SEB

Capital Adequacy and Risk Management report (Pillar 3)

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About this report

The Capital Adequacy and Risk Management report refers to the public disclosure in accordance with the Capital Requirements Directive (CRD), which implements the Basel II framework in the European Union; in Sweden the new regime is in effect since 1 February 2007.

SEB applies the Internal Ratings-Based (IRB) approach for reporting of banking, corporate, household mortgage and certain retail portfolios in Sweden, Germany and the Baltic states – corresponding to 85 per cent of total credit Risk-Weighted Assets (RWA). Remaining portfolios are reported according to the Standardised approach. SEB will gradually continue to roll-out the IRB approach to the vast majority of all operations.

SEB has been approved by supervisors to report operational risk according to the Advanced Measurement approach since second quarter of 2008. For market risk, the Group has been approved to use its internal Value at Risk (VaR) model for calculating capital requirements for general market risks in the parent company since 2001.

SEB views positively the increased transparency provided by pillar 3 reporting. The quality of the Group's credit portfolio and the internal risk management culture translate into substantial RWA reductions for the Group as compared with Basel I. However, this cannot be equated with a similar capital release, due to the framework's increased business cycle sensitivity, supervisory evaluation, transitional floors and rating agency considerations. SEB's long-term Tier 1 capital ratio target is 10 per cent, based on the Basel II framework applied without transition rules.

The Capital Adequacy and Risk Management report provides details on the Group's risk profile, e.g. business volumes by customer categories and risk classes, which form the basis for the calculation of the capital requirement. The report supplements the information provided in the Annual Report 2010 on corporate governance, risk and capital management as well as the Notes to the financial statements.

All the Group's business as per 31 December 2010 is included in this report, also exposures and capital requirements related to those in SEB AG retail operations which were transferred in January 2011 to Santander Consumer Bank AG (an affiliate of Banco Santander).

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The information below is disclosed following Swedish regulation FFFS 2007:5 – **Finansinspektionen's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management.** *The English version of the regulation can be found at: http://www.fi.se/upload/90_English/30_Regulations/1_Regulatory%20code/FFFS0705_eng.pdf (Minor updates in 2010 have not been made available in English version).*

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SEB Financial Group of Undertakings

Parent company is Skandinaviska Enskilda Banken AB (publ), corporate registration number 502032-9081

Company	Ownership, %	Consolidation Full	Consolidation Pro rata
Credit institutions			
Möller Bilfinans AS, Oslo	51	✔	
Njord AS, Oslo	100	✔	
PuJSC SEB Bank, Kiev	100	✔	
SEB AG, Frankfurt am Main	100	✔	
SEB Bank JSC, St Petersburg	100	✔	
SEB Banka, AS, Riga	100	✔	
SEB bankas, AB, Vilnius	100	✔	
SEB Kort AB, Stockholm	100	✔	
SEB Leasing Oy, Helsinki	100	✔	
SEB Leasing, CJSC, St Petersburg	100	✔	
SEB Pank, AS, Tallinn	100	✔	
Skandinaviska Enskilda Banken A/S, Copenhagen	100	✔	
Skandinaviska Enskilda Banken Corporation, New York	100	✔	
Skandinaviska Enskilda Banken S.A., Luxembourg	100	✔	
Skandinaviska Enskilda Ltd, London	100	✔	
Investment operations			
Aktiv Placering AB, Stockholm	100	✔	
Key Asset Management (Switzerland) SARL, Geneva	100	✔	
Key Asset Management (UK) Limited, London	100	✔	
Key Asset Management Norge ASA, Oslo	100	✔	
Key Capital Management Inc, Tortola	100	✔	
KMM i Stockholm AB, Stockholm	100	✔	
SEB AB, Stockholm	100	✔	
SEB Asset Management America Inc, Stamford	100	✔	
SEB Asset Management S.A., Luxembourg	100	✔	
SEB Enskilda AS, Oslo	100	✔	
SEB Enskilda Corporate Finance Oy Ab, Helsinki	100	✔	
SEB Enskilda Inc., New York	100	✔	
SEB Fund Services S.A., Luxembourg	100	✔	
SEB Förvaltnings AB, Stockholm	100	✔	
SEB Gyllenberg Asset Management Ab, Helsinki	100	✔	
SEB Gyllenberg Fondbolag Ab, Helsinki	100	✔	
SEB Gyllenberg Private Bank Ab, Helsinki	100	✔	
SEB Investment Management AB, Stockholm	100	✔	
SEB Portföljförvaltning AB, Stockholm	100	✔	
SEB Privatbanken ASA, Oslo	100	✔	
SEB Strategic Investments AB, Stockholm	100	✔	
SIGGE S.A. (former SEB TFI S.A.), Warsaw	100	✔	

SEB Financial Group of Undertakings (Cont.)

Parent company is Skandinaviska Enskilda Banken AB (publ), corporate registration number 502032-9081

Company	Ownership, %	Consolidation	
		Full	Pro rata
Other operations			
Baltectus B.V., Amsterdam	100	✔	
BDB Bankernas Depå AB, Stockholm	20		✔
BGC Holding AB, Stockholm	33		✔
Enskilda Kapitalförvaltning SEB AB, Stockholm	100	✔	
Interscan Servicos de Consultoria Ltda, Sao Paulo	100	✔	
Parkeringshuset Lasarettet HGB KB, Stockholm	99	✔	
SEB Hong Kong Trade Services Ltd, Hong Kong	100	✔	
SEB Internal Supplier AB, Stockholm	100	✔	
Skandinaviska Kreditaktiebolaget, Stockholm	100	✔	

The SEB Group comprises banking, finance, securities and insurance companies. The capital adequacy rules apply to each individual Group company that has a licence to carry on banking, finance or securities operations as well as to the consolidated Financial Group of Undertakings. Group companies that carry on insurance operations have to comply with capital solvency requirements, but are excluded in the capital adequacy reporting and are thus not listed above. The consolidated SEB Group should also comply with capital requirements concerning combined banking and insurance groups ("financial conglomerates").

Risk management objectives and guidelines

Managing risk is a core activity in a bank and therefore fundamental to long-term profitability and stability. Risk stems from business activities and business development and is ultimately the result of satisfying customer needs. Credit risk is the most significant of the various risks that SEB assumes in providing its customers with financial solutions and products.

SEB's profitability is directly dependent upon its ability to evaluate, manage and price the risks regularly encountered, while maintaining an adequate capitalization to meet unforeseen events. To secure the Group's financial stability, risk related issues are identified, monitored and managed at an early stage. Risk and capital are essential elements of the long-term strategic planning and operational business planning processes performed throughout the Group.

The Group applies a modern framework for its risk management, having long since established independent risk control, credit analysis and credit approval functions. Board supervision, an explicit decision-making structure, a high level of risk awareness among staff, common definitions and principles, controlled risk-taking within established limits and a high degree of transparency in external disclosures are the cornerstones of SEB's risk and capital management.

Risk policy and mandate

The overall risk mandate of the Group is decided by the Board which also defines the principles for management, reporting and control of risks in a comprehensive policy framework. These risk policies are supplemented by instructions issued by the Group Risk function. Risk mandates are established by the Board and allocated by board committees and executive management committees. The risk appetite of the Group is determined by the Board as part of the annual business planning process and after a risk strategy review independently presented by the Chief Risk Officer.

Risk organisation and responsibility

A comprehensive risk management governance structure ensures that policies approved by the Board of Directors are effectively complied with in all of SEB's risk-taking activities.

The Board of Directors has the ultimate responsibility for the risk organisation and for the maintenance of satisfactory internal control, including appointment of the Chief Risk Officer. The Board establishes the overall risk and capital policies and monitors the development of risk exposure. The Board's Risk and Capital Committee works to ensure that all risks inherent in the Group's activities are identified, defined, measured, monitored and controlled in accordance with external and internal rules.

Subordinated to the Board of Directors and the President are committees with mandates to make decisions depending upon the type of risk. The Group Credit Committee is the highest credit-granting body within the Bank. However, certain matters are reserved for the Risk and Capital Committee of the Board.

