



Capital Adequacy and  
Risk Management report (Pillar 3)

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## About this report

The Capital Adequacy and Risk Management report (Pillar 3) 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 has been in effect since 1 February 2007. The new Capital Requirements Directive (CRD), which implements the Basel III framework, has been delayed and is now expected to be implemented by 1 January 2014. The impact of Basel III on banks will include higher capital requirements and higher quality and consistency of capital, as well as the introduction of a non-risk based leverage ratio and new requirements for liquidity and funding.

SEB applies the Internal Ratings-Based (IRB) approach for calculation of Risk Weighted Assets (RWA) and reporting of corporate and financial institutional exposures globally. In addition, SEB also applies the IRB approach for household mortgages and most retail and credit card portfolios in Sweden and the Baltic countries. In total, IRB calculated RWA corresponds to 86 per cent of total credit RWA. Remaining portfolios, including sovereign exposures in the banking book, are reported according to the Standardised approach. SEB plans to continue to roll-out the IRB approach to all material portfolios with the exception of sovereign exposures, which lack sufficient default observations to validate a PD model.

SEB has been approved by supervisors to report operational risk according to the Advanced Measurement Approach (AMA) since 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 under SEB's IRB approach as compared with Basel I. However, this cannot be equated with a similar capital release, due to the framework's increased business cycle sensitivity, conservatism added during supervisory evaluation, transitional floors and rating agency considerations.

The Capital Adequacy and Risk Management report (Pillar 3) provides details on the Group's risk profile, including 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 2012 on corporate governance, risk and capital management as well as the Notes to the financial statements.

The report is based upon the Group's financial position as of 31 December 2012.

## Contents

The information below is disclosed following Swedish regulation FFFS 2007:5 – **The Swedish Financial Supervisory Authority'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](http://www.fi.se/upload/90_English/30_Regulations/1_Regulatory%20code/FFFS0705_eng.pdf) (Updates in 2010 and 2011 have not been made available in English version)

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**SEB Financial Group of Undertakings**

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

Company	Ownership, %	Consolidation	
		Full	Pro rata
<b>Credit institutions</b>			
Möller Bilfinans AS, Oslo	51	✓	
Njord AS, Oslo	100	✓	
SEB Corporate Bank, PJSC, 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 S.A., Luxembourg	100	✓	
Skandinaviska Enskilda Ltd, London	100	✓	
<b>Investment operations</b>			
Aktiv Placering AB, Stockholm	100	✓	
Key Asset Management (UK) Limited, London	100	✓	
Key Capital Management Inc, Tortola	100	✓	
SEB AB, Stockholm	100	✓	
SEB Asset Management America Inc, Stamford	100	✓	
SEB Asset Management S.A., Luxembourg	100	✓	
SEB Enskilda, UAB, Vilnius	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 Investment Management AB, Stockholm	100	✓	
SEB Kapitalförvaltning Finland Ab, Helsinki	100	✓	
SEB Fondbolag Finland Ab, Helsinki	100	✓	
SEB Portföljförvaltning AB, Stockholm	100	✓	
SEB Strategic Investments AB, Stockholm	100	✓	
<b>Other operations</b>			
Antwerpen Properties AB, Stockholm	100	✓	
Baltectus B.V., Amsterdam	100	✓	
BDB Bankernas Depå AB, Stockholm	20		✓

**SEB Financial Group of Undertakings (Cont.)**

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

Company	Ownership, %	Consolidation	
		Full	Pro rata
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	✓	
Track One Leasing AB, 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 is closely related to business activities and business development and, therefore, to customer needs. Of the various risks that SEB assumes in providing its customers with financial solutions and products, credit risk is the most significant.

SEB's profitability is directly dependent upon its ability to evaluate, manage and price the risks encountered, while maintaining adequate capitalisation and liquidity to meet unforeseen events. To secure the Group's financial stability, risk and capital-related issues are identified, monitored and managed at an early stage. They also form an integral part of the long-term strategic and business planning process.

The Group applies a robust framework for its risk management, having long since established independent risk control, credit analysis and credit approval functions supported by a toolbox of advanced internal models. 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 disclosure 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 tolerance 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 internal committees with mandates to make decisions depending upon the type of risk. The Group Risk 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

### *Risk management objectives and guidelines (Cont.)*

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of the risk methods, tools and measurements are of sufficient quality and approved. 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, 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, Liquidity and Capital Management and the Corporate Governance sections of the Annual Report.

### **Strategies and methods for regulatory and internal capital**

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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 optimise 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 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.

<b>Capital base</b>	
SEK m	2012-12-31
Total equity according to balance sheet (1)	109,513
Proposed dividend (excl repurchased shares)	-6,028
Investments outside the financial group of undertakings (2)	-64
Other deductions outside the financial group of undertakings (3)	-4,451
<b>= Total equity in the capital adequacy</b>	<b>98,970</b>
Adjustment for hedge contracts (4)	-473
Net provisioning amount for IRB-reported credit exposures (5)	0
Unrealised value changes on Available-For-Sale financial assets (6)	-597
Exposures where RWA is not calculated (7)	-802
Goodwill (8)	-4,147
Other intangible assets	-2,559
Deferred tax assets	-2,003
<b>= Core Tier 1 capital</b>	<b>88,389</b>
Tier 1 capital contribution (non-innovative)	4,300
Tier 1 capital contribution (innovative)	9,704
<b>= Tier 1 capital</b>	<b>102,393</b>
Dated subordinated debt	6,515
Deduction for remaining maturity	-39
Perpetual subordinated debt	1,890
Net provisioning amount for IRB-reported credit exposures (5)	485
Unrealised gains on Available-For-Sale financial assets (6)	990
Exposures where RWA is not calculated (7)	-802
Investments outside the financial group of undertakings (2)	-64
<b>= Tier 2 capital</b>	<b>8,975</b>
Investments in insurance companies (9)	-10,501
<b>= Capital base</b>	<b>100,867</b>
<b>Specification of the net provisioning amount above</b>	
Provisions and value adjustments for IRB-reported credit exposures	9,648
Expected loss (EL)	-9,163
<b>Net provisioning amount (5)</b>	<b>485</b>

**To note:** Total equity according to the balance sheet (1) includes the current year's profit. In 2012 the capital base was affected by the implementation of changes in IAS 19 – Employee benefits.

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 (IRB) 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.

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

Type of instrument	Issue date	Maturity	First call date	Appropriated in event of	Appropriated as	Size	Book value (SEK m)	In Tier 1 (SEK m)
16c§: Innovative	2004-03-19	Perpetual	2014-03-25	Liquidation	Conditional capital	USD 407m	2,649	2,649
16c§: Innovative	2005-03-23	Perpetual	2015-03-23	Liquidation	Conditional capital	USD 423m	2,755	2,755
16c§: Innovative	2007-12-17	Perpetual	2017-12-21	Liq'n/Regulatory breach	Conditional capital	EUR 500m	4,300	4,300
16b§: Non-innovative	2009-10-01	Perpetual	2015-03-31	Liq'n/Regulatory breach	Conditional capital	EUR 500m	4,300	4,300
<b>Total</b>							<b>14,004</b>	<b>14,004</b>

The type of instrument 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 securities can be included as Tier 1 capital contribution according to regulations and transitional rules.

