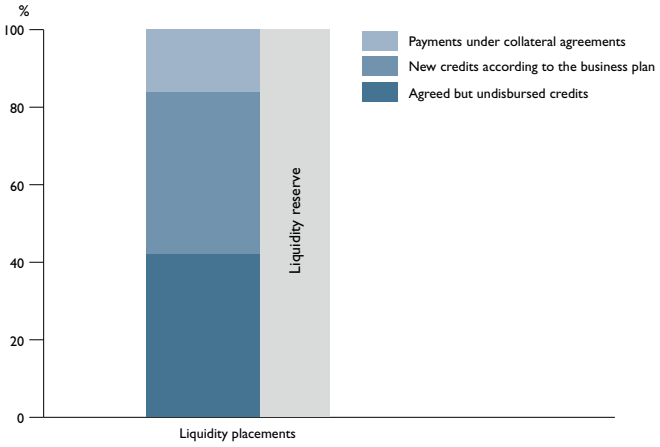
SEK's liquidity and funding risk management is based in part on the fundamental concept of liquidity placements and the assessment that these assets will be held to maturity. Instead of selling assets as funds are needed, the maturity profile of the liquidity placements is matched against funds expected 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. At the end of 2012, agreed but undisbursed credits amounted to Skr 25.9 billion (Skr 25.1 billion), corresponding to 29.6. percent of total liquidity placements (year-end 2011: 29.5 percent). As part of its liquidity placements, SEK also requires a buffer to ensure that SEK can fulfill payments related to collateral agreements that the company has with its derivative counterparties in order to reciprocally manage counterparty risk in derivative transactions. The company allocates Skr 15 billion (Skr 15 billion) for this purpose. In addition, the liquidity placements also ensure that SEK maintains readiness for at least 6 months wto meet its assessed new lending requirements, enabling SEK to continue for a certain period to grant new credits to the normal extent, even if funding markets were entirely or party closed. At December 31, 2012 this capacity amounted to Skr 44.3 billion (Skr 40.5 billion), which corresponded to 9 months' new lending capacity. Chart 9.4 illustrates the size and composition of the liquidity placements.

9.2.4 DETAILS OF 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 intention that the liquidity placements will be held to maturity. As of December 31, 2012, the size of SEK's liquidity placements was Skr 87.7 billion (84.9), only a small change from year-end 2011 (see section 9.2.3 for an explanation of the composition of the liquidity placements). The charts below provide a breakdown of SEK's liquidity placements by exposure class/type, maturity, rating and country as of December 31, 2012. The remaining maturity in the liquidity placements decreased further in 2012. Furthermore, credit quality remained stable and even improved slightly in 2012 owing mainly to the build-up of a higher volume of highly liquid assets (see chart 9.5), as the company has to comply with the new quantitative liquidity ratio, Liquidity Coverage Ratio (LCR), which is binding in Sweden as from January 1, 2013. 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 highly-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 as collateral at the Riksbank (the Central Bank of Sweden) and/or confirmed to be eligible as collateral at 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 its criteria for central bank-eligible assets.

CHART 9.5: SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2012 (AND 2011), BY EXPOSURE CLASS/TYPE

Total amount of SEK's liquidity placements: Skr 87.7 billion, as of December 31, 2012.

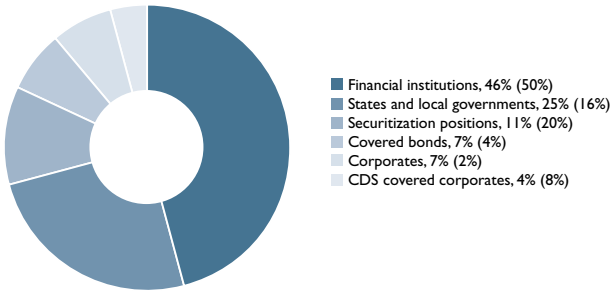


CHART 9.6: REMAINING MATURITY (M) IN SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2012 (AND 2011)

Total amount of SEK's liquidity placements: Skr 87.7 billion, as of December 31, 2012.

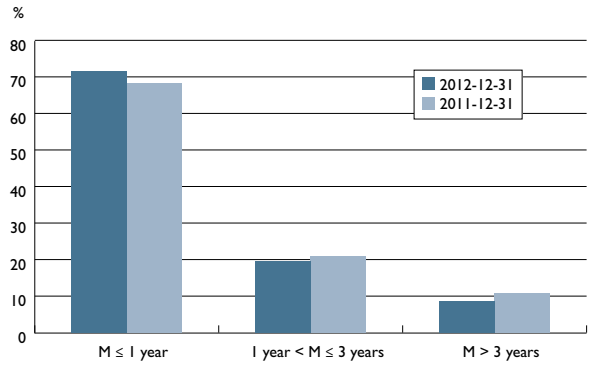


CHART 9.7: SEK'S LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2012 (AND 2011), BY RATING

Total amount of SEK's liquidity placements: Skr 87.7 billion, as of December 31, 2012.