The Group Asset and Liability Committee deals with issues relating to the overall risk level of the Group and its various divisions, and decides on risk limits and risk-measuring methods and capital management, among other matters. The Group Risk Measurement Committee assists management in assuring that all of

Risk management objectives and guidelines (Cont.)

the risk methods, tools and measurements are of sufficient quality. This committee involves business persons, divisional risk managers and independent risk controllers and is chaired by senior management from the Group Risk function.

The Chief Risk Officer is responsible for monitoring all of the risks in the Group, primarily credit risk, market risk, insurance risk, operational risk and liquidity risk and to this end manages units responsible for credit approval, risk aggregation and reporting and risk control, together referred to as the Group Risk function. The risk control unit works closely with the business operations within each division and at each site while maintaining its independence as part of the Group Risk function.

Responsibility for day-to-day risk management within SEB rests with the divisions, Group Treasury and support functions. Each of these have dedicated risk management organisations or, in the case of certain support functions, a dedicated risk manager.

For a detailed description of the Group's strategies, processes, organisation, measurement and reporting for risk management, please refer to the Risk and Capital Management and the Corporate Governance sections of the Annual Report.

Strategies and methods for regulatory and internal capital

In order to understand the financial consequences of business decisions on all levels and how they affect shareholder value over time, SEB proactively manages three main areas: (1) the growth, mix and risk of business volumes, (2) the capital, funding and liquidity requirements driven by the business and (3) the profitability. Targets are set and regularly reviewed to manage and optimize resources from these three aspects. Risks are only taken where SEB has an ability to understand, evaluate and manage the outcomes within the regulatory and economic capital limits.

The Group's capital policy defines how capital management should support the business goals. Shareholders' return requirements shall be balanced against the capital requirements of the regulators, the expectations of debt investors and other counterparties as regards SEB's rating, and the economic capital that represents the total risk of the Group. Scenario stress testing is used to assess an extra safety margin over and above the formal capital model requirements – covering e.g. the potential of a sharp decline in the macro-economic environment.

Good risk management notwithstanding, the Group must keep capital buffers against unexpected losses. Capital targets are set both to ensure a sufficient stability to protect holders of the Group's senior debt, and to support on-going business – also in severe times – by keeping a comfort buffer over legal requirements. SEB's internal capital assessment combines the perspectives of legal requirements, market expectations, and economic capital. This model (internally labelled Capital At Risk, CAR) gives a more precise and risk-sensitive measure for internal capital assessment and performance evaluation than the regulatory pillar 1 measures.

Attribution of capital to divisions is an integral part of the regular planning process. The analysis is based upon actual and planned business volumes, and follows the methodology used for the CAR framework. The model is largely built on the platform established by the Basel II capital adequacy rules, but extends this with further risk types to reach a higher risk sensitivity in capital assessment processes.

The Chief Financial Officer is responsible for SEB's Internal Capital Adequacy Assessment Process (ICAAP) with the purpose to assess capital requirements in relation to the Group's risk profile, and to propose a strategy for maintaining the capital levels. This process is integrated with the Group's business planning and is part of the internal governance framework and the internal control system. Together with continuous monitoring, and reporting of the capital adequacy to the Board, this ensures that the relationships between shareholders' equity, economic capital, regulatory and rating-based requirements are managed in such a way that SEB does not jeopardise the profitability of the business and the financial strength of the Group.

Capital is managed centrally, meeting also local requirements as regards statutory and internal capital. A clear governance process is in place for capital injections from the parent bank to subsidiaries.

There are no legal restrictions for the capitalisation of the subsidiaries. The Group has not encountered and does not foresee any material practical or legal impediments to the transfer of non-restricted equity or other capital instruments.

Capital base

SEK m	2010-12-31
Total equity according to balance sheet (1)	99,543
./. Proposed dividend (excl repurchased shares)	–3,291
./. Investments outside the financial group of undertakings (2)	–40
./. Other deductions outside the financial group of undertakings (3)	–2,688
= Total equity in the capital adequacy	**93,524**
Adjustment for hedge contracts (4)	1,755
Net provisioning amount for IRB-reported credit exposures (5)	0
Unrealised value changes on available-for-sale financial assets (6)	1,724
./. Exposures where RWA is not calculated (7)	–1,184
./. Goodwill (8)	–4,174
./. Other intangible assets	–2,564
./. Deferred tax assets	–1,694
= Core Tier 1 capital	**87,387**
Tier 1 capital contribution (non-innovative)	4,492
Tier 1 capital contribution (innovative)	10,101
= Tier 1 capital	**101,980**
Dated subordinated debt	4,922
./. Deduction for remaining maturity	–361
Perpetual subordinated debt	4,152
Net provisioning amount for IRB-reported credit exposures (5)	91
Unrealised gains on available-for-sale financial assets (6)	511
./. Exposures where RWA is not calculated (7)	–1,184
./. Investments outside the financial group of undertakings (2)	–40
= Tier 2 capital	**8,091**
./. Investments in insurance companies (9)	–10,500
./. Pension assets in excess of related liabilities (10)	–422
= Capital base	**99,149**

Specification of the net provisioning amount above

Provisions and value adjustments for IRB-reported credit exposures	15,308
./. Expected loss (EL)	–15,217
Net provisioning amount (5)	**91**

To note: Total equity according to the balance sheet (1) includes the current year´s profit.

Deductions (2) for investments outside the financial group of undertakings should be made with equal parts from Tier 1 and Tier 2 capital. However, investments in insurance companies made before 20 July 2006 can be deducted from the capital base (9) – this holds for SEB's investments in insurance companies.

The deduction (3) consists of retained earnings in subsidiaries outside the financial group of undertakings.

The adjustment (4) refers to differences in how hedging contracts are acknowledged according to the capital adequacy regulation, as compared with the preparation of the balance sheet.

If provisions and value adjustments for credit exposures reported according to the Internal Ratings-Based approach fall short of expected losses on these exposures, the difference (5) should be deducted in equal parts from Tier 1 and Tier 2. A corresponding excess can, up to a certain limit, be added to the Tier 2 capital.

For Available For Sale portfolios (6) value changes on debt instruments should not be acknowledged for capital adequacy. Any surplus attributable to equity instruments may be included in the Tier 2 capital.

Securitisation positions with external rating below BB/Ba are not included in RWA calculations but are treated via deductions (7) from Tier 1 and Tier 2 capital.

Goodwill in (8) relates only to consolidation into the financial group of undertakings. When consolidating the entire Group´s balance sheet further goodwill of SEK 5,721m is created. This is included in the deduction (9) for insurance investments.

Pension surplus values (10) should be deducted from the capital base, excepting such indemnification as prescribed in the Swedish Act on safeguarding of pension undertakings.

Subordinated debt qualifying as Tier 1 capital contribution (hybrid capital)

Type	Issue date	Maturity	First call date	Appropriated if	Appropriated how	Size	Book value (SEK m)	In Tier 1 (SEK m)
16c§: Innovative	2004-03-19	Perpetual	2014-03-25	Liquidation	Conditional capital	USD 407m	2,750	2,750
16c§: Innovative	2005-03-23	Perpetual	2015-03-23	Liquidation	Conditional capital	USD 423m	2,859	2,859
16c§: Innovative	2007-12-17	Perpetual	2017-12-21	Regulatory breach/Liq'n	Conditional capital	EUR 500m	4,492	4,492
16b§: Non-innovative	2009-10-01	Perpetual	2015-03-31	Regulatory breach/Liq'n	Conditional capital	EUR 500m	4,492	4,492
Total							**14,593**	**14,593**

The type above refers to categories in FFFS 2007:1 regulations, Chapter 7 § 16.
For two issues, conditions specify appropriation "in order to avoid liquidation".
For remaining two issues, conditions specify appropriation both "in order to avoid liquidation" and "in order to avoid regulatory breach", the latter referring both to potential pillar 1 and pillar 2 breaches.
For all issues, appropriation would occur by writing down the principal amount (together with accrued interest) and converting such amount into a conditional capital contribution.
Given the attributes of the issues, and the size of other Tier 1 capital components, the full value of the issued securites can be included as Tier 1 capital contribution according to regulations and transitionary rules.