<b>Capital requirements</b>	
SEK m	2012-12-31
<b>Credit risk IRB approach:</b>	
Institutions	1,910
Corporates	26,133
Securitisation positions	414
Retail mortgages	3,432
Other retail exposures	749
Other exposure classes	118
<b>Total credit risk IRB approach</b>	<b>32,756</b>
<b>Credit risk Standardised approach:</b>	
Central governments and central banks	20
Local governments and authorities	47
Institutions	86
Corporates	1,295
Retail	1,950
Exposures secured by real estate property	332
Past due items	137
Other exposure classes	1,583
<b>Total credit risk Standardised approach</b>	<b>5,450</b>
<b>Market risk – Internal VaR model</b>	
Foreign exchange rate risk, general interest rate risk, general equity price risk, commodities risk	1,838
<b>Market risk Standardised approach</b>	
Foreign exchange rate risk	1,123
General interest rate risk and general equity price risk	64
Specific interest rate risk	1,844
Specific equity price risk	235
Specific risk securitisation positions	23
Collective investment undertakings	273
Commodity risk	43
<b>Total market risk Standardised approach</b>	<b>3,605</b>
<b>Operational risk Advanced Measurement approach</b>	<b>3,218</b>
<b>Summary</b>	
Credit risk	38,206
Market risk	5,443
Operational risk	3,218
<b>Total</b>	<b>46,867</b>
<b>Adjustment for flooring rules</b>	
Additional requirement according to transitional flooring	23,472
<b>Total regulatory capital requirement</b>	<b>70,339</b>

**Capital ratios**

SEK m	2012-12-31
<b>Capital resources</b>	
Core Tier 1 capital	88,389
Tier 1 capital	102,393
Capital base	100,867
<b>Capital adequacy without transitional floor (Basel II)</b>	
Risk-weighted assets	585,839
Expressed as capital requirement	46,867
Core Tier 1 capital ratio	15.1%
Tier 1 capital ratio	17.5%
Total capital ratio	17.2%
Capital base in relation to capital requirement	2.15
<b>Capital adequacy including transitional floor</b>	
Transition floor applied	80%
Risk-weighted assets	879,237
Expressed as capital requirement	70,339
Core Tier 1 capital ratio	10.1%
Tier 1 capital ratio	11.6%
Total capital ratio	11.5%
Capital base in relation to capital requirement	1.43
<b>Capital adequacy with risk weighting according to Basel I</b>	
Risk-weighted assets	1,091,468
Expressed as capital requirement	87,317
Core Tier 1 capital ratio	8.1%
Tier 1 capital ratio	9.4%
Total capital ratio	9.2%
Capital base in relation to capital requirement	1.16

## Significant subsidiaries

Within the SEB Group, risk and capital are managed consistently following group-wide policies established by the Board. Thus the description given in the section of Risk management objectives and guidelines, and in the Annual Report, holds for all companies in the Group.

The following subsidiaries are important on account of their materiality and their potential impact on financial stability. The capital adequacy reported in the table below is for the Financial Group of Undertakings where the subsidiary is the consolidating

entity. Each such subsidiary 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.

<b>Capital ratios</b>				
2012-12-31, amounts in SEK m	Germany: SEB AG	Estonia: SEB Pank	Latvia: SEB Banka	Lithuania: SEB Bankas
<b>Available capital</b>				
Tier 1 capital	13,301	5,414	3,699	5,683
Capital base	17,434	5,505	4,701	6,727
<b>Capital requirements</b>				
Credit risk	6,601	1,677	1,780	2,776
Market risk	266	10	28	749
Operational risk	290	98	103	120
<b>Total</b>	<b>7,157</b>	<b>1,785</b>	<b>1,911</b>	<b>3,645</b>
<b>Adjustment for flooring rules</b>				
Additional requirement according to transitional flooring	1,578	822	0	0
<b>Total capital requirements</b>	<b>8,735</b>	<b>2,607</b>	<b>1,911</b>	<b>3,645</b>
Capital requirements as percentage of risk-weighted assets	8%	10%	8%	8%
Risk-weighted assets	109,186	26,069	23,888	45,563
Tier 1 capital ratio	12.2%	20.8%	15.5%	12.5%
Total capital ratio	16.0%	21.1%	19.7%	14.8%
Capital base in relation to capital requirement	2.00	2.11	2.46	1.85

**Credit exposure by exposure class**

Exposure 2012-12-31, SEK m	Year-end	Average
Institutions	169,045	174,371
Corporates	803,332	788,658
Securitisation positions	14,916	16,380
Retail mortgages	412,360	401,058
Other retail exposures	25,065	25,028
Other exposure classes	18,275	18,231
<b>Total IRB approach</b>	<b>1,442,993</b>	<b>1,423,726</b>
Central governments and central banks	262,431	242,671
Local governments and authorities	93,710	94,369
Administrative bodies, non-commercial undertakings	8,637	9,540
Institutions	4,492	3,964
Corporates	16,230	19,396
Retail	32,507	33,978
Exposures secured by real estate property	11,675	9,383
Past due items	1,193	964
Other exposure classes	22,326	23,081
<b>Total Standardised approach</b>	<b>453,201</b>	<b>437,346</b>
<b>Total</b>	<b>1,896,194</b>	<b>1,861,072</b>

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.