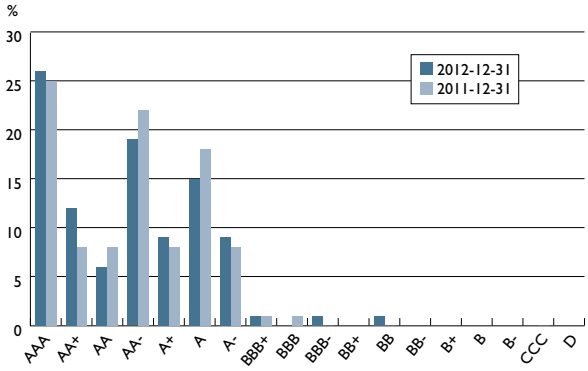


TABLE 9.2: LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2012 (AND 2011) BY COUNTRY AND EXPOSURE CLASS/TYPE

Net Exposures

Skr bn Country	Financial institutions		Regional/Local Government		Securitization positions		States		Corporates		Covered bonds		CDS covered corporates		Total[1]	
Sweden	2.7	(6.3)	8.1	(7.8)	–	(–)	3.9	(2.0)	2.7	(1.5)	5.0	(3.1)	0.5	(1.7)	22.8	(22.4)
Australia	8.8	(4.4)	–	(–)	2.6	(3.6)	–	(–)	–	(–)	–	(–)	–	(–)	11.3	(8.0)
Netherlands	7.3	(5.0)	–	(–)	0.7	(0.8)	–	(–)	–	(–)	–	(–)	–	(–)	7.9	(5.9)
Germany	1.1	(2.9)	4.4	(2.4)	0.1	(0.2)	0.9	(–)	0.8	(–)	–	(–)	–	(–)	7.3	(5.5)
Canada	7.0	(3.8)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	7.0	(3.8)
Denmark	3.7	(3.3)	0.6	(1.0)	–	(–)	0.8	(–)	–	(–)	0.8	(–)	–	(0.1)	6.0	(4.5)
United Kingdom	1.4	(2.3)	–	(–)	0.6	(3.3)	–	(–)	–	(–)	–	(–)	2.1	(2.0)	4.1	(7.6)
United States	0.0	(0.1)	–	(–)	2.1	(2.9)	–	(–)	1.7	(–)	–	(–)	0.1	(0.4)	3.9	(3.4)
Norway	3.5	(3.6)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	3.5	(3.6)
Ireland	–	(0.3)	–	(–)	2.2	(2.4)	–	(–)	–	(–)	–	(–)	–	(–)	2.2	(2.7)
Finland	1.3	(2.2)	–	(–)	–	(–)	–	(–)	0.1	(0.2)	0.0	(–)	0.4	(–)	1.8	(2.4)
Luxembourg	–	(–)	–	(–)	–	(–)	1.7	(–)	–	(–)	–	(–)	–	(–)	1.7	(–)
Austria	1.3	(0.5)	–	(–)	–	(–)	0.2	(–)	–	(–)	–	(–)	–	(–)	1.5	(0.5)
Japan	–	(0.0)	–	(–)	–	(–)	–	(–)	1.1	(0.2)	–	(–)	–	(–)	1.1	(0.2)
Spain	–	(0.4)	–	(–)	1.0	(1.3)	–	(–)	–	(–)	–	(–)	–	(–)	1.0	(1.7)
France	0.2	(2.7)	–	(–)	–	(0.0)	–	(–)	–	(–)	–	(–)	0.5	(1.2)	0.7	(3.9)
Singapore	0.3	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(–)
Portugal	–	(–)	–	(–)	0.3	(0.4)	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(0.4)
Latvia	–	(–)	–	(–)	–	(–)	0.0	(0.0)	–	(–)	–	(–)	–	(–)	0.0	(0.0)
Total	**38.6**	**(40.5)**	**13.1**	**(11.1)**	**9.6**	**(15.6)**	**7.6**	**(2.0)**	**6.3**	**(1.8)**	**5.8**	**(3.1)**	**3.5**	**(6.1)**	**84.5**	**(80.3)**

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

TABLE 9.3: LIQUIDITY PLACEMENTS AS OF DECEMBER 31, 2012 (AND 2011) BY COUNTRY AND RATING

Net Exposures

Skr bn Country	AAA		AA+		AA		AA-		A+		A		A-		BBB+		BBB		BBB-		BB		B+		CCC		Total[1]	
Sweden	9.4	(5.9)	4.6	(4.8)	2.0	(0.6)	2.1	(7.1)	1.5	(0.3)	1.9	(2.8)	1.2	(0.7)	0.2	(0.2)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	22.8	(22.4)
Australia	2.6	(3.6)	–	(–)	–	(–)	8.8	(4.4)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	11.3	(8.0)
Netherlands	1.5	(0.8)	–	(–)	2.8	(1.9)	–	(–)	–	(–)	3.6	(3.1)	–	(–)	–	(0.1)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	7.9	(5.9)
Germany	2.2	(1.2)	4.0	(0.9)	0.3	(0.5)	–	(–)	–	(0.6)	–	(2.0)	0.8	(0.3)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	7.3	(5.5)
Canada	–	(–)	–	(–)	–	(2.8)	2.3	(0.6)	4.7	(0.4)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	7.0	(3.8)
Denmark	2.2	(1.0)	–	(–)	–	(–)	–	(–)	–	(–)	1.0	(0.9)	2.7	(2.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	6.0	(4.5)
United Kingdom	0.4	(3.0)	–	(–)	0.2	(0.3)	0.5	(0.6)	–	(1.0)	1.9	(2.7)	0.8	(–)	0.2	(–)	0.0	(–)	–	(–)	–	(–)	–	(–)	–	(–)	4.1	(7.6)
United States	2.0	(2.1)	–	(0.7)	–	(–)	–	(–)	1.8	(0.1)	–	(0.1)	–	(–)	–	(0.2)	–	(0.1)	–	(–)	–	(–)	–	(–)	0.1	(0.2)	3.9	(3.4)
Norway	–	(–)	–	(–)	–	(–)	0.5	(1.1)	–	(–)	0.8	(0.8)	2.2	(1.8)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	3.5	(3.6)
Ireland	1.4	(1.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(0.6)	–	(0.4)	0.4	(0.1)	0.3	(–)	0.2	(–)	–	(–)	2.2	(2.7)
Finland	–	(–)	–	(–)	0.1	(0.1)	1.7	(2.2)	–	(–)	–	(–)	0.0	(–)	–	(–)	–	(–)	–	(–)	–	(0.1)	–	(–)	–	(–)	1.8	(2.4)
Luxembourg	–	(–)	1.7	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.7	(–)
Austria	0.2	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.3	(0.5)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.5	(0.5)
Japan	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.1	(0.2)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.1	(0.2)
Spain	–	(0.5)	–	(–)	–	(–)	0.0	(0.9)	0.1	(–)	0.2	(–)	0.1	(–)	0.4	(–)	–	(–)	–	(–)	0.2	(0.2)	–	(–)	–	(–)	1.0	(1.7)
France	–	(–)	–	(–)	–	(–)	–	(0.7)	–	(1.8)	0.7	(1.3)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.7	(3.9)
Singapore	–	(–)	–	(–)	–	(–)	0.3	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.3	(–)
Portugal	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(0.2)	0.2	(–)	–	(–)	–	(–)	0.2	(0.2)	–	(–)	–	(–)	–	(–)	0.3	(0.4)
Latvia	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.0	(0.0)	–	(–)	–	(–)	–	(–)	0.0	(0.0)
Total	**21.9**	**(20.3)**	**10.3**	**(6.4)**	**5.4**	**(6.1)**	**16.2**	**(17.8)**	**8.0**	**(6.6)**	**12.5**	**(14.5)**	**8.0**	**(6.1)**	**0.8**	**(1.1)**	**0.0**	**(0.5)**	**0.6**	**(0.4)**	**0.5**	**(0.3)**	**0.2**	**(–)**	**0.1**	**(0.2)**	**84.5**	**(80.3)**