Capital requirements

SEK m	2010-12-31
Credit risk IRB approach:	
Institutions	2,992
Corporates	32,251
Securitisation positions	507
Retail mortgages	5,256
Other retail exposures	786
Other exposure classes	121
Total credit risk IRB approach	**41,913**
Credit risk Standardised approach:	
Central governments and central banks	72
Local governments and authorities	85
Administrative bodies, non-commercial undertakings	15
Institutions	181
Corporates	2,332
Retail	2,812
Exposures secured by real estate property	305
Past due items	127
Securitisation positions	4
Other exposure classes	1,402
Total credit risk Standardised approach	**7,335**
Market risk – Internal VaR model (used only in parent company)	
Foreign exchange rate risk, general interest rate risk, general equity price risk	**366**
Market risk Standardised approach	
Foreign exchange rate risk	1,280
General interest rate risk and general equity price risk	306
Specific interest rate risk	2,029
Specific equity price risk	184
Collective investment undertakings	291
Commodities risk	5
Settlement risk	16
Total market risk Standardised approach	**4,111**
Operational risk Advanced Measurement approach	**3,565**
Summary	
Credit risk	49,248
Market risk	4,477
Operational risk	3,565
Total	**57,290**
Adjustment for flooring rules	
Additional requirement according to transitional flooring	6,694
Total regulatory capital requirement	**63,984**

Capital ratios

SEK m	2010-12-31
Capital resources	
Core Tier 1 capital	87,387
Tier 1 capital	101,980
Capital base	99,149
Capital adequacy without transitional floor (Basel II)	
Risk-weighted assets	716,126
Expressed as capital requirement	57,290
Core Tier 1 capital ratio	12.2%
Tier 1 capital ratio	14.2%
Total capital ratio	13.8%
Capital base in relation to capital requirement	1.73
Capital adequacy including transitional floor	
Transition floor applied	80%
Risk-weighted assets	799,798
Expressed as capital requirement	63,984
Core Tier 1 capital ratio	10.9%
Tier 1 capital ratio	12.8%
Total capital ratio	12.4%
Capital base in relation to capital requirement	1.55
Capital adequacy with risk weighting according to Basel I	
Risk-weighted assets	998,326
Expressed as capital requirement	79,866
Core Tier 1 capital ratio	8.8%
Tier 1 capital ratio	10.2%
Total capital ratio	9.9%
Capital base in relation to capital requirement	1.24

Significant subsidiaries

Within the SEB Group, risk and capital are managed consistently following group-wide policies established by the Board. Thus the description given above, and in the yearly report, holds for all companies in the Group.

The following subsidiaries are important on account of their size and their potential impact on financial stability. The capital adequacy reported here is really for the Financial Group of Undertakings where the subsidiary is the consolidating entity. Each such group is reported on a stand-alone basis i.e. exposures to other companies within the SEB Group are included in the reporting.

In reporting for subsidiaries, credit risk follows IRB and Standardised approaches as outlined under the heading IRB approval and implementation plan. Market risk is reported following the Standardised approach, while the Advanced Measurement approach is used for operational risk.

Capital ratios

2010-12-31, amounts in SEK m	Germany: SEB AG	Estonia: SEB Pank	Latvia: SEB Banka	Lithuania: SEB Bankas
Available capital				
Tier 1 capital	13,872	4,771	2,836	4,460
Capital base	20,749	5,929	4,123	7,057
Capital requirements				
Credit risk	10,887	1,961	1,951	3,665
Market risk	723	11	17	634
Operational risk	271	76	78	124
Total	**11,881**	**2,048**	**2,046**	**4,423**
Additional requirement according to transitional flooring	1,020	649	0	0
Total capital requirements	**12,901**	**2,697**	**2,046**	**4,423**
Capital requirements as percentage of risk-weighted asset	8%	10%	8%	10%
Risk-weighted assets	161,259	26,968	25,580	44,232
Tier 1 capital ratio	8.6%	17.7%	11.1%	10.1%
Total capital ratio	12.9%	22.0%	16.1%	16.0%
Capital base in relation to capital requirement	1.61	2.20	2.01	1.60

Credit exposure by exposure class

Exposure 2010-12-31, SEK m	Year-end	Average
Institutions	216,457	264,153
Corporates	712,132	704,617
Securitisation positions	30,829	36,733
Retail mortgages	387,700	388,505
Other retail exposures	25,733	26,584
Other exposure classes	18,090	17,698
Total IRB approach	**1,390,941**	**1,438,290**
Central governments and central banks	110,832	109,768
Local governments and authorities	105,388	109,117
Administrative bodies, non-commercial undertakings	7,738	8,441
Institutions	14,966	16,465
Corporates	29,218	23,105
Retail	47,225	50,342
Exposures secured by real estate property	10,506	10,805
Past due items	1,131	1,320
Securitisation positions	99	1,099
Other exposure classes	21,896	21,050
Total Standardised approach	**348,999**	**351,512**
Total	**1,739,940**	**1,789,802**

Exposure amounts after eligible offsets; off balance sheet items after application of relevant conversion factors.
Following supervisory guidelines the averages are based on four quarterly observations.
In the quarterly numbers used to form averages, each quarter's distribution over exposure classes is used.
The above does not include exposures that are reported according to trading book rules.

To note: The gross total differs from the total credit exposure as reported in the Annual Report. This is explained by certain differences in scope and definitions, with the largest factor being that the number in the Annual Report records commitments and other off balance sheet items at full nominal value.

Credit exposure by exposure class and geography

Exposure 2010-12-31, SEK m	Sweden	Other Nordic	Germany	Estonia	Latvia	Lithuania	Other Europe	Other	Total
Institutions	32,438	30,923	51,856	6	46	311	71,817	29,060	216,457
Corporates	300,751	108,614	107,977	16,353	17,797	30,362	68,977	61,301	712,132
Securitisation positions			290				20,592	9,947	30,829
Retail mortgages	283,680	386	59,058	14,441	8,665	19,417	1,107	946	387,700
Other retail exposures	19,604	61	24	2,457	1,846	1,156	408	177	25,733
Other exposure classes	17,243			95	751			1	18,090
Total IRB approach	**653,716**	**139,984**	**219,205**	**33,352**	**29,105**	**51,246**	**162,901**	**101,432**	**1,390,941**
Central governments and central banks	15,699	37,511	27,390	3,548	5,274	7,339	7,870	6,201	110,832
Local governments and authorities	26,189	315	74,626	978	100	1,387	731	1,062	105,388
Administrative bodies, non-commercial undertakings	178		7,383	11			4	162	7,738
Institutions	1,431	1,120	11,113			19	359	924	14,966
Corporates	10,430	4,985	7,385	20	1	196	1,932	4,269	29,218
Retail	13,684	13,594	11,832	1,709	850	1,550	2,599	1,407	47,225
Exposures secured by real estate property	539	4,141	5,780			17	26	3	10,506
Past due items	151	474	361	78	57		3	7	1,131
Securitisation positions							99		99
Other exposure classes	9,879	1,906	1,732	985	1,088	2,478	2,156	1,672	21,896
Total Standardised approach	**78,180**	**64,046**	**147,602**	**7,329**	**7,370**	**12,986**	**15,779**	**15,707**	**348,999**
Total	**731,896**	**204,030**	**366,807**	**40,681**	**36,475**	**64,232**	**178,680**	**117,139**	**1,739,940**

Geographical distribution according to obligors' country of domicile.
Exposure amounts for off balance sheet items are after application of relevant conversion factors.
The above does not include exposures that are reported according to trading book rules.