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 2012-12-31, SEK m	Sweden	Other Nordic	Germany	Estonia	Latvia	Lithuania	Other Europe	Other	Total
Institutions	15,289	42,477	22,587	9	15	392	62,691	25,585	<b>169,045</b>
Corporates	351,362	132,174	95,998	17,434	18,162	29,709	79,794	78,699	<b>803,332</b>
Securitisation positions							10,797	4,119	<b>14,916</b>
Retail mortgages	370,950	444	234	13,472	7,501	17,526	1,018	1,215	<b>412,360</b>
Other retail exposures	19,517	51	28	2,123	1,702	864	659	121	<b>25,065</b>
Other exposure classes	17,491		69	83	631			1	<b>18,275</b>
<b>Total IRB approach</b>	<b>774,609</b>	<b>175,146</b>	<b>118,916</b>	<b>33,121</b>	<b>28,011</b>	<b>48,491</b>	<b>154,959</b>	<b>109,740</b>	<b>1,442,993</b>
Central governments and central banks	11,307	16,669	54,488	3,198	3,756	6,173	21,319	145,521	<b>262,431</b>
Local governments and authorities	22,581	843	67,725	1,018	77	1,178	204	84	<b>93,710</b>
Administrative bodies, non-commercial undertakings			8,540	10			2	85	<b>8,637</b>
Institutions	409	1,844	426			11	350	1,452	<b>4,492</b>
Corporates	5,956	2,988	2,494	2		108	840	3,842	<b>16,230</b>
Retail	15,912	11,279	165	1,761	407	837	1,647	499	<b>32,507</b>
Exposures secured by real estate property	3,060	6,306	83	59		14	1,935	218	<b>11,675</b>
Past due items	426	619	5	52	18	41	0	32	<b>1,193</b>
Other exposure classes	12,116	896	372	956	1,655	2,635	2,301	1,395	<b>22,326</b>
<b>Total Standardised approach</b>	<b>71,767</b>	<b>41,444</b>	<b>134,298</b>	<b>7,056</b>	<b>5,913</b>	<b>10,997</b>	<b>28,598</b>	<b>153,128</b>	<b>453,201</b>
<b>Total</b>	<b>846,376</b>	<b>216,590</b>	<b>253,214</b>	<b>40,177</b>	<b>33,924</b>	<b>59,488</b>	<b>183,557</b>	<b>262,868</b>	<b>1,896,194</b>

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	2012-12-31
Institutions	169,045
Corporates	803,332
<i>of which</i>	
Finance and insurance	68,376
Wholesale and retail	47,863
Transportation	37,156
Shipping	34,626
Business and household services	103,021
Construction	13,771
Manufacturing	143,193
Agriculture, forestry and fishing	8,687
Mining and quarrying	19,707
Electricity, gas and water supply	40,319
Property management	263,632
Other	22,981
Securitisation positions	14,916
Retail mortgages	412,360
Other retail exposures	25,065
Other exposure classes	18,275
<b>Total IRB approach</b>	<b>1,442,993</b>
Central governments and central banks	262,431
Local governments and authorities	93,710
Administrative bodies, non-commercial undertakings	8,637
Institutions	4,492
Corporates	16,230
<i>of which</i>	
Finance and insurance	4,981
Wholesale and retail	2,077
Transportation	886
Shipping	112
Business and household services	969
Construction	167
Manufacturing	2,229
Agriculture, forestry and fishing	4
Mining and quarrying	250
Electricity, gas and water supply	17
Property management	501
Other	4,037
Retail	32,507
Exposures secured by real estate property	11,675
Past due items	1,193
Other exposure classes	22,326
<b>Total Standardised approach</b>	<b>453,201</b>
<b>Total</b>	<b>1,896,194</b>

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 2012-12-31, SEK m	<3 months	3 < 6 months	6 < 12 months	1 < 5 years	5 years <	Total
Institutions	65,420	9,678	11,894	54,237	27,816	<b>169,045</b>
Corporates	138,546	55,039	109,558	374,395	125,794	<b>803,332</b>
Securitisation positions			951	867	13,098	<b>14,916</b>
Retail mortgages	46,710	14,643	75,373	233,720	41,914	<b>412,360</b>
Other retail exposures	8,382	1,024	2,088	6,054	7,517	<b>25,065</b>
Other exposure classes	177	56	17,616	426		<b>18,275</b>
<b>Total IRB approach</b>	<b>259,235</b>	<b>80,440</b>	<b>217,480</b>	<b>669,699</b>	<b>216,139</b>	<b>1,442,993</b>
Central governments and central banks	224,619	1,039	2,100	12,427	22,246	<b>262,431</b>
Local governments and authorities	36,802	3,829	8,239	24,805	20,035	<b>93,710</b>
Administrative bodies, non-commercial undertakings	45	3	13	4,816	3,760	<b>8,637</b>
Institutions	2,712	7	1,068	705		<b>4,492</b>
Corporates	8,362	952	1,241	5,473	202	<b>16,230</b>
Retail	7,182	693	10,534	8,686	5,412	<b>32,507</b>
Exposures secured by real estate property	620	259	774	5,340	4,682	<b>11,675</b>
Past due items	250	40	625	127	151	<b>1,193</b>
Other exposure classes	480	12	1,407	19,007	1,420	<b>22,326</b>
<b>Total Standardised approach</b>	<b>281,072</b>	<b>6,834</b>	<b>26,001</b>	<b>81,386</b>	<b>57,908</b>	<b>453,201</b>
<b>Total</b>	<b>540,307</b>	<b>87,274</b>	<b>243,481</b>	<b>751,085</b>	<b>274,047</b>	<b>1,896,194</b>

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

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 of an event 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 bor-

rower 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

2012-12-31, SEK m	Impaired loans past due $\geq$ 60 days	Impaired loans performing or past due < 60 days	Total
Finance and insurance	4	3	7
Wholesale and retail	540	70	610
Transportation	96	9	105
Shipping	224	44	268
Business and household services	440	20	460
Construction	315	0	315
Manufacturing	618	9	627
Agriculture, forestry and fishing	82	0	82
Mining and quarrying	40	0	40
Electricity, gas and water supply	6	0	6
Property management	4,274	571	4,845
Other	595	41	636
<b>Total</b>	<b>7,234</b>	<b>767</b>	<b>8,001</b>

**Impaired loans (gross) by geography**

Total exposures in all exposure classes

2012-12-31, SEK m	Impaired loans past due >= 60 days	Impaired loans performing or past due < 60 days	Total
Sweden	525	12	537
Other Nordic	193	9	202
Germany	1,273	230	1,503
Estonia	439	26	465
Latvia	1,633	0	1,633
Lithuania	2,913	487	3,400
Other Europe	41	0	41
Other	217	3	220
<b>TOTAL</b>	<b>7,234</b>	<b>767</b>	<b>8,001</b>

Geographical distribution according to borrower's country of domicile.

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

SEK m	Jan-Dec 2012
<i>Provisions:</i>	
Net collective provisions	-44
Specific provisions	-532
Reversal of specific provisions no longer required	557
Net provisions for contingent liabilities	23
<b>Net provisions</b>	<b>4</b>
<i>Write-offs:</i>	
Total write-offs	-2,892
Reversal of specific provisions utilized for write-offs	1,814
<b>Write-offs not previously provided for</b>	<b>-1,078</b>
Recovered from previous write-offs	137
<b>Net write-offs</b>	<b>-941</b>
<b>Net credit losses</b>	<b>-937</b>

**Change of reserves for impaired loans and portfolio assessed loans**

SEK m	Collective reserves	Specific reserves
<b>Opening balance, 2012-01-01</b>	<b>5,120</b>	<b>5,681</b>
Net collective provisions	44	
Specific provisions		532
Reversal of specific provisions utilized for write-offs		-1,814
Reversal of specific provisions no longer required		-557
Currency differences, group structure changes, reclassifications etc.	-460	323
<b>Closing balance, 2012-12-31</b>	<b>4,704</b>	<b>4,165</b>

## Credit risk mitigation strategies

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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.