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

TABLE 9.4: LIQUIDITY RESERVE[1] AS OF DECEMBER 31, 2012

Market values Skr mn	Total	SKR	EUR	USD	Other
Cash and holdings in banks available overnight	2,190	2,190	–	–	–
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	6,156	1,247	1,965	2,135	808
Securities issued or guaranteed by municipalities or other public entities	9,841	4,799	2,776	2,157	108
Covered bonds issued by other institutions	5,026	4,689	338	–	–
Securities issued by non-financial corporates	849	849	–	–	–
Total Liquidity Reserve	**24,062**	**13,774**	**5,079**	**4,292**	**917**

[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. As a general rule, by using derivatives, SEK converts the issue proceeds from foreign currency bonds to EUR and USD. To manage and ensure market access at all times, SEK seeks to establish and maintain relationships with its investors. Charts 9.8, 9.9, 9.10 and table 9.5 illustrate some of the aspects of the diversification of SEK's funding. Chart 9.10 shows that Europe increased as a funding market during the year, which was due in part to increased investor interest in the UK. The chart also shows that the US accounted for a more normal share of funding in 2012 but that this market has decreased in relative terms since 2011, when SEK issued an usually large amount of debt to the US retail market.

CHART 9.8: LONG-TERM FUNDING AS OF DECEMBER 31, 2012 (AND 2011) BY ISSUE CURRENCY

Net total long-term funding amount when swaps are taken into account: Skr 233.1 billion as of December 31, 2012.

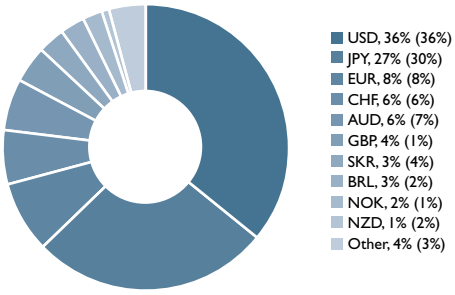


CHART 9.9: LONG-TERM FUNDING AS OF DECEMBER 31, 2012 (AND 2011) BY STRUCTURE TYPE

Net total long-term funding amount when swaps are taken into account: Skr 233.1 billion as of December 31, 2012.

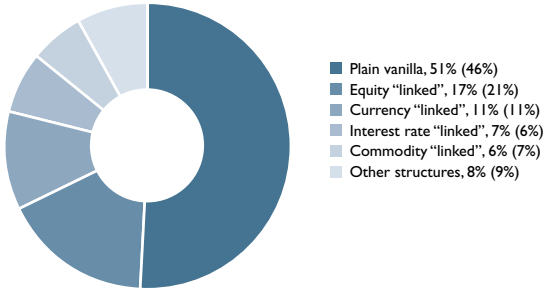


CHART 9.10: LONG-TERM FUNDING IN 2012 (AND 2011) BY REGION

Total long-term funding amount in 2012: Skr 43.2 billion.

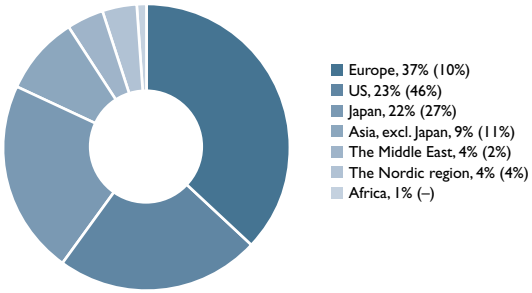


TABLE 9.5: NET LONG-TERM FUNDING AMOUNT, AS OF DECEMBER 31, 2012 (AND 2011), BY COUNTRY AND STRUCTURE TYPE

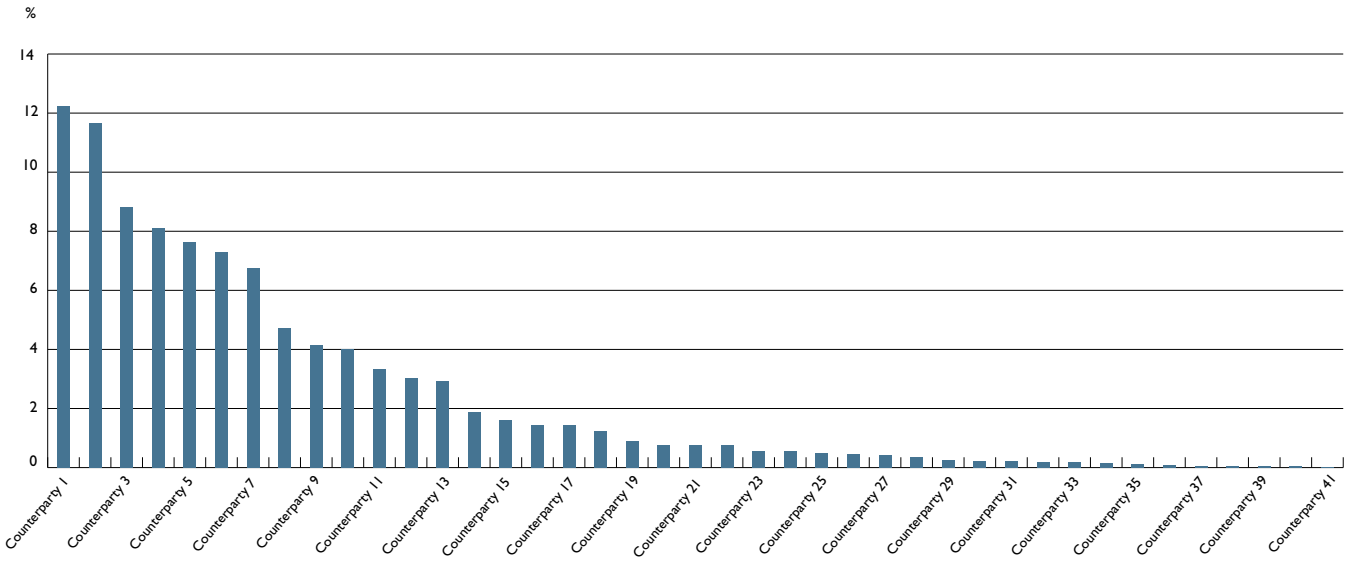
Net total long-term funding amount when swaps are taken into account: Skr 233.1 billion as of December 31, 2012.