Credit exposure by exposure class and industry

Exposure, SEK m		2010-12-31
Institutions		216,457
Corporates		712,132
of which	Finance and insurance	67,597
	Wholesale and retail	42,868
	Transportation	34,749
	Shipping	31,621
	Business and household services	81,644
	Construction	12,058
	Manufacturing	148,385
	Agriculture, forestry and fishing	6,373
	Mining and quarrying	12,652
	Electricity, gas and water supply	34,405
	Property management	219,395
	Other	20,385
Securitisation positions		30,829
Retail mortgages		387,700
Other retail exposures		25,733
Other exposure classes		18,090
Total IRB approach		**1,390,941**
Central governments and central banks		110,832
Local governments and authorities		105,388
Administrative bodies, non-commercial undertakings		7,738
Institutions		14,966
Corporates		29,218
of which	Finance and insurance	8,587
	Wholesale and retail	3,952
	Transportation	597
	Shipping	130
	Business and household services	3,318
	Construction	426
	Manufacturing	863
	Agriculture, forestry and fishing	87
	Mining and quarrying	17
	Electricity, gas and water supply	33
	Property management	2,524
	Other	8,684
Retail		47,225
Exposures secured by real estate property		10,506
Past due items		1,131
Securitisation positions		99
Other exposure classes		21,896
Total Standardised approach		**348,999**
Total		**1,739,940**

Exposure amounts for off balance sheet items are after application of relevant conversion factors.
The above does not include exposures that are reported according to trading book rules.

Credit exposure by remaining maturity

Exposure 2010-12-31, SEK m	< 3 months	3 < 6 months	6 < 12 months	1 < 5 years	5 years <	Total
Institutions	80,803	10,643	10,007	87,692	27,312	216,457
Corporates	121,283	41,189	77,592	310,740	161,328	712,132
Securitisation positions	199	353	2,178	1,617	26,482	30,829
Retail mortgages	34,417	3,280	3,625	12,179	334,199	387,700
Other retail exposures	8,779	941	2,419	6,093	7,501	25,733
Other exposure classes	258	57	17,359	416		18,090
Total IRB approach	**245,739**	**56,463**	**113,180**	**418,737**	**556,822**	**1,390,941**
Central governments and central banks	81,918	220	1,335	6,883	20,476	110,832
Local governments and authorities	37,833	4,778	5,100	37,613	20,064	105,388
Administrative bodies, non-commercial undertakings	84	8	43	6,363	1,240	7,738
Institutions	7,472	125	706	4,920	1,743	14,966
Corporates	15,106	1,357	1,268	8,992	2,495	29,218
Retail	10,972	973	9,141	13,159	12,980	47,225
Exposures secured by real estate property	461	81	126	1,399	8,439	10,506
Past due items	415	8	499	93	116	1,131
Securitisation positions		99				99
Other exposure classes	1,421	281	853	16,873	2,468	21,896
Total Standardised approach	**155,682**	**7,930**	**19,071**	**96,295**	**70,021**	**348,999**
Total	**401,421**	**64,393**	**132,251**	**515,032**	**626,843**	**1,739,940**

Exposure amounts for off balance sheet items are after application of relevant conversion factors.
The above does not include exposures that are reported according to trading book rules.

Definition of impairment, etc.

Like all financial assets on the balance sheet (except those classified at fair value through profit or loss) loans and receivables are tested for impairment on each balance sheet date. A financial asset or group of financial assets is impaired if there is objective evidence that something has happened after the asset was initially recognised ("loss event") that will impact the future cash flow according to the contract. Events of this nature may include

- restructuring of the loan where a concession is granted due to the borrower's financial difficulty
- a default in the payment of interest or principal
- it is probable that the borrower will go bankrupt.

The impairment loss is measured as the difference between the carrying amount of the loan and the discounted value of the estimated future cash flow. A specific provision of equal size is recorded in an allowance account. As soon as it is possible to determine the amount that cannot be recovered from the borrower or from a sale of collateral it is written off and the corresponding provision is reversed. Similarly, the provision is reversed if the estimated recovery value exceeds the carrying amount.

In addition to an individual impairment test, a collective assessment is made of all loans that have not been deemed to be impaired on an individual basis. Loans with similar credit risk characteristics are grouped together and assessed collectively for impairment. The Group's internal risk classification system constitutes one of the components forming the basis for determining the total amount of the collective provision.

Certain homogeneous groups of individually insignificant credits (e.g. credit card claims) are valued on a portfolio basis only. Provision models have been established on the basis of historical credit losses and the status of these claims.

Impaired loans (gross) by industry

Corporate exposures in all exposure classes

2010-12-31, SEK m	Impaired loans Impaired loans past due >= 60 days	performing or past due < 60 days	Total
Finance and insurance	31		31
Wholesale and retail	1,084	229	1,313
Transportation	376	340	716
Shipping	8	8	
Business and household services	610	292	902
Construction	971	48	1,019
Manufacturing	1,463	494	1,957
Agriculture, forestry and fishing	115	33	148
Mining and quarrying	57	57	
Electricity, gas and water supply	2	2	4
Property management	7,290	1,193	8,483
Other	957	58	1,015
Total corporate exposures	**12,964**	**2,689**	**15,653**
Non-corporate exposures	1,500	65	1,565
Total	**14,464**	**2,754**	**17,218**

Impaired loans (gross) by geography

Total exposures in all exposure classes

2010-12-31, SEK m	Impaired loans past due >= 60 days	Impaired loans performing or past due < 60 days	Total
Sweden	902	79	981
Other Nordic	130	426	556
Germany	3,224	330	3,554
Estonia	1,110	117	1,227
Latvia	3,279		3,279
Lithuania	4,605	1,764	6,369
Other Europe	1,032	38	1,070
Other	182		182
Total	**14,464**	**2,754**	**17,218**

Geographical distribution according to lending company's country of domicile.

Provisions and write-offs on impaired loans and portfolio assessed loans

SEK m	2010-12-31
Provisions:	
Net collective provisions	109
Specific provisions	–2,539
Reversal of specific provisions no longer required	1,573
Net provisions for contingent liabilities	–14
Net provisions	**–871**
Write-offs:	
Total write-offs	–2,862
Reversal of specific provisions utilized for write-offs	1,445
Write-offs not previously provided for	–1,417
Recovered from previous write-offs	90
Net write-offs	**–1,327**
Net credit losses[1)]	**–2,198**

1) of which continuing operations SEK –1,837m and discontinued operations SEK –361m.

Change of reserves for impaired loans and portfolio assessed loans

SEK m	Collective reserves	Specific reserves
Opening balance, 2010-01-01	**7,621**	**10,455**
Net collective provisions	–204	
Specific provisions		2,539
Reversal of specific provisions utilized for write-offs		–1,445
Reversal of specific provisions no longer required		–1,573
Currency differences, group structure changes, reclassifications etc.	–810	–1,093
Closing balance, 2010-12-31	**6,607**	**8,883**

Credit risk mitigation strategies

Credit approvals are based on an evaluation of the counterparty's creditworthiness and the type of credit arrangement, both for a transaction and in total for that counterparty. Consideration is given to the counterparty's current and projected financial condition and also to the protection given by covenants, collateral, etc. in the event of credit quality deterioration.

In the selection of a particular credit risk mitigation technique consideration is given to its legal enforceability, its suitability for the particular counterparty, and to the organisation's experience and capacity to manage and control the particular technique.

The most important credit risk mitigation techniques are different types of collateral arrangements, guarantees / credit derivatives and netting agreements. Real estate mortgages, high quality securities and cash represent the most common types of collaterals. Close-out netting agreements are widely used for derivative, repo and securities lending transactions (while on balance sheet netting is a less frequent practice).

For large corporate customers, credit risk is commonly mitigated through the use of covenants, including negative pledges. Independent and professional credit analysis is particularly important for this customer segment. The Merchant Banking division has a credit analysis function that provides independent analysis and credit opinions to the divisions' business units as well as to the credit committees.

Banks, securities firms and insurance companies are typically counterparties in more sophisticated risk mitigation transactions, such as credit derivatives. SEB's credit policy requires the credit derivative counterparty to be of high credit quality.

The credit portfolio is continually analysed for risk concentrations to geographical and industry sectors and to single large names – both as concerns direct exposures and for issuers of collateral, guarantees and credit derivatives.