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).

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.

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 division's 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 in respect of direct exposures and indirect exposures in the form of collateral, guarantees and credit derivative protection.

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 type of collateral. 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**

2012-12-31, SEKm	Exposure	Protection via guarantees and credit derivatives	Protection via pledged collaterals	Of which, financial collaterals
Institutions	169,045	9,878	36,365	33,944
Corporates	803,332	57,208	230,285	23,164
Securitisation positions	14,916			
Retail mortgages	412,360	1,487	412,360	37
Other retail exposures	25,065	325	1,714	53
Other exposure classes	18,275		2	2
<b>Total IRB approach</b>	<b>1,442,993</b>	<b>68,898</b>	<b>680,726</b>	<b>57,200</b>
Central governments and central banks	262,431	1,163		
Local governments and authorities	93,710	328		
Administrative bodies, non-commercial undertakings	8,637	59		
Institutions	4,492	64	307	307
Corporates	16,230		25	25
Retail	32,507	329	11	11
Exposures secured by real estate property	11,675		11,675	
Past due items	1,193		138	
Other exposure classes	22,326			
<b>Total Standardised approach</b>	<b>453,201</b>	<b>1,943</b>	<b>12,156</b>	<b>343</b>
<b>Total</b>	<b>1,896,194</b>	<b>70,841</b>	<b>692,882</b>	<b>57,543</b>

Exposure amounts for off balance sheet items are after application of relevant conversion factors.

The table comprises only those mitigation arrangements that are eligible in capital adequacy reporting.

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

## Standardised approach

The standardised approach is used for exposures to central governments, central banks and local governments and authorities, and for a number of minor portfolios. According to the regulation, either the rating from an export credit agency (such as the Swedish Export Credits Guarantee Board) shall be used, or where not available the 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 governments and authorities, broken down by credit quality.

Credit quality step		
SEK m, 2012-12-31	Equivalent S&P rating	Exposure
1	AAA/AA	354,420
2	A	230
3	BBB	1,399
4/5	BB/B	82
6	CCC and worse	10
<b>Total</b>		<b>356,141</b>

## 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 in the calculation of legal capital requirements since 1 February 2007, when the Basel II framework came into force in Sweden and since 2008 in the Baltics.

The SEB Group has agreed a roll-out plan with the Swedish Financial Supervisory Authority and local supervisors for the remaining non-retail and retail portfolios of significant size. 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. During

2012 Skandinaviska Enskilda Banken AB received approval to use internal estimates of EAD, LGD and effective maturity for its non-retail real estate and shipping portfolios, making 80% of its non-retail portfolio Advanced IRB. Ambition is to roll-out the advanced non-retail models in Germany and the Baltics during 2013.

At year-end 2012 some 86 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 gives 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	Moody's	S&P
Investment grade	1	0.03%	Aaa,Aa1	AAA..AA+
	2	0.03%	Aa2,Aa3	AA, AA-
	3	0.03%	A1,A2	A+,A
	4	0.05%	A3	A-
	5	0.09%	Baa1	BBB+
	6	0.15%	Baa2	BBB
	7	0.21%	Baa3	BBB-
On-going business	8	0.31%	Ba1	BB+
	9	0.43%	Ba2	BB
	10	1.30%	Ba3	BB-
	11	2.00%	B1	B+
	12	4.00%	B2	B
Watch list	13	12.00%	B3	B-
	14	15.00%	Caa1,Caa2	CCC+, CCC
	15	25.00%	Caa3	CCC-
	16	100.00%	Ca,C	CC..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 recognis-

ing credit risk protection are outlined in following sections.

The performance of the risk rating system itself is regularly reviewed by the Group Risk Center 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 external regulations and 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

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The SEB Group RCA (Risk Class Assignment) System is a tool for assigning risk classes between 1 and 16 to all types of non-retail obligors including corporates, property management, financial institutions and specialised lending. While SEB uses the same risk classes, PD scale and overall rating approach for all obligors, some fine tuning of components is made to reflect the special characteristics of certain industries, for example financial institutions and shipping.

The SEB Group RCA System is based on traditional methods 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.

Statistical analysis confirms that SEB's risk classes historically have shown differentiated patterns of default, e.g. worse risk classes display higher default ratios than better risk classes in both good times and bad.

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 his-

tory in the bank are scored using openly available information and well tested risk indicators.

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 extend the time series to span full credit cycles in order to predict a through-the-cycle level.

While SEB's PD rating scale aims to rate each customer on a through-the-cycle basis, industry trends and movements in credit-worthiness of individual borrowers together tend to move the average risk class in line with the economic cycle. The movements in rating classes resulting from annual and more frequent re-ratings are referred to as "risk class migrations". The Group's corporate and property management portfolios in the Nordic countries and Germany showed limited risk class migration in 2012, while the Baltic portfolio improved slightly as corporates improved their financial position in pace with the improving economies.

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.

As a member of PECDC (Pan-European Credit Data Consortium), SEB participates in a data-sharing program where comparison of historical EAD (Exposure at Default) and LGD experience is possible with a large number of global banks. Pooled data is also used for estimating parameters for low default portfolios such as large corporates and banks. LGD estimates are set conservatively to reflect the conditions in a severe economic downturn.

**IRB-reported credit exposures by risk class**

2012-12-31, SEK m	Risk class	PD range	EAD	RWA	Average risk weight
Institutions	1-4	0 < 0.08%	132,401	13,289	10.0%
	5-7	0.08 < 0.32%	30,387	7,090	23.3%
	8-10	0.32 < 1.61%	4,915	1,489	30.3%
	11-12	1.61 < 5.16%	1,029	1,223	118.9%
	13-16	5.16 < 100%	313	788	251.8%
<b>Total Institutions</b>			<b>169,045</b>	<b>23,879</b>	<b>14.1%</b>
Corporates	1-4	0 < 0.08%	142,930	17,213	12.0%
	5-7	0.08 < 0.32%	357,462	107,503	30.1%
	8-10	0.32 < 1.61%	215,931	113,952	52.8%
	11-12	1.61 < 5.16%	58,383	53,669	91.9%
	13-16	5.16 < 100%	28,626	34,329	119.9%
<b>Total Corporates</b>			<b>803,332</b>	<b>326,666</b>	<b>40.7%</b>
Retail mortgages		0 < 0.2%	205,367	5,689	2.8%
		0.2 < 0.4%	104,786	7,279	6.9%
		0.4 < 0.6%			
		0.6 < 1.0%	53,895	8,740	16.2%
		1.0 < 5.0%	30,638	9,089	29.7%
		5.0 < 10%	6,427	4,438	69.1%
		10 < 30%	4,725	4,772	101.0%
		30 < 50%	2,445	1,778	72.7%
	50 < 100%	4,077	1,111	27.3%	
<b>Total Retail mortgages</b>			<b>412,360</b>	<b>42,896</b>	<b>10.4%</b>
Other retail exposures		0 < 0.2%	6,572	408	6.2%
		0.2 < 0.4%	3,561	835	23.4%
		0.4 < 0.6%	1,704	541	31.7%
		0.6 < 1.0%	3,086	1,466	47.5%
		1.0 < 5.0%	6,456	4,077	63.2%
		5.0 < 10%	1,937	1,107	57.2%
		10 < 30%	666	766	115.0%
		30 < 50%	27	36	133.3%
	50 < 100%	1,056	129	12.2%	
<b>Total Other retail exposures</b>			<b>25,065</b>	<b>9,365</b>	<b>37.4%</b>
Securitisation positions	AAA/Aaa		8,205	635	7.7%
	AA/Aa		3,090	262	8.5%
	A/A		1,504	263	17.5%
	BBB/Baa		1,674	2,011	120.1%
	BB/Ba		443	2,006	452.5%
<b>Total Securitisation positions</b>			<b>14,916</b>	<b>5,177</b>	<b>34.7%</b>
<b>Other IRB reported exposure classes</b>			<b>18,275</b>	<b>1,461</b>	<b>8.0%</b>
<b>Total IRB reported credit exposures</b>			<b>1,442,993</b>	<b>409,444</b>	<b>28.4%</b>