Skr bn Market	Plain vanilla		Equity "linked"		Currency "linked"		Interest rate "linked"		PRDC		Commodity "linked"		Credit "linked"		Fund "linked"		Total	
Japan	16.3	(19.8)	31.5	(36.8)	21.5	(25.0)	2.7	(3.2)	17.0	(20.3)	1.6	(2.0)	0.1	(0.1)	0.1	(0.1)	90.9	(107.2)
Europe	54.6	(46.1)	0.8	(1.5)	1.3	(0.5)	5.6	(2.8)	–	(–)	0.3	(0.4)	0.1	(0.1)	0.3	(0.3)	63.0	(51.6)
US	25.4	(28.1)	3.7	(8.4)	–	(0.0)	0.7	(–)	–	(–)	11.0	(14.1)	–	(–)	0.0	(0.0)	40.7	(50.6)
Asia, excl. Japan	10.9	(12.3)	0.0	(0.0)	1.2	(1.0)	6.7	(8.7)	–	(–)	0.2	(0.1)	0.8	(0.9)	0.0	(0.1)	19.8	(23.0)
The Nordic region	5.3	(4.1)	4.7	(5.9)	0.8	(1.2)	1.2	(1.5)	–	(–)	0.2	(0.3)	0.2	(0.3)	0.1	(0.2)	12.5	(13.4)
Middle East	3.9	(2.2)	–	(–)	–	(–)	0.3	(–)	–	(–)	–	(–)	–	(–)	–	(0.3)	4.2	(2.6)
Canada	1.1	(1.8)	–	(0.0)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	1.1	(1.8)
Africa	0.5	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.5	(–)
China	0.2	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.2	(–)
South America	–	(–)	0.1	(0.1)	–	(–)	0.0	(–)	–	(–)	–	(0.0)	–	(–)	–	(–)	0.1	(0.1)
Oceania	0.1	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	–	(–)	0.1	(–)
Total	**118.2**	**(114.4)**	**40.8**	**(52.7)**	**24.8**	**(27.6)**	**17.2**	**(16.1)**	**17.0**	**(20.3)**	**13.3**	**(16.8)**	**1.2**	**(1.4)**	**0.5**	**(1.1)**	**233.1**	**(250.4)**

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 long-term funding, 26 percent (33 percent) of the outstanding volume includes such early-redemption clauses as of December 31, 2012.

Structured bonds often create exposures to underlying market risks, mostly to an equity index or to a foreign-exchange rate. By using derivatives, SEK manages and reduces these market risks and keep within established limits. 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 2012, 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 (BCBS); the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

9.4.1 LIQUIDITY COVERAGE RATIO

In accordance with the liquidity risk reporting framework in Sweden, the 30-day quantitative liquidity risk measure LCR has been reported to the regulatory authority already since July 2011. In November 2012, the Swedish Financial Supervisory Authority released the final version of the new binding metric representing the Swedish version of LCR. In this version, which is binding from January 1 2013, a ratio of at least 100 percent is required for all currencies combined, as well as for each of euro and US dollars. This regulation is accordingly implemented both earlier and more stringently than what is proposed by the BCBS.

As of December 31, 2012, SEK complied with these new rules by having a LCR ratio at an aggregate level of 212 percent, a ratio for euro of 414 percent and a ratio for US dollar of 179 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. For all credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period. For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility. As a result, the company is well prepared and does not have to make any major adjustments in order to fulfill 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. As of December 2012 was 100 (108) percent. Although the decrease in the NSFR ratio is material compared to last year, this is mainly a consequence of a strategic decision to start using the short-term funding program combined with the still relatively low volume of liquidity placements. However, it is important to point out that there is still considerable uncertainty over when this ratio will be binding, as well as over 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 effects of different scenarios on its liquidity position and on its access to central bank facilities. The results of the stress tests play a key role in shaping SEK's contingency plan. As a result, stress testing and contingency planning are closely integrated. The results of the 2012 stress tests show that SEK has, in line with SEK's liquidity and funding policy, the ability to ensure readiness to make pay-

ments 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, 2012. Due to new regulatory principles from the Riksbank concerning which assets are eligible as collateral and which haircuts shall be used, this extra reserve has decreased considerably compared to 2011. Analysis shows that the deficit emerging in the market stress scenario in April 2013 is primarily a consequence of the assumption regarding payments under collateral agreements. The extra reserve combined with the loan facility that SEK has available at the Swedish National Debt Office ensures that the outcome of the scenario is in line with SEK's liquidity and funding policy.

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 would be 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 likelihood and impact of a liquidity crisis are alleviated or mitigated 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 on 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.