All non-retail collateral values are reviewed at least annually by the relevant credit committee. Collateral values for watch-listed engagements are reviewed on a more frequent basis. The general rule is that the value of the collateral shall be calculated on the basis of the estimated market value of the asset with a conservative discount. The market value shall be documented by an independent external valuation or, when applicable, by a well justified internal estimate.

The general control process for various credit risk mitigation techniques includes credit review and approval requirements, specific credit product policies, and credit risk monitoring and control. The value of both the exposure and the mitigating collateral are monitored on a regular basis. The frequency depends on the type of counterparty, the structure of the transaction and the liquidity of the hedge instrument. The control process does differ among instruments and business units. For example within the Merchant Banking division there is a collateral management unit responsible for the daily collateralisation of exposures in trading products, i.e. FX and derivative contracts, repos and securities lending transactions.

Credit risk mitigation

2010-12-31, SEK m	Exposure	Protection via guarantees and credit derivatives	Protection via pledged collaterals	Of which, financial collaterals
Institutions	216,457	3,200	39,111	37,089
Corporates	712,132	39,147	236,000	74,536
Securitisation positions	30,829			
Retail mortgages	387,700	924	387,700	109
Other retail exposures	25,733	303	2,160	40
Other exposure classes	18,090		2	2
Total IRB approach	**1,390,941**	**43,574**	**664,973**	**111,776**
Central governments and central banks	110,832	686	80	9
Local governments and authorities	105,388	25	84	
Administrative bodies, non-commercial undertakings	7,738	113		
Institutions	14,966			
Corporates	29,218	77	48	48
Retail	47,225	14	792	781
Exposures secured by real estate property	10,506	7	10,506	
Past due items	1,131	3	232	
Securitisation positions	99			
Other exposure classes	21,896			
Total Standardised approach	**348,999**	**925**	**11,742**	**838**
Total	**1,739,940**	**44,499**	**676,715**	**112,614**

Exposure amounts for off balance sheet items are after application of relevant conversion factors.
Only mitigation arrangements eligible in capital adequacy reporting are represented above.
The above does not include exposures that are reported according to trading book rules.

Securitisations

SEB does not regularly securitise its assets and has no outstanding own issues. In addition, the Group does not operate any Asset Backed Commercial Paper (ABCP) conduit or similar structure. Thus, most of the securitisation RWA framework is of less relevance for the Group.

SEB provides liquidity facilities and term facilities to a small number of U.S. and European conduits; these can only be used for clients' trade, lease or consumer receivables transactions and not for other assets. The liquidity facilities have not been drawn by the conduits.

As part of its diversified investment portfolio SEB holds securitisation positions in others' issues. These are reported according to the External Rating approach, and the absolute majority consists of the most senior tranches. Some holdings have been downgraded from an original AAA but all are performing. Holdings with lower than BB/Ba rating would receive a risk weight of 1325% but are instead, as prescribed in regulation, deducted from capital.

Securitisation positions (except those held for trading) are accounted for as Available For Sale assets (market value changes do not affect profit & loss but are booked to the equity account) or as Loans and Receivables (on an amortized cost basis).

Securitisations by rating category

SEK m	S&P / Moody's	Exposure	Risk weight	RWA
External rating	AAA/Aaa	15,185	7.4%	1,127
External rating	AA/Aa	7,690	8.5%	652
External rating	A/A	6,387	12.3%	783
External rating	BBB/Baa	768	59.9%	460
External rating	BB/Ba	799	414.8%	3,315
External rating	sub BB/Ba	2,368	(1325%)	(deducted)
Standardised	A/A	99	50.0%	49
Total		**33,296**		**6,386**

Securitisations by asset type

	Total	Of which,	Reported as risk -weighted assets		
SEK m	exposure	deducted	Exposure	Risk weight	RWA
CDO, Collateralised debt obligations	2,365	816	1,549	113.9%	1,764
CLO, Collateralised loan obligations	8,608	0	8,608	12.3%	1,057
CMBS, Commercial mortgage backed securitisations	2,983	0	2,983	9.0%	267
CMO, Collateralised mortgage obligations	1,019	0	1,019	7.4%	76
RMBS, Residential mortgage backed securitisations	12,325	1,375	10,950	11.2%	1,226
of which, sub-prime	781	689	92	270.8%	250
Securities backed with other assets	3,245	177	3,068	52.5%	1,609
Conduit financing	2,751	0	2,751	14.1%	387
Total	**33,296**	**2,368**	**30,928**		**6,386**

The above does not include exposures that are reported according to trading book rules.

Standardised approach

SEB's reporting according to the Standardised approach mainly refers to exposures to the public sector, to retail companies and to certain household exposures. Minor shares of exposures to institutions and corporates also remain at the Standardised approach. Rolling out the Group's Basel II plan all of these except the public sector exposures will become part of IRB reporting over the next couple of years.

Thus, the overwhelming majority of exposures where external rating is used to determine the risk weight has to do with central governments, central banks and local governments and authorities. According to the regulation, either the rating from an export credit agency (such as Exportkreditnämnden in Sweden) shall be used, or the (second best) country rating from eligible credit assessment agencies Moody's, S&P, Fitch and DBRS. In no case has it been necessary to use an issue rating where an issuer rating was missing.

Following regulation, local authorities e.g. in Sweden and Germany are risk-weighted based on the rating of the corresponding central government, and not on the local authorities' own rating.

The table below displays Basel II reported exposures to central governments, central banks and local authorities, broken down by credit quality.

Credit quality step

SEK m, 2010-12-31	Equivalent S&P rating	Exposure
1	AAA/AA	212,897
2	A	515
3	BBB	1,906
4/5	BB/B	766
6	CCC and worse	136
Total		**216,220**

IRB approval and implementation plan

SEB has used its internally developed credit risk models for the majority of the non-retail portfolios (Foundation IRB) and for retail mortgage portfolios (Advanced IRB) in Sweden and Germany in the calculation of legal capital requirements since 1 February 2007, when the Basel II framework came into force in Sweden.

Internally developed credit risk models for remaining non-retail and retail portfolios of significant size are rolled-out in accordance with the SEB Group roll-out plan which has been agreed with Finansinspektionen and local supervisors. The remaining retail portfolios of considerable size that are planned to begin reporting under Advanced IRB are primarily SEB Kort (excl Sweden) and small corporates within Retail Sweden. Furthermore SEB has applied for permission to use internal LGD models for a large share of its non-retail exposures.

At year-end 2010 some 85 per cent of credit risk RWA was reported using the IRB approach (58 per cent at the first reporting 31 March 2007). The ultimate target is Advanced IRB reporting for all the Group's credit exposures, except those to central governments, central banks and local governments and authorities, and excluding a small number of insignificant portfolios where IRB implementation would be statistically unreliable and too costly.

Structure of risk class scale in PD dimension

For mortgages and other retail exposures a scoring methodology is used at credit granting time and for assignment of exposures to pools of homogenous default risk at RWA calculation time. Details of scoring criteria and pool structures depend on the kind of business pursued, and differ between portfolios and countries.

All non-retail obligors on whom the Group has credit exposure are assigned an internal risk class that reflects the risk of default on payment obligations. The risk classification scale has 16 classes, with 1 being the best possible risk and 16 being the default class. Risk classes 1–7 are considered "investment grade", while classes 13–16 are classified as "watch list".

The table below exposes lower and upper Probability of Default (PD) values for aggregates of SEB risk classes, and displays an approximate relation to two rating agencies' scales. Such relation is based on similarity between the method and the definitions used by SEB and these agencies to rate obligors, a similarity which in turn leads to reasonable correspondence between SEB's mapping of risk classes onto PD values, and default statistics published by the agencies.

	Risk class	Lower PD	Upper PD	Moody's	S&P
Investment grade	1–4	0.00%	0.07%	Aaa..A3	AAA..A–
	5–7	0.07%	0.26%	Baa	BBB
On-going business	8–10	0.26%	1.61%	Ba	BB
	11–12	1.61%	6.93%	B1/B2	B+/B
Watch list	13–16	6.93%	100.00%	B3..C	B–..D

Risk classes are used as important parameters in the credit policies and the credit approval process (including decisions on credit limits), and for monitoring, managing and reporting the credit portfolio. The risk classification system is based on credit analysis, covering business and financial risk. Financial ratios and peer group comparison are used in the risk assessment.