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 have 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**

2012-12-31, SEK m	Exposure amount	LGD
Institutions unsecured	38,896	43,9%
Corporates unsecured	296,245	37,0%
Corporates real estate	198,844	15,3%
Corporates shipping	43,443	12,8%
Retail mortgages	412,360	12,2%
Other retail exposures	25,064	41,2%

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**

2012-12-31, SEK m		Original exposure	Exposure after CCF	Average CCF
Advanced IRB	Corporates / Institutions	259,737	148,411	57.1%
Advanced IRB retail	Retail mortgages	23,516	15,384	65.4%
Advanced IRB retail	Other retail exposures	5,156	4,427	85.9%

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

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### Retail mortgages

For retail mortgages, reported as IRB Advanced, the Group average probability of default at end of year 2011 was 0.97% (non-defaulted exposures only) and the corresponding observed default frequency for 2012 was 0.60%. In Sweden the observed default frequency has been significantly below the long term average expected default frequency. In the Baltic countries the observed default frequency for 2012 was marginally lower compared to the probability of default as estimated at end of year 2011. The average recession adjusted Loss Given Default at end of 2011 was estimated to 12.6%.

The expected loss for non-defaulted exposures, based on the PD and LGD above, was estimated to SEK 585m at end of year 2011 (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 2012 for the Group's retail mortgages amounted to SEK 366m, some 0.1 per cent of the ongoing portfolio volume. This includes losses through outright defaults, as well as provisioning and build-up reserves for homogeneous groups of mortgage exposures.

Exposure at default for the retail mortgage portfolio is calculated using a credit conversion factor 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, solely being reported as Foundation IRB, the counterparty weighted PD at end of 2011 was 1.87 per cent (non-defaulted exposures only) and the corresponding observed default frequency during 2012 was 0.32 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. Given that SEB was approved to use the Advanced IRB approach for its non-retail real estate and shipping exposures during 2012, a meaningful comparison between expected loss and actual loss is not possible.

## Securitisation

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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.

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 or as Loans and Receivables.

Interest rate risk in the structured bonds portfolio is of less importance, due to the domination of floating rate bonds. The credit risk is diversified into several industries. There are no interest rate hedges or credit default swaps hedges.

The majority of the bonds consist of the most senior tranches. All structured bonds are performing and amortise according to schedule. Stress tests are performed on a monthly basis which take into consideration underlying levels of the position.

**Securitisation in banking book by rating category**

2012-12-31, SEK m		Total exposure	Of which, deducted	Reported as risk-weighted assets		
				Exposure	Risk weight	RWA
Securitisation	AAA/Aaa	8,097	0	8,097	7.4%	601
	AA/Aa	3,090	0	3,090	8.5%	262
	A/A	1,448	0	1,448	14.4%	209
	BBB/Baa	1,237	0	1,237	54.5%	674
	BB/Ba	235	0	235	317.1%	745
	sub BB/Ba	1,035	1,035	0	(1,325%)	(deducted)
<b>Subtotal</b>		<b>15,142</b>	<b>1,035</b>	<b>14,107</b>	<b>17.7%</b>	<b>2,491</b>
Resecuritisation	AAA/Aaa	108	0	108	31.8%	34
	A/A	56	0	56	96.8%	54
	BBB/Baa	438	0	437	305.5%	1,337
	BB/Ba	208	0	208	605.5%	1,261
	sub BB/Ba	570	570	0	(1,325%)	(deducted)
<b>Subtotal</b>		<b>1,379</b>	<b>570</b>	<b>809</b>	<b>331.9%</b>	<b>2,686</b>
<b>Grand Total</b>		<b>16,521</b>	<b>1,605</b>	<b>14,916</b>	<b>34.7%</b>	<b>5,177</b>

**Securitisation in banking book by asset type**

2012-12-31, SEK m		Total exposure	Of which, deducted	Reported as risk-weighted assets		
				Exposure	Risk weight	RWA
Securitisation	CLO, Collateralised loan obligations	6,760	0	6,760	7.9%	535
	CMBS, Commercial mortgage backed securitisations	1,570	186	1,384	18.5%	256
	CMO, Collateralised mortgage obligations	294	0	294	7.4%	22
	RMBS, Residential mortgage backed securitisations	3,966	738	3,228	36.8%	1,189
	of which sub-prime	92	92	0	0	0
	Securities backed with other assets	419	111	308	107.7%	332
	Conduit financing	2,133	0	2,133	7.4%	158
<b>Subtotal</b>		<b>15,142</b>	<b>1,035</b>	<b>14,107</b>	<b>17.7%</b>	<b>2,491</b>
Resecuritisation	CDO, Collateralised debt obligations	1,271	570	702	378.0%	2,652
	CLO, Collateralised loan obligations	108	0	108	31.8%	34
<b>Subtotal</b>		<b>1,379</b>	<b>570</b>	<b>809</b>	<b>331.9%</b>	<b>2,686</b>
<b>Grand Total</b>		<b>16,521</b>	<b>1,605</b>	<b>14,916</b>	<b>34.7%</b>	<b>5,177</b>

**Securitisation in trading book by rating category**

2012-12-31, SEK m		Total exposure	Of which, deducted	Reported as risk-weighted assets		
				Exposure	Risk weight	RWA
AAA/Aaa		308	0	308	7%	23
sub BB/Ba		20	0	20	1,325%	267
		<b>328</b>	<b>0</b>	<b>328</b>	<b>88%</b>	<b>290</b>

## Counterparty risk in derivative contracts

SEB enters into derivatives contracts primarily to offer clients products for management of their financial exposures. The Group also uses derivatives to protect cash flows and fair values of financial assets and liabilities in its own book from market fluctuations.