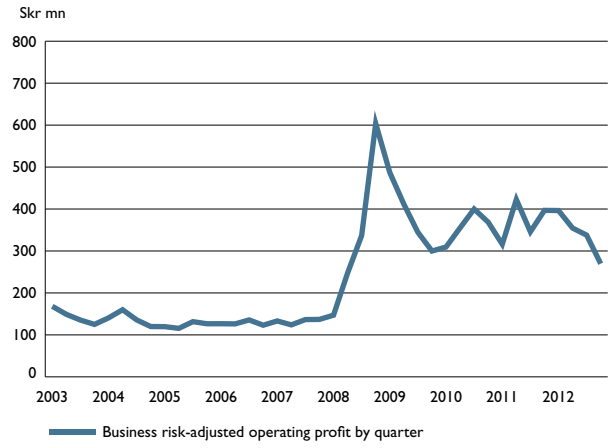
11.1 BUSINESS RISK

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 adjusted operating profit excluding effects attributable to unrealized changes of fair values, credit losses and repurchase of own debt.

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.[11] 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 Executive Committee is responsible for identifying and managing strategic risks. Risk Control is responsible for carrying out an annual risk analysis of strategic risk and for monitoring risks along with relevant action plans.

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.

Moreover, an annual risk analysis is carried out in the form of self-assessment. The Executive Committee identifies and assesses risks in a joint workshop. A person is assigned with responsibility for each relevant risk.

[11] In order to avoid refinancing risk, it is SEK's policy that for SEK's total credit commitments – outstanding credits as well as agreed, but undisbursed credits – there must be funding available for the full maturity period (referred to as positive availability). For CIRR credits, which SEK manages on behalf of the Swedish state, when evaluating whether it has positive availability the company counts its credit facility with the Swedish National Debt Office, which entitles it to draw on funding with a tenor of up to 10 years, as available funding, despite the fact that no funds have been drawn under this facility.

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 FORTHCOMING REGULATIONS

Regulation of financial institutions continues to undergo significant change. The challenges within strategic risk involve preparing for and adapting the company to forthcoming regulatory reforms. During 2012 SEK put much effort into preparing for the regulatory reforms.

The following sections, 11.3.1 and 11.3.2, provide an overview of the new regulations that will have the greatest impact on SEK's operations. Section 11.3.4 contains a brief summary of how these regulations will affect SEK.

11.3.1 BASEL III AND CRD IV

In December 2010, the Basel Committee on Banking Supervision (BCBS) issued detailed rules for new global regulatory standards on credit institutions. Basel III is comprised of the following building blocks:

- Raising the quality of capital to ensure banks are better able to absorb losses on both a going-concern and a gone-concern basis.
- Raising the level of the minimum capital requirements.
- Increasing the risk coverage of the capital framework.
- Introducing an internationally harmonized leverage ratio to serve as a backstop to the risk-based capital measure and to contain the build-up of excessive leverage in the system.
- Introducing minimum global liquidity standards consisting of both a short-term liquidity coverage ratio and a longer-term, structural net stable funding ratio.
- Promoting the build-up of capital buffers in good times that can be drawn on in periods of stress.
- Raising standards for the supervisory review process and public disclosures.

The EU proposes to implement Basel III through two legislative acts, comprising a new Capital Requirements Regulation (the CRR) and Capital Requirements Directive (the CRD), collectively known as "CRD IV". CRD IV will supersede earlier directives.

The CRR is a legislative act that, once in force, will be directly applicable in all EU Member States without the need to be implemented into national law and regulation. This contrasts with all the previous directives, which rely on national implementation measures of EU Member States. The EU proposes to implement certain aspects of Basel III through a Regulation in order to have a "single rulebook", which would apply equally to all Member States. This removes the major sources of national divergences. The CRR will contain detailed provisions addressing the quantity and quality of capital required, counterparty credit risk, liquidity, and leverage.

A directive, unlike a regulation, gives Member States a certain amount of discretion to implement EU requirements in a form and manner that is suitable for them and therefore requires transposition into local legislation. The CRD contains proposals addressing prudential supervision and the new capital conservation and counter-cyclical capital buffers, as well as certain areas not covered by Basel III, including requirements relating to sanctions that national supervisors can impose and corporate governance.

The European Banking Authority (the EBA) will play a new role in implementing Basel III in the EU, a matter historically dealt with largely by national regulators. The new CRD and CRR call upon the EBA to publish a number of "technical standards" providing additional detail in certain areas. Once published, they will be mandatory and have been referred to as "binding technical standards".

The new requirements were planned to be phased in from January 1, 2013 with full implementation required by January 1, 2019. The European Commission's stated aim was for CRD IV to come into force on January 1, 2013. However, the finalizing of CRD IV has been delayed and the final version of CRD IV rules had not been released at the time of publishing this report. In addition, no alternative date had yet been communicated by the EU for implementation.

11.3.2 EMIR

The European Market Infrastructure Regulation (EMIR) aims to guarantee stability in the market for over-the-counter derivatives (OTC) by means of central counterparties (CCPs) and improved transparency and regulatory oversight in this market. The main obligations under EMIR are: central clearing for certain classes of OTC derivatives, application of risk mitigation techniques for non-centrally cleared OTC derivatives,[12] reporting to trade repositories and application organizational, conduct of business and prudential requirements for CCPs, as well as application of requirements for trade repositories.

EMIR was adopted on July 3, 2012 and entered into force on August 16, 2012. EMIR is applicable immediately from the date that it enters into force (i.e. legally binding in all Member States without transposition into national law). However, the obligations under the provisions of EMIR that need to be specified further via regulatory and/or implementing technical standards will apply once the necessary technical standards take effect. The European Commission adopted nine regulatory and implementing technical standards proposed by the European Securities and Markets Authority (ESMA) on December 19, 2012. These standards, which specify the details of obligations under EMIR, will not become effective immediately. At the time of the publication of this report, the European Council and Parliament had until February 19, 2013 to scrutinize these standards. After the receipt of non-objection from the European Council and Parliament, the standards will be published in the EU's Official Journal and will then enter into force on the twentieth day following that of the publication. If the standards are adopted with no amendments, some of the EMIR obligations could begin to apply in first quarter of 2013, but in some cases obligations are deferred or subject to compliance schedules. However, this will not be the case for the technical standards related to margins and capital for non-centrally cleared trades. At the time of publishing this report, there is no timetable set for technical standards to specify these obligations.