The risk classes and associated PD estimates are also a fundamental input when calculating the economic capital attributable to exposures, thus linking into pricing and performance measurement processes. The Group's overall economic capital is an important factor in SEB's internal capital adequacy assessment process.

Likewise, estimates of Loss Given Default (LGD) parameters are linked to these applications. Processes for managing and recognising credit risk protection are outlined in following sections.

The performance of the risk rating system itself is regularly reviewed by the CRO Office in accordance with the Instruction for approval, review, and validation of risk measurement systems. The validation is done in order to both secure that the SEB Group Risk Class Assignment (RCA) System is working satisfactorily and that it is used in accordance with the internal rules and instructions. The discriminatory power and the through-the-cycle PD levels in SEB's Master Scale are assessed and evaluated on a quarterly basis. The validation is performed by personnel within the bank who are independent of those responsible for risk class assignment of counterparties.

Credit risk rating and estimation

The SEB Group RCA System is a tool for assigning risk classes between 1 and 16 to non-retail obligors covering Corporates, Real Estate, Financial Institutions and Specialised Lending. SEB uses the same risk classes, PD scale and overall rating approach for all obligors, with some fine tuning of components to reflect the special characteristics of certain industries, for example financial institutions and shipping.

The SEB Group RCA System is based on traditional standards of credit analysis covering business risk and financial risk, where the obligor's circumstances are assessed against a set of descriptive definitions. Financial ratios, peer group comparison and scoring tools are used to enhance the risk assessment of obligors. The SEB Group RCA System uses a template in the form of a risk class worksheet which is reviewed by SEB's credit granting authorities in conjunction with review of the obligor and facilities in each credit application.

All risk classes are subject to a minimum annual review by a credit approval authority. Customers with higher-risk exposures (risk classes 13–16) are subject to more frequent reviews in order to identify potential problems at an early stage, thereby increasing the chances of finding constructive solutions.

For retail exposures, assignment of exposures to PD pools is done via a scoring methodology where the most important factors are measures of payment behaviour. New exposures without a history in the bank are scored using openly available information and well tested risk drivers.

The PD values are calculated as averages of the internal historical observed default frequencies over one or more full credit cycles. In those geographies where internal data has been insufficient, relevant external bankruptcy data has been used to extrapolate the time series to span full credit cycles.

SEB's through-the-cycle rating approach makes PD estimates reflect the expected long term average default frequency over a full credit cycle for a given risk class. There are difficulties in distinguishing systemic from client-specific problems in periods of stress and therefore risk classes do migrate somewhat in tune with the economic cycle. The RWA effect of both cyclical and client-specific migration during the year 2010 was some additional SEK 4bn for corporate exposures. No net migration effect was recorded for inter-bank exposures.

Similarly LGD (Loss Given Default) and CCF (Credit Conversion Factor) estimates are based on the Group's historical data together with relevant external data used e.g. for credit cycle calibration.

IRB-reported credit exposures by risk class

2010-12-31, SEK m	Risk class	PD range	EAD	RWA	Average risk weight
Institutions	1–4	0 < 0.08%	163,816	19,953	12.2%
	5–7	0.08 < 0.32%	48,950	14,193	29.0%
	8–10	0.32 < 1.61%	2,517	1,821	72.3%
	11–12	1.61 < 5.16%	432	573	132.6%
	13–16	5.16 < 100%	742	865	116.6%
Total Institutions			**216,457**	**37,405**	**17.3%**
Corporates	1–4	0 < 0.08%	134,086	20,494	15.3%
	5–7	0.08 < 0.32%	275,325	114,354	41.5%
	8–10	0.32 < 1.61%	190,889	138,954	72.8%
	11–12	1.61 < 5.16%	69,672	82,737	118.8%
	13–16	5.16 < 100%	42,160	46,589	110.5%
Total Corporates			**712,132**	**403,128**	**56.6%**
Retail mortgages		0 < 0.2%	90,768	3,518	3.9%
		0.2 < 0.4%	177,926	13,673	7.7%
		0.4 < 0.6%	9,457	2,850	30.1%
		0.6 < 1.0%	60,644	13,467	22.2%
		1.0 < 5.0%	29,192	15,565	53.3%
		5.0 < 10%	7,882	6,661	84.5%
		10 < 30%	4,929	7,710	156.4%
		30 < 50%	1,227	933	76.0%
		50 < 100%	5,675	1,327	23.4%
Total Retail mortgages			**387,700**	**65,704**	**16.9%**
Other retail exposures		0 < 0.2%	6,243	415	6.6%
		0.2 < 0.4%	4,200	1,089	25.9%
		0.4 < 0.6%	1,454	542	37.3%
		0.6 < 1.0%	507	133	26.2%
		1.0 < 5.0%	7,867	4,521	57.5%
		5.0 < 10%	3,071	1,853	60.3%
		10 < 30%	887	999	112.6%
		30 < 50%	139	145	104.3%
		50 < 100%	1,365	129	9.5%
Total Other retail exposures			**25,733**	**9,826**	**38.2%**
Securitisation positions	AAA/Aaa		15,185	1,127	7.4%
	AA/Aa		7,690	652	8.5%
	A/A		6,387	783	12.3%
	BBB/Baa		768	460	59.9%
	BB/Ba		799	3,315	414.8%
Total Securitisation positions			**30,829**	**6,337**	**20.6%**
Other IRB-reported exposure classes			**18,090**	**1,511**	**8.4%**
Total IRB-reported credit exposures			**1,390,941**	**523,911**	**37.7%**

Exposure amounts for off balance sheet items are after application of relevant conversion factors.
PD – Probability of Default – through-the-cycle adjusted one-year probability, estimated for each risk class (non-retail) and pool of homogeneous obligors (retail).
Exposures above include repo and securities lending contracts, typically with large volumes and low risk weights.
Risk weights are Group averages and can differ markedly between market areas. This holds e.g. for retail mortgages where the Swedish portfolio has a lower weight than the Group average.
With the IRB framework exposures in the highest PD bands get low risk weights and thus low RWA-based capital requirements, but consume capital also via expected losses and provisions.
The above does not include exposures that are reported according to trading book rules.

IRB-reported exposures with own estimates of LGD

2010-12-31, SEK m	LGD	Exposure amount
Retail mortgages	0 < 1%	33,681
	1 < 10%	204,077
	10 < 20%	39,156
	20 < 30%	9,895
	30 < 40%	24,726
	40 < 50%	28,410
	> 50%	47,755
Total	**16.8%**	**387,700**
Other retail exposures	0 < 1%	770
	1 < 10%	653
	10 < 20%	698
	20 < 30%	8,959
	30 < 40%	550
	40 < 50%	1,955
	> 50%	12,148
Total	**40.8%**	**25,733**

LGD – Loss Given Default – statistically expected loss in the event of default, expressed as a percentage of exposure in the event of default.

IRB-reported exposures with own estimates of CCF

2010-12-31, SEK m		Original exposure	Exposure after CCF	Average CCF
Advanced IRB retail	Retail mortgages	24,143	14,455	59.9%
Advanced IRB retail	Other retail exposures	5,088	3,183	62.6%
Total		**29,231**	**17,638**	**60.3%**

CCF – Credit Conversion Factor – statistically expected exposure in the event of default, expressed as a percentage of a contract's nominal amount.

Comparison between expected and actual losses

Retail mortgages (excluding German Retail)

For retail mortgages, reported as Advanced IRB, the average PD at end of year 2009 was 0.94 per cent (non-defaulted exposures only) and the corresponding observed default frequency during 2010 was 0.80 per cent. Especially in Sweden the observed default frequency has been significantly below the long term average expected default frequency. However in the Baltic countries the observed default frequency during 2010 came out higher than the average PD estimated at end of year 2009. The average recession adjusted LGD at end of 2009 was estimated to 13.4 per cent.