Counterparty exposure arises as a result of positive market valuation of derivatives contracts. A positive market value represents SEB's claim on the counterparty. Since market values fluctuate during the term to maturity, the uncertainty of future market conditions is taken into account. This is done by applying an add-on to the current market value that reflects potential market movements for the specific contract.

The total credit exposure on the counterparty, the credit risk equivalent, is the sum of the market value of the contract and the add-on. The counterparty risk is reduced through the use of close out netting agreements where all positive and negative market

values under the same agreement can be netted on a counterparty level. The netting agreement is often supplemented with a collateral agreement where the net market value exposure is reduced further by postings of collateral. Close out netting is in place for the vast majority of all counterparties and collateral arrangements are used to a large extent.

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. 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 Financial Management.

For calculation of internal capital SEB uses the Current Exposure Method, including schematic add-ons.

### Derivative contracts

Credit risk mitigation effects, SEK m	2012-12-31
Gross positive fair value of contracts	169,679
Close out netting benefits	-113,126
<b>Value after close out netting benefits</b>	<b>56,553</b>
Collateral benefits	-21,586
<b>Value after close out netting and collateral benefits</b>	<b>34,967</b>

Overall Exposure At Default for credit risk in derivative contracts is SEK 119bn.

This number is after netting benefits but before collateral benefits, and includes add-on for potential future exposure.

### Credit derivatives

Nominal amounts, 2012-12-31, SEK m	Reduces the risk	Adds to the risk
Credit derivatives hedging exposures in own credit portfolios		
Credit default swaps	0	0
Total return swaps	0	0
Credit linked notes	0	0
<b>Subtotal</b>	<b>0</b>	<b>0</b>
Credit derivatives in trading operations		
Credit default swaps	4,640	3,526
Total return swaps	0	0
Credit linked notes	0	77
<b>Subtotal</b>	<b>4,640</b>	<b>3,603</b>
<b>Total</b>	<b>4,640</b>	<b>3,603</b>

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

## Operational risk

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SEB has received regulatory approval to use the Advanced Measurement Approach (AMA) to calculate the capital requirement for operational risk. This regulatory approval is a confirmation of the Group's experience and expertise in operational risk management, including incident reporting, operational loss reporting, capital modeling and quality assessment of processes etc.

SEB's AMA model is structured along the regulatory-defined business lines for operational risk. SEB quantifies operational risk with a loss distribution approach, using internal data and external statistics of operational losses that have occurred in the global financial sector. SEB's business volume serves as a risk estimator in the modeling. Once the capital requirement for the Group has been calculated, it can be allocated throughout the Group in a fashion that is similar to the methodology used in the Standardised approach – however using capital multipliers representing each business line's riskiness as assessed in the model. The quality of the risk management of the divisions, 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 capital requirement for operational risk is not affected by any external insurance agreement to reduce or transfer the impact of operational risk losses. The AMA model is used both for the

reporting of the legal capital requirement and for determining the internally allocated capital. The AMA model is also used to calculate economic capital for operational risk, but with a higher confidence level and with the inclusion of loss events relevant for the life insurance operations. The calculation of expected losses takes into account both internal and external loss statistics and is used as input for business planning and stress tests at all levels in the Group.

As a supporting tool, SEB uses an IT-based infrastructure for management of operational risk, security and compliance. All staff in the Group are required to use the system to register risk-related issues and management at all levels 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

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Since 2001 SEB has held a supervisory approval to use its internally developed Value-at-Risk (VaR) model for calculating capital requirements. In 2011 a new generation of the VaR model was approved by the Swedish Financial Supervisory Authority for the parent bank and the subsidiary Skandinaviska Enskilda Banken S.A in Luxembourg. The enhanced VaR model is based on historical simulation uniformly for all the trading books and covers a wide range of risk factors.

In 2012 SEB complemented the VaR model by a Stressed VaR calculation to comply with new regulatory requirement. The model has been approved by the Swedish Financial Supervisory Authority for the parent bank and the subsidiary Skandinaviska Enskilda Banken S.A in Luxembourg. The Stressed VaR calculations are performed with current positions but using market data from historically turbulent time periods.

Back testing is performed by comparison of daily trading result against the daily VaR. For this analysis, a theoretical result is calculated with updated market data whereas the end-of-day positions are kept unchanged. The result is calculated by performing a full revaluation of the positions using the updated market data. Back testing is used to verify that losses have not exceeded the VaR level 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 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). Reverse stress tests are also performed for the total trading portfolio as well as for individual divisions and business units. 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. As derived from the Board Risk Tolerance statement, SEB management expressed its risk appetite by setting limits on stress test scenarios.

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, volume measures for interest rate and currency risk. 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 163m during 2012 compared to SEK 212m in 2011. The decrease compared to 2011 is mostly due to the gradual decrease of the risk in the Merchant Banking portfolio during the second half of the year. The decreased risk appetite is caused by lower market turnover and increased uncertainty due to the euro-zone debt crises. During Q4 2012, the total VaR limit for the trading book has been decreased from SEK 1,300m to SEK 800m.

**Value at Risk, Trading book**

SEK m	Min	Max	31 december 2012	Average 2012	Average 2011
Commodities	4	31	12	12	2
Credit spread	100	166	115	138	189
Equity	12	147	17	66	32
FX	16	108	17	47	44
Interest rate	51	203	51	118	80
Volatilities	34	87	39	53	28
Diversification	-	-	-128	-272	-164
<b>Total</b>	<b>113</b>	<b>238</b>	<b>123</b>	<b>162</b>	<b>211</b>

**Stressed Value at Risk (99 per cent, ten days)**

SEK m	Min	Max	31 december 2012	Average 2012	Average 2011
Commodities	7	48	27	18	3
Credit spread	324	459	458	398	435
Equity	67	347	80	160	53
FX	26	162	80	85	104
Interest rate	147	348	147	259	225
Volatilities	39	82	56	62	77
Diversification	-	-	-395	-528	-343
<b>Total</b>	<b>316</b>	<b>599</b>	<b>453</b>	<b>454</b>	<b>554</b>

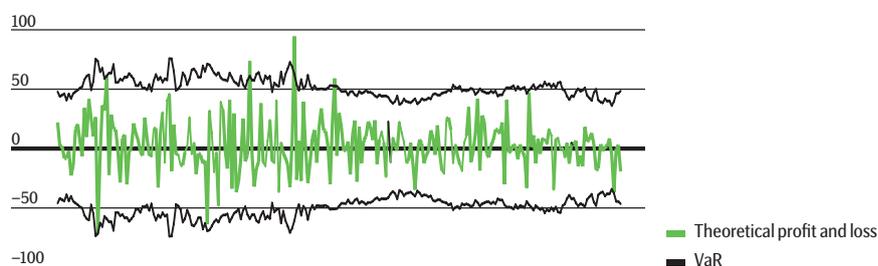
Above numbers are for internal risk management and control purposes.