11.3.3 OTHER REGULATIONS

There are other regulations under consideration and implementation, which require close monitoring and assessment of impact. SEK's accounting policies, which follow International Financial Reporting Standards, are undergoing significant change. SEK's assessment is that the most important changes for SEK are related to Financial Instruments (IFRS 9) and Employee Benefits (IAS 19), although other changes might also have a significant impact on SEK. IAS 19 has been finalized and is effective as of January 1, 2013. The finalization and implementation dates and effective for IFRS 9 are still uncertain.

11.3.4 IMPLICATIONS FOR SEK

The table below summarizes how the regulations described in sections 11.3.1 and 11.3.2 affect SEK.

[12] Risk mitigation techniques include: timely confirmation, portfolio reconciliation and compression, dispute resolution, marking-to-market and marking-to-model, the exchange of collateral and adequate capital to cover the exposures arising from OTC derivatives not cleared by a CCP. ESMA has published the draft technical standards in its Final Report dated 27 September 2012, except those related to the exchange of collateral and adequate capital that are in the process to be developed).

TABLE 11.1: REGULATORY REFORMS AND THEIR IMPLICATIONS FOR SEK

Rule	Implementation start date	SEK status
Definition of capital		
Under CRD IV, only two tiers of capital are recognized – Tier-1 and Tier-2. Common Equity Tier-1 capital and Additional Tier-1 capital together form Tier-1 capital. Common Equity Tier-1 capital instruments are essentially ordinary shares and retained earnings. Provided that they meet the requirements for Additional Tier-1 or Tier-2 instruments, subordinated debt may be eligible as Additional Tier-1 capital or Tier-2 capital. Under the Basel III reform, in order to qualify as Tier-2, the instrument must also be able to absorb losses at the point of non-viability ("PONV"). However, no PONV requirements have yet been included in the actual text and articles of CRD IV.	The intention was to introduce the new regulations on January 1, 2013. However, the finalization of CRD IV has been delayed and no new implementation date had been announced at the time of publication of this report. It should also be noted that Member States can implement the new capital definitions earlier than the phase-in arrangements.	Since there is still much uncertainty over the final details of the requirements for additional Tier-1 and Tier-2 capital, it is unclear whether SEK's subordinated debt, which is currently classified as Tier-1 capital, will be reclassified as Tier-2 capital or senior debt. Even if SEK's subordinated debt were reclassified as senior debt, SEK is well-capitalized and meets the forthcoming capital requirements as currently defined. SEK meets the proposed capital requirements as currently defined in CRD IV. See also section 4.
Deductions from Common Equity Tier-1		
Deductions, such as intangible assets, deferred tax and expected loss, must be made directly from Common Equity Tier-1 capital, unlike at present whereby either total Tier-1 capital or the total capital base are adjusted.	The intention was to introduce the new regulations on 1 January, 2013. However, the finalization of CRD IV has been delayed and no new implementation date had been announced at the time of publishing this report.	SEK has already implemented this new procedure and currently makes these deductions from Common Equity Tier-1 capital. See table 4.2 in section 4.
Minimum capital requirements		
From January 1, 2015, financial institutions will be required to meet a Common Equity Tier-1 ratio of 4.5%, a Tier-1 capital ratio of 6% and a total capital ratio of 8%.	The new minimum requirements were to be introduced gradually over three years, starting from January 1, 2013 and reaching full effect from January 1, 2015. However, the finalization of CRD IV has been delayed and no new start implementation date had been announced at the time of publishing this report. It should also be noted that Member States can implement the minimum requirements earlier than the phase-in arrangements.	SEK's Common Equity Tier-1 ratio under the latest CRD IV draft was 19.8 percent at the end of 2012. SEK meets the proposed capital requirements as currently defined in CRD IV.
Capital Conservation buffer and Counter-cyclical buffer		
Two new capital buffer requirements are proposed: the Capital Conservation buffer and the Counter-cyclical buffer, both of which have to be met with capital of the highest quality.	The buffer requirements are planned to be introduced gradually from January 1, 2016, reaching full effect on January 1, 2019.	In conjunction with its annual internal capital adequacy assessment, SEK is conducting a number of analyses that indicate that SEK will amply meet the capital requirements as currently defined in CRD IV.
Adjusted risk-weighting for financial institutions		
The correlation in the Basel formula, for all exposures to financial institutions, is to increase by 25 percent.	The intention was to introduce the new regulations on January 1, 2013. However, the finalization of CRD IV has been delayed and no new implementation date had been announced at the time of publication.	In conjunction with its annual internal capital adequacy assessment, SEK is conducting a number of analyses that indicate that SEK will amply meet the capital requirements as currently defined in CRD IV.
Credit valuation adjustment (CVA)		
CRD IV will also introduce capital requirements for potential changes in the creditworthiness of derivative counterparties (credit valuation adjustment risk). Credit valuation adjustment risk is to be limited for all OTC derivative contracts, except for credit derivatives used as credit protection.	The intention was to introduce the new regulations on January 1, 2013. However, finalization of CRD IV has been delayed and no new implementation date had been announced at the time of publishing this report.	In conjunction with its annual internal capital adequacy assessment, SEK is conducting a number of analyses that indicate that SEK will amply meet the capital requirements as currently defined in CRD IV.
Leverage ratio		
In addition to the risk-based capital adequacy requirements, a leverage ratio measure is to be introduced. Unlike traditional capital requirements, the leverage ratio does not take account of the differences in risk-weighting between assets. The purpose is to limit the size of non-risk-weighted assets in relation to capital.	After a review and calibration period, the plan is to decide whether to introduce the leverage ratio as a binding measure (Pillar 1 requirement) in 2018. Institutions will be required to disclose their leverage ratio from 2015 (Pillar 3 requirement).	SEK meets a leverage requirement of 3% of Tier-1 capital as currently defined in Basel III. See also section 4.4.