The expected loss for non-defaulted exposures, based on the PD and LGD above, was estimated to SEK 507m at end of year 2009 (0.16 per cent). In comparison (even though accounting data differs slightly in concept from the capital adequacy entities PD and LGD) we note that total credit losses 2010 for the Group's retail mortgages amounted to SEK 693m, some 0.23 per cent of the ingoing portfolio volume. This includes losses through write-offs, as well as provisioning and build-up of reserves for homogeneous groups of mortgage exposures.

Exposure at Default (EAD) for the retail mortgage portfolio is calculated using a CCF of 100 per cent except for undisbursed loan commitments, where an estimate of disbursal rate is made. The volume of undisbursed commitments is insignificant in this portfolio.

Non-retail portfolios

For the non-retail portfolios, reported as Foundation IRB, the counterparty weighted PD at end of 2009 was 2.33 per cent (non-defaulted exposures only) and the corresponding observed default frequency during 2010 was 0.99 per cent. The reason for the observed value being lower was the relatively quick economic recovery in the Baltic countries and the decrease in observed default rates in Sweden, countered only by a modest increase in observed default rates in Germany.

Counterparty risk in derivative contracts

SEB enters into derivative contracts primarily to offer clients products for management of their financial exposures, and then manages the resulting positions through entering offsetting contracts in the market place. The Group also uses derivatives for the purpose of protecting the cash-flows and fair value of financial assets and liabilities from interest rate fluctuations.

Positive market values on derivative contracts imply a counterparty risk, which SEB actively manages. In order to reduce exposure on single derivatives counterparties close-out netting agreements are used for a large majority of the counterparties. This allows SEB to net positive and negative replacement values in the event of default of the counterparty. For financial counterparties, collateral agreements are normally set up in order to further mitigate the counterparty risk.

Netting and collateral agreements could contain rating triggers. SEB has a very restrictive policy in respect of rating-based levels for thresholds and minimum transfer amounts related to the provision of collateral in derivative master agreements. In addition, asymmetrical levels require specific approval from a deviation committee. Rating-based thresholds have only been accepted for a very limited number of counterparties. Further, rating triggered termination events are as a general rule not accepted. Deviations require approval from head of Group Treasury.

Counterparty exposures arising from derivative contracts will vary as market rates change. To reflect also future uncertainty in market conditions an amount for potential future exposure is calculated and added to the exposure. For capital adequacy reporting as well as for establishing and monitoring credit limits SEB uses the Current Exposure method (market value plus a schematic add-on for the potential future exposure). For calculation of internal capital an in-house developed model is used to calculate an Expected Positive Exposure style of measure. This calculation is based on the Group's Value at Risk model for market risk.

Derivative contracts

Credit risk mitigation effects, SEK m	2010-12-31
Gross positive fair value of contracts	127,639
Netting benefits	–84,165
Value after netting benefits	**43,474**
Collateral benefits	–14,283
Value after netting and collateral benefits	**29,191**

Overall Exposure At Default for credit risk in derivative contracts is SEK 90,107m. This number is after netting benefits but before collateral benefits, and includes add-on for potential future exposure.

Credit derivatives

Nominal amounts, 2010-12-31, SEK m	Reduces the risk	Adds to the risk
Credit derivatives hedging exposures in own credit portfolios		
– Credit default swaps	1,145	0
– Total return swaps	0	0
– Credit linked notes	0	0
Subtotal	**1,145**	**0**
Credit derivatives in trading operations		
– Credit default swaps	8,982	7,511
– Total return swaps	0	0
– Credit linked notes	0	0
Subtotal	**8,982**	**7,511**
Total	**10,127**	**7,511**

Credit derivatives in the trading operations to a large extent represent hedges of bonds that are held for trading.

Operational risk

Since 2008 SEB has held a supervisory approval to use the Advanced Measurement approach (AMA) for operational risk on Group level. The approval is an acknowledgement of SEB's long experience and expertise in operational risk management such as capital modelling, operational incident reporting and quality assessment of processes.

SEB's AMA model, which is structured and calculated along the regulatory-defined business lines for operational risk, calculates the required regulatory capital at the 99.9th percentile. SEB quantifies operational risk with a Loss Distribution approach, using external information of operational losses that have occurred in the global financial sector. The level of risk is appropriately captured in the AMA model with respect to SEB's size and different business activities. Once the capital requirement for the Group is calculated, the capital is allocated throughout the Group using similar mechanisms as in the Standardised approach. Allocated capital is used both for the legal capital requirement, in countries where SEB has an AMA approval, and for determining the internally allocated operational risk capital. The quality of the risk management of the business units, based upon their self-assessment, is taken into account as well. Efficient operational risk management results in a reduction of allocated capital and insufficient risk management results in an increase.

The AMA framework requires calculation of both unexpected as well as expected operational losses. The calculation of SEB's unexpected losses in SEB's AMA model takes into account only external losses above a certain threshold whereas the calculation of expected losses in addition takes into account SEB's internal loss statistics and consortium data.

The model is also used to calculate economic capital for operational risk, albeit on a higher confidence level and with the inclusion of risks relevant for SEB Life Division.

As a supporting tool, SEB uses an IT-based infrastructure for management of operational risk, security and compliance. All staff in the Group is required to use the system to register risk related issues and management at all levels is required to identify, assess, monitor and mitigate risks. This facilitates management of operational risk exposures and minimises the severity of incidents in progress.

SEB is insured to a limited degree to cover for financial loss as a consequence of criminal acts committed with the intention of obtaining illegal financial gain, compensatory damages or settlements for financial loss caused by a negligent act, error or omission, and damages or settlements caused by loss or damage to property or by bodily injury. However, SEB's capital requirement for operational risk, as calculated in the AMA framework, is not affected by such external insurance to reduce or transfer the impact of operational risk losses.

Trading book market risk

Since 2001 SEB has held a supervisory approval to use its internally developed VaR model for calculating capital requirements for general interest rate, foreign exchange rate and equity price risk in the parent bank. This model maps positions into risk buckets for market rates and other key risk drivers. For each modelled currency the model keeps track of the government and the swap yield curve. Equities are modelled against a set of equity indices, with beta adjustment for each position. Open FX positions are modelled against historical movements in currency pairs. Volatility in and correlation between risk drivers is measured over a one year history.

SEB also uses VaR methodology for risk management and risk control across the entire Group, not only in the parent bank. During 2009 SEB implemented a new generation of the VaR model covering a wider universe of risk factors. Using historical simulation to better capture non-linear risks and tail events the enhanced model typically reports higher VaR numbers. The new model is currently applied within the Group for management purposes and an application to replace the former model for regulatory reporting has been filed with the Swedish supervisor.

Back testing is performed by comparison of daily trading result against the daily Value-at-Risk outcome. For this analysis, a theoretical result is calculated with updated market data whereas the end-of-day positions are kept unchanged. The theoretical result is calculated as the sum of changes in modelled market prices times the market value exposed to each risk factor. Back testing is used to verify that losses have not exceeded the VaR level during significantly more than one per cent of the trading days, thus validating that the VaR model is estimating risk at a 99% confidence level.

The use of the VaR model is supplemented with measures of interest rate sensitivity, foreign exchange exposure and option activities. Scenario analyses and stress tests are performed on a regular basis as a complement to the above described risk measurements. Stress testing is a method that allows discovery of potential losses beyond the 99th percentile using further scenarios than those available in the simulation window. SEB stresses the portfolios by applying extreme movements in market factors which have been observed in the past (historical scenarios) as well as extreme movements that could potentially happen in the future (hypothetical scenarios).This type of analysis provides management with a view on the potential impact that large market moves in individual risk factors, as well as broader market scenarios, could have on a portfolio.

EU Directive 2006/49/EG is implemented in Swedish law and regulations, and is thus a binding constraint for the Group's risk management of positions in the trading book. Market risks in the trading operations arise from the Group's customer-driven trading activity, where SEB acts as a market maker for trading in the international equity, foreign exchange and capital markets. The risks are managed at the different trading locations within a comprehensive set of limits in VaR, stop-loss and delta-1 terms, with a supplementary limit structure for non-linear risks. The risks are consolidated each day on a Group-wide basis by Market Risk Control for reporting to the Executive Management. Market Risk Control is present in the trading room and monitors limit compliance and market prices at closing, as well as valuation standards and the introduction of new products.