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 2012**

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 three 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. 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 coordination 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 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 expo-

sure. Further information is found in the table of re-pricing periods for SEB's assets and liabilities below.

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 1,77bn in the banking book.

The table below displays VaR for the banking book. The average Banking Book VaR increased by 50% as compared to the average VaR in 2011 mainly due to the inclusion in the risk measurement issuer risk in run-off portfolios. During Q3 – Q4 2012 the risk levels have however decreased following the decrease in market credit spread volatility as well as divestment made in the run-off portfolios.

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 larger of these two absolute values.

### Banking book VaR

SEK m	Min	Max	2012-12-31	Average 2012	Average 2011
Credit spread	81	317	188	248	96
Equity	21	39	26	29	26
FX	0	3	0	1	1
Interest rate	282	391	304	340	249
Volatilities	1	3	1	2	1
Diversification	-	-	-152	-160	-75
<b>Total</b>	<b>349</b>	<b>550</b>	<b>367</b>	<b>460</b>	<b>298</b>

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

**Repricing periods SEB Group, 2012-12-31, 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	111,732	11,470	2,911	5,794	4,167	2,264	2,291	584	2,528	<b>143,741</b>
Loans to the public	442,963	420,939	61,734	77,344	142,613	55,742	22,627	12,126		<b>1,236,088</b>
Other financial assets	632,653	43,441	6,818	6,787	31,308	23,764	30,159	-35,630	283,657	<b>1,022,957</b>
Other assets	15,730	-821	-692	-183	1	21	25	20,740	15,849	<b>50,670</b>
<b>Total</b>	<b>1,203,078</b>	<b>475,029</b>	<b>70,771</b>	<b>89,742</b>	<b>178,089</b>	<b>81,791</b>	<b>55,102</b>	<b>-2,180</b>	<b>302,034</b>	<b>2,453,456</b>
<b>Liabilities and equity</b>										
Deposits from credit institutions	142,402	13,244	3,131	893	904	2,501	3,927	3,153	501	<b>170,656</b>
Deposits and borrowing from the public	736,648	34,776	18,367	17,433	10,133	14,356	28,017	2,530		<b>862,260</b>
Issued securities	295,023	128,600	102,383	21,824	59,534	43,287	35,436	45		<b>686,132</b>
Other liabilities	294,975	14	870	206	1,885	1,222	809	32,604	292,310	<b>624,895</b>
Total equity								109,513		<b>109,513</b>
<b>TOTAL</b>	<b>1,469,048</b>	<b>176,634</b>	<b>124,751</b>	<b>40,356</b>	<b>72,456</b>	<b>61,366</b>	<b>68,189</b>	<b>147,845</b>	<b>292,811</b>	<b>2,453,456</b>
Interest rate sensitive, net	-265,970	298,395	-53,980	49,386	105,633	20,425	-13,087	-150,025	9,223	
Cumulative sensitive	-265,970	32,425	-21,555	27,831	133,464	153,889	140,802	-9,223	0	

**Equity exposures not included in the trading book**

2012-12-31, SEK m	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses	Revaluation gains/losses
Associates (venture capital holdings)	1,073	1,073		-37	50	
Associates (strategic investments)	179	179			-1	
Other strategic investments	3,390	3,390	1,323	-16	131	-23
Seized shares	49	49				
<b>Total</b>	<b>4,691</b>	<b>4,691</b>	<b>1,323</b>	<b>-53</b>	<b>180</b>	<b>-23</b>

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, or 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.

## Liquidity risk

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Liquidity risk is the risk that the Group, over a specific time horizon, is unable to refinance its existing assets or is unable to meet the demand for additional liquidity. Liquidity risk also entails the risk that the Group is forced to borrow at unfavourable rates or is forced to sell assets at a loss in order to meet its payment commitments.

The aim of SEB's liquidity risk management is to ensure that the Group has a controlled liquidity risk situation, with adequate cash or cash equivalents in all relevant currencies to timely meet its liquidity requirements in all foreseeable circumstances, without incurring substantial additional cost. Management of liquidity risk is governed by limits established by the Board which are further allocated by the Group Risk Committee. Liquidity limits are set for the Group and specific legal entities as well as for exposures in certain defined currencies.

The Board of SEB has adopted a comprehensive framework for the management of its short- and long-term liquidity requirements. Liquidity is managed centrally by Treasury Operations, supported by local treasury centres in the Group's major markets. Risk Control regularly measures and reports limit utilization as well as stress tests to the Group Risk Committee and the Risk and Capital Committee.

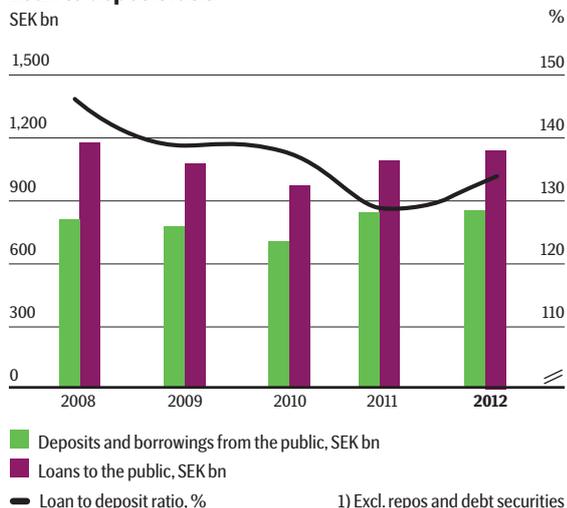
Liquidity risk is measured using a range of customised metrics, as no single method can comprehensively quantify this type of risk. The methods applied by SEB include short-term pledging capacity, analysis of future cash flows in relation to cash flow limits, scenario analyses and balance sheet key ratios, supplemented by Basel III metrics. The liquidity measurement methods are owned by the Risk Control department which is part of the CRO organisation and therefore independent of the business. These methods are described in a liquidity risk measurement instruction which is subject to annual review and approval by the Group Risk Committee, thus ensuring that the measurement of liquidity risk and capacity remain consistent even during crises.

Stress testing is conducted on a regular basis to identify sources of potential liquidity strain and to ensure that current exposures remain within the established liquidity risk tolerance. The tests estimate liquidity risk in various scenarios, including both idiosyncratic and systemic stress. The stress tests simulate the effects of less willingness by depositors and inter-bank lenders to extend their funding to the Group when it legally falls due. In the systemic scenario for example all inter-bank deposits are being repaid on their maturity and a higher than normal roll-off rate of corporate and retail deposits at their maturities. In this scenario all lending to corporate and retail customers is assumed to be required to be rolled-over in spite of its maturity, thus simulating the maintenance of a viable going-concern banking business. In this way the length of time that the Group can remain solvent and run a normal business in the face of extreme market conditions can be estimated.