Rule	Implementation start date	SEK status
Liquidity Coverage Ratio (LCR)		
In accordance with CRD IV, financial institutions are being required to maintain sufficiently high-quality assets, which can be converted into cash in order to be sufficient for a 30-day stress scenario. This scenario has been defined by the supervisory authority. In November 2012 the Swedish Financial Supervisory Authority released the final version of the new binding metric representing the Swedish version of LCR. In this version, which is binding from January 1, 2013, a ratio of 100 percent is needed for all currencies combined, as well as for each of euro and US-dollar.	Reporting of LCR to the Swedish Financial Supervisory Authority started in July 2011 as part of an observation period. The Swedish Financial Supervisory Authority implemented this as a binding measure as of January 1, 2013 (The proposed implementation date by the EU is January 1, 2015.[13])	At the end of 2012, SEK had a Liquidity Coverage Ratio of 212 percent, a ratio in euro of 414 percent and a ratio in US-dollar of 179 percent. SEK will therefore amply meet the liquidity requirements as defined by the Swedish Financial Supervisory Authority. See also section 9.4.1.
Net Stable Funding Ratio (NSFR)		
CRD IV introduces a Net Stable Funding Ratio. The purpose of this ratio is to ensure that a financial institution funds its illiquid assets with long-term and stable financing in order to reduce liquidity risk.	NFSR, unlike LRC, is not yet a binding measure in Sweden. The proposed EU implementation date for this measure is January 1, 2018.	The ratio as of December 2012 was 100 percent. As a result of its conservative policy on liquidity and financing risk, SEK is well prepared and does not have to make any major adjustments in order to fulfill the long-term, structural, quantitative liquidity risk measure as currently defined in CRD IV. It is, however, worth noting that there is considerable uncertainty regarding the final format of this measure.
OTC derivative regulation		
All standardized OTC derivative contracts are to be cleared by a central counterparty, CCP. Derivative contracts will also be reported to central trade repositories. Robust risk mitigation techniques must be applied for non-centrally cleared transactions. Derivative contracts that are not cleared will be subject to higher capital requirements.	Some of the EMIR obligations could begin to apply in the first quarter of 2013 but in some cases obligations are deferred or subject to compliance schedules. It is unlikely that the first clearing obligation will come into force before 2014.	SEK has a relatively large derivative portfolio and the new regulations will therefore have an impact on SEK's operations. The derivatives reform will introduce greater margin requirements, for both cleared and, especially, 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. In addition, it will become significantly more expensive and more capital-intensive to trade in complex and uncleared derivatives, which will need to be offset by higher margins. Preparations for the OTC derivative reform have been undertaken in project form since November 2011.See also section 6.9.3.

11.4 SEK'S OPERATING ENVIRONMENT

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.

With regard to SEK's exposure to strategic risk, regulatory reforms in the financial sector will be gradually implemented over an extensive period of time and this will probably restrict banks' willingness to lend. It is still unclear how this will affect banks' business models and the economic climate.

Profitability lending by banks, particularly in lending to businesses, 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 results of the financial crisis, in combination with new regulations, has further strengthened SEK's role in the market, partly because the market participants and regulators have pursued, and continue to pursue, more stringent regulation for the financial market. As other market actors face stricter regulation, SEK stands to benefit from improved competitive neutrality. This regulatory pressure 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.

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. However, the reforms also put some pressure on SEK's business model as the use of instruments such as structured debt and derivatives is becoming more expensive.

[13] In the latest revision to the LCR by the Basel Committee on Banking Supervision (BCBS) in January 2013, the minimum requirement will begin at 60 percent, rising in equal annual steps of 10 percentage points to reach 100 percent on 1 January, 2019.

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, the Head of Risk Control and the Head of Financial Control. No form of remuneration that is linked to financial instruments takes place within the company.

12.1 INTRODUCTION

In 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 purpose of the 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 three members to the Remuneration Committee. 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 and the Head of Risk Control, to determine the remuneration of members of the Executive Committee and the Head of Risk Control, 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 counterparties 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, the Head of Risk Control and the Head of Financial Control. Consequently, no form of variable remuneration is paid to members of the Executive Committee, the Head of Risk Control 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.

Variable remuneration is normally paid in April of the year after the year in which it is earned. However, for specially regulated staff, if the variable remuneration exceeds Skr 100,000, then one third of the payment is deferred for one year, one third for two years and one third for three years.

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 2012, excluding social security charges, amounted to Skr 223.5 mn, with Skr 77.6 mn allocated to the business area Funding and Lending and Skr 145.9 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 2012**	25,974,581	67,528,562	109,091,701
7. a)	allocated across number of employees	8	62	208
7. a)	**Earned variable remuneration in 2012**	-	7,777,995	13,141,293
7. a)	allocated across number of employees	-	60	158
7. b)	**Earned total variable remuneration in 2012 per variable remuneration component: cash**	-	7,777,995	13,141,293
7. c)	**Deferred remuneration in 2012**	-	5,970,819	-
7. c)	proportion (%) of variable remuneration that employees may not have at their disposal	-	77	-
7. d)	**Remuneration pledged in 2012**	25,974,581	75,306,557	122,232,994
7. d)	**Remuneration paid in 2012**	25,974,581	71,380,161	120,814,426
7. d)	**Adjusted remuneration in 2012**	-	-	-
7. e)	**Total severance pay in 2012**	-	-	-
7. e)	allocated across number of employees	-	-	-
7. e)	**Total guaranteed variable remuneration in connection with new hirings in 2012**	-	-	-
7. e)	allocated across number of employees	-	-	-
7. f)	**Total pledged severance pay in 2012**	-	-	-
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 and are expressed in Skr. Social security charges amounts to either 31.42, 15.49 or 10.21 percent depending on the employee's age.

13. REPORTING OF CREDIT RISK EXPOSURES IN ACCORDANCE WITH BASEL II AND IN SEK'S 2012 ANNUAL REPORT, RESPECTIVELY

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 2012 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 are presented in the Consolidated Statement of Financial Positions at 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 binding offers and agreed but undisbursed credits are included in the credit risk exposures presented in this report, in accordance with Basel II rules. Binding offers and 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, 2012. 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 12.9 billion (2011: Skr 14.8 billion). For further information regarding counterparty risk in derivative transactions under Basel II, see section 6.9.