The table below shows the risk exposures by risk type. All risk exposures are well within the Board's decided limits. The Group's VaR in the trading operations averaged SEK 305m during 2010. The increase compared to 2009 is due to a strategic reorientation of certain assets to the trading portfolio from the banking book.

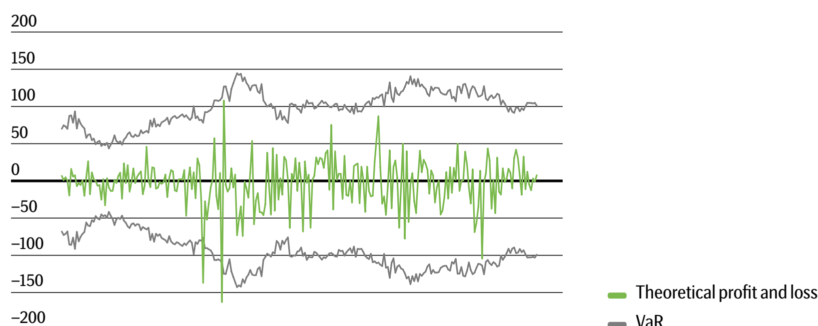
Trading book VaR (99 per cent, ten days)

SEK m	Min 2010	Max 2010	2010-12-31	Average 2010	Average 2009
Interest rate risk	53	257	67	100	156
Credit spread risk	52	360	294	251	102
Foreign exchange rate risk	12	136	36	44	65
Equity price risk	20	112	50	40	51
Commodities risk	0	4	0	0	2
Volatilities risk	14	35	21	24	–
Diversification	–	–	–155	–154	–183
Total	**133**	**483**	**313**	**305**	**193**

Above numbers are for internal risk management and control purposes.
Thus they are not directly comparable to the VaR-based capital requirements stated above,
which are for the parent bank only, with a supervisory scale-up, and entirely based on the former model generation.
(Both calculations use a ten-day horizon and a 99 per cent confidence level though.)

Trading book back testing 2010

SEK m, theoretical profit and loss vs. VaR on the 99% confidence level and 1 day holding period. As can be seen losses exceed the 99th percentile during two out of the year's business days.



Banking book market risk

Market risks in the banking book mainly arise because of mismatches in currencies, interest rate terms and periods in the balance sheet, as well as from limited equity related holdings not part of trading activities. Group Treasury has the overall responsibility for managing these risks, which are consolidated centrally through the internal funds transfer pricing system. Small market risk mandates are granted to subsidiaries where cost-efficient, in which case Group Treasury is represented on the local Asset and Liability Committee for co-ordination and information sharing. The centralised operations create a cost-efficient matching of liquidity and interest rate risk in all non-trading related business.

Banking book market risk is monitored both from a value perspective (Delta 1% and VaR) and from an income perspective (sensitivity in net interest income, NII).

The NII risk depends on the overall business profile, especially mismatches between interest-bearing assets and liabilities in terms of volumes and repricing periods (see below). The NII is also exposed to a "floor" risk. Asymmetries in pricing of products (deposit rates cannot really go below zero) create a margin squeeze in times of low interest rates, making it relevant to analyse both "up" and "down" changes. SEB monitors NII risk but it is not assigned a specific limit in terms of market risk exposure. Further information is found in the table below, which shows re-pricing periods for SEB's assets and liabilities.

As concerns the value perspective, the Delta 1% measure is defined as the change in market value of the Group's interest-bearing assets and liabilities arising from an adverse one percentage unit parallel shift in all interest rates in each currency. By year end this sensitivity amounted to SEK 0.5bn in the banking book.

The table below displays VaR for the banking book (the enhanced model version described above is not yet implemented). It showed a similar pattern to trading book VaR. On average, limit utilization remained well below 50 per cent. Banking book VaR increased temporarily during the second half of 2010 due to the sale of the German retail business. This represented an increase of approximately 90 per cent. After completion of the sale in January 2011, VaR has returned to earlier levels.

As a complement to VaR, foreign exchange risk is also measured by Single and Aggregated FX. Single FX represents the single largest net position, short or long, in non-SEK currencies. Aggregated FX is arrived at by calculating the sum of all short non-SEK positions and the sum of all long non-SEK positions. Aggregated FX is the largest of these two absolute values.

Banking book VaR

SEK m	Min 2010	Max 2010	2010-12-31	Average 2010	Average 2009
Interest rate risk	161	586	481	288	369
Credit spread risk	0	397	152	141	–
Foreign exchange rate risk	0	80	27	27	127
Equity price risk	19	59	34	33	51
Diversification	–	–	–178	–122	–166
Total	**188**	**639**	**516**	**367**	**381**

The following table exposes repricing periods for the Group's overall balance sheet

SEB Group, 2010-12-31, SEK m

Assets	< 1 month	1 < 3 months	3 < 6 months	6 < 12 months	1 < 3 years	3 < 5 years	5 years <	Non rate	Insurance	Total
Loans to credit institutions	136,893	32,040	6,459	945	14,977	6,903	2,698	772	2,501	204,188
Loans to the public	464,899	287,297	59,226	45,595	117,112	53,038	37,415	10,297		1,074,879
Financial assets	417,124	44,744	19,952	6,662	8,739	5,847	38,607	–29,724	266,160	778,111
Other assets	9,264	74,579	–64	–14	20	1		23,168	15,689	122,643
Total	**1,028,180**	**438,660**	**85,573**	**53,188**	**140,848**	**65,789**	**78,720**	**4,513**	**284,350**	**2,179,821**
Liabilities and equity										
Deposits by credit institutions	150,880	18,798	10,805	1,733	1,355	1,683	9,814	14,812	2,744	212,624
Deposits and borrowing from the public	635,972	5,487	14,292	8,109	7,778	6,920	30,956	2,027		711,541
Issued securities	276,529	112,223	22,417	27,502	43,427	56,519	17,370	48		556,035
Other liabilities	241,366	51,606	137	100	3,243	717	742	31,325	270,842	600,078
Total equity								99,543		99,543
Total	**1,304,747**	**188,114**	**47,651**	**37,444**	**55,803**	**65,839**	**58,882**	**147,755**	**273,586**	**2,179,821**
Interest rate sensitive, net	–276,567	250,546	37,922	15,744	85,045	–50	19,838	–143,242	10,764	
Cumulative sensitive	–276,567	–26,021	11,901	27,645	112,690	112,640	132,478	–10,764	0	

Equity exposures not included in the trading book

2010-12-31, SEK m	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses	Revaluation gains/losses
Associates (venture capital holdings)	920	920		–20	26	
Associates (strategic investments)	102	102				
Other strategic investments	2,779	2,779	1,241		100	
Seized shares	56	56				
Total	**3,857**	**3,857**	**1,241**	**–20**	**126**	**0**

Investments in associates held by the venture capital organisation of the Group have in accordance with IAS 28 been designated as at fair value through profit or loss. Therefore, these holdings are accounted for under IAS 39.

All financial assets within the Group's venture capital business are managed and its performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

Fair values for investments listed in an active market are based on quoted market prices. If the market for a financial instrument is not active, fair value is established by using valuation techniques based on discounted cash flow analysis, valuation with reference to financial instruments that are substantially the same, and valuation with reference to observable market transactions in the same financial instrument.

Strategic investments in associates are accounted for using the equity method.

Some entities where the bank has an ownership of less than 20 per cent, have been classified as investments in associates. The reason is that the bank is represented in the board of directors and participating in the policy making processes of those entities.

Equity instruments measured at cost do not have a quoted market price in an active market. Further, it has not been possible to reliably measure the fair values of those equity instruments. Most of these investments are held for strategic reasons and are not intended to be sold in the near future.

In capital adequacy reporting the holdings detailed above are reported following the Standardised approach, in the Other items category.

Further information regarding accounting principles and valuation methodologies can be found in the Annual Report.