TABLE 13.1: CREDIT RISK EXPOSURES IN ACCORDANCE WITH BASEL II AND SEK'S 2012 ANNUAL REPORT AS OF DECEMBER 31, 2012

Skr bn	Book value		Adjustment from Book value to exposure		Adjustment to exposure class		Amendment for undisbursed loans, binding offers and counterparty exposure		Exposure		Exposure class
Treasuries/government bonds	5.1	(2.0)	–	(–)	3.9	(9.5)	0.8	(1.5)	9.8	(13)	Central governments
Other interest-bearing securities except loans	77.7	(74.7)	–	(–)	29.3	(27.0)	55.0	(21.4)	162.0	(123.1)	Government export credit agencies
Loans in the form of interest-bearing securities	57.9	(66.2)	–0.8	(–0.3)	–33.7	(–47.1)	0.2	(0.3)	23.6	(19.1)	Regional governments
Loans to credit institutions including cash and cash equivalents[1]	24.4	(29.5)	–2.8	(–4.7)	–21.2	(–24.4)	0.0	(–)	0.4	(0.4)	Multilateral development banks
Loans to the public	115.5	(107.9)	–0.8	(–0.7)	–48.4	(–33.2)	10.9	(12.5)	77.2	(86.5)	Financial institutions
	–	(–)	–	(–)	60.1	(–)	3.5	(–)	63.6	(–)	Corporates
Derivatives	25.7	(31.5)	–12.9	(–14.8)	–12.8	(–16.7)	–	(–)	–	(–)	
	–	(–)	–	(–)	10.0	(16.1)	–	(–)	10.0	(16.1)	Securitization positions
Total financial assets	**306.3**	**(311.8)**	**–17.3**	**(–20.5)**	**–72.9**	**(–68.8)**	**66.9**	**(35.7)**	**283.0**	**(258.2)**	

[1] At the end of 2012 SEK had provided credit support under Credit Support Annex with different counterparties amounting to Skr 2.5 billion (year-end 2011: Skr 4.3 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 discount curves created using observable market data, but then extrapolated to calculate the non-observable data.

Tables 14.1 and 14.2 describe SEK's financial assets and liabilities in fair value hierarchy as of December 31, 2012 (and 2011).

TABLE 14.1: FINANCIAL ASSETS IN FAIR VALUE HIERARCHY

	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	– (–)	-	(–)	–	(–)	–	(–)	– (–)	4,261.1	(–)	– (–)	4,261.1	(–)
Other interest-bearing securities except loans	– (–)	2,476.2	(3,905.8)	520.6	(571.6)	2,996.8	(4,477.4)	– (–)	13,118.2	(9,197.6)	– (–)	13,118.2	(9,197.6)
Loans in the form of interest-bearing securities	– (–)	1,630.1	(1,779.4)	506.3	(509.5)	2,136.4	(2,288.9)	– (–)	–	(–)	– (–)	–	(–)
Loans to credit institutions	– (–)	-	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Loans to the public	– (–)	-	(–)	–	(–)	–	(–)	– (–)	–	(–)	– (–)	–	(–)
Derivatives	– (–)	16,706.4	(21,022.1)	9,004.8	(10,444.9)	25,711.2	(31,467.0)	– (–)	–	(–)	– (–)	–	(–)
Total financial assets in fair value hierarchy	**– (–)**	**20,812.7**	**(26,707.3)**	**10,031.7**	**(11,526.0)**	**30,844.4**	**(38,233.3)**	**– (–)**	**17,379.3**	**(9,197.6)**	**– (–)**	**17,379.3**	**(9,197.6)**

TABLE 14.2: FINANCIAL LIABILITIES IN FAIR VALUE HIERARCHY

	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	– (–)	27,271.2	(8,641.3)	89,207.5	(121,676.3)	116,478.7	(130,317.6)
Derivatives	– (–)	11,308.5	(9,143.8)	5,112.5	(13,470.0)	16,421.0	(22,604.8)
Subordinated securities issued	– (–)	–	(–)	–	(–)	–	(–)
Total financial liabilities in fair value hiearchy	**– (–)**	**38,579.7**	**(17,776.1)**	**94,320.0**	**(135,146.3)**	**132,899.7**	**(152,922.4)**

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 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. The Internal Control Committee 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, SEK's Asset and Liability Committee 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 Asset and Liability Committee on an annual basis. SEK's Asset and Liability Committee consists of the President and senior representatives with leading positions within Risk, Lending and Funding.

GLOSSARY

BCBS	Basel Committee on Banking Supervision
CCP	Central counterparty
CDO	Collateralized Debt Obligation
CDS	Credit Default Swap
CET	Common Equity Tier
CIRR	Commercial Interest Reference Rate
CLO	Collateralized Loan Obligation
CMBS	Commercial Mortgage-Backed Security
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit valuation adjustment
DFA	Dodd-Frank Act
EAD	Exposure at default
EBA	European Banking Authority
EC	Economic capital
EKN	Swedish Exports Credits Guarantee Board
EL	Expected loss
EMIR	European Market Infrastructure Regulation
ESMA	European Securities and Markets Authority
EU	European Union
FFFS	Swedish Financial Supervisory Authority regulations and general guidelines
GICS	Global Industries Classification Standard
IAS	International Accounting Standard
ICAAP	Intern capital adequacy assessment process
IFRS	International Financial Reporting Standards
IRB	Internal ratings-based approach
ISDA	International Swaps and Derivatives Association
KYC	Know your customer
LCR	Liquidity Coverage Ratio
LGD	Loss given default
M	Maturity
NSFR	Net Stable Funding Ratio
O/N	Over-night deposit
OTC	Over-the-counter
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

AB SVENSK EXPORTKREDIT, Klarabergsviadukten 61–63, P.O. Box 194, SE-101 23 Stockholm, Sweden.
Phone: +46-8-613 83 00. Fax: +46-8-20 38 94. E-mail: info@sek.se. www.sek.se
111 Somerset Road #07-04, TripleOne Somerset, Singapore 238164, Tel +65 673 555 47