SEB has continued to build up liquidity reserves, increased retail deposit funding, prolonged the average duration of the outstanding short term funding as well as finalized the adaptation to new local regulatory requirements. The stable funding base consisting of equity, customer deposits and wholesale funding maturing in more than one year exceeded SEB's total loan portfolio with a comfortable margin even though SEB has increased lending volumes during the year. Following strong growth in retail mortgage lending, the Group's loan-to-deposit ratio remain at a comfortable level and amounted to 134 per cent at year-end (129), excluding repos and debt securities.

For the fourth consecutive year and in line with its long-term funding strategy, SEB issued more long-term debt than what matured during the year. Due to the growth in retail mortgage volumes, SEB has primarily focused on covered bond issuance as a source of funding in 2012 which accounted for approximately three quarters of total issued long-term funding of SEK 124bn (126). SEB has also been able to utilize the low interest rate environment in the senior funding markets which has enabled SEB to issue senior debt without incurring higher costs.

### Loan to deposit ratio<sup>1)</sup>



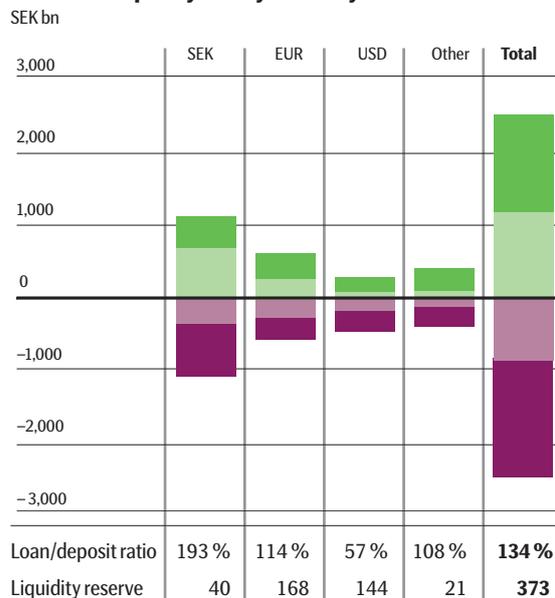
SEB's Liquidity Reserve as defined by the Swedish Bankers' Association consists of cash and deposits in central banks and other overnight bank holdings as well as assets held by the treasury function (unencumbered and pledgeable with central banks). This reserve amounted to SEK 373bn (377) at year-end 2012. SEB's total liquid resources, which include net trading assets and unutilized collateral in the cover pool, amounted to SEK 632bn (556). The Group's LCR was 113 per cent (95) at year-end, while the LCR ratios in USD and EUR were above 100 per cent.

The breakdown of SEB's balance sheet by currency is consistent with the currency distribution of SEB's core liquidity reserve. SEK, EUR and USD are the main currencies in SEB's core liquidity reserve. The loan-to-deposit ratio in SEK, EUR and USD amounted to 193 (190), 114 (102) and 57 (63) per cent respectively at year-end and in total 134 (129) per cent.

Liquidity gaps are identified by calculating cumulative net cash flows that arise from the Group's assets, liabilities and off-balance sheet positions in various time buckets. This requires certain assumptions regarding the maturity of some products, such as demand deposits and mortgages, as well as regarding the customers projected behaviour over time. The quality of the liquidity reserve is analysed in order to assess its potential to be used as collateral and provide secure funding in stressed situations.

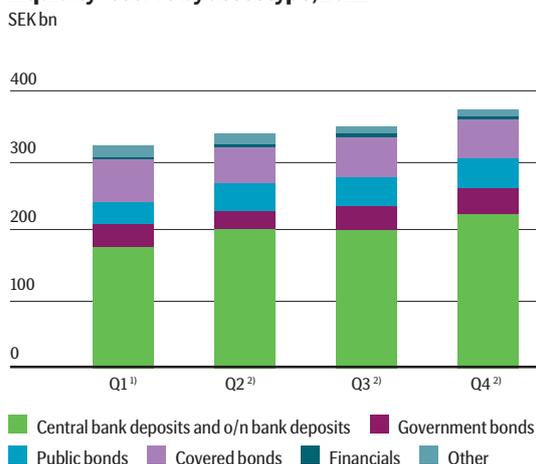
Furthermore a core gap ratio is measured for a time horizon extending over one year. This ratio measures the extent to which the Group is funding illiquid assets with stable long-term funds. Stable liabilities (including equity) should always amount to more than 90 per cent of illiquid assets; the average level during the year was 115 per cent (108). As of year-end, the level was 113 per cent (117).

### Structural liquidity risk by currency



■ Assets excl. lending    ■ Deposits  
■ Lending    ■ Equity & Liabilities excl. deposits

### Liquidity reserve by asset type, 2012



1) According to Swedish regulatory definition, excluding haircut.  
 2) Swedish Bankers' Association definition.

## Stress testing

The SEB Group uses stress testing at all levels in the conduct of its business, from the assessment of the risk of individual credit deals, through to portfolios of credit or market risk and finally in assessing the adequacy of capital and liquidity. Throughout each year SEB conducts a number of different Group level stress tests based on specific historical or hypothetical scenarios and based on adverse economic conditions estimated to occur on a certain unlikely frequency, e.g. 1 in 10 and 1 in 50 years.

Stress testing forms an important part of SEB's long-term capital assessment process and is an essential guide to potential earnings volatility via the stress testing of the financial plan and targets. Potential losses and their effect on available capital are evaluated together with the effect of a scenario on the level of risk weighted assets (RWA). The stressed available capital is then compared with the RWA, under both internal and regulatory capital rules, to assess the Group's financial strength under much worse conditions than assumed in the business plan. Similarly, liquidity risk is regularly stressed to test the Bank's ability to withstand externally generated liquidity squeezes.

The macroeconomic environment is a major driver of risk to SEB's earnings and financial stability. SEB has developed a comprehensive and integrated stress testing framework, assessed by the Swedish Financial Supervisory Authority as being compliant with the CEBS Guidelines on Stress Testing (GL 32), covering all main risks and with particular focus on the risk of credit losses, as follows:

**Credit risk:** SEB's framework contrasts key economic criteria from recession scenarios with historical observed loss and default data used in the average through-the-cycle credit models. In the stressed scenarios, credit losses are increased (considering both specific and collective impairments) and average risk weights in credit portfolios are increased due to risk class migration. The stress

testing framework uses both internal and external default and loss data in concert with historical and scenario macroeconomic data to predict an effect on the Group's current portfolio considering default rates, recovery rates and collateral prices on a per country and per portfolio basis. In this way, the sensitivity of different parts of the portfolio can be identified, enabling the Group to manage risk more effectively. The effect of large exposures is also handled by simulating the effect of default by one or more of these despite their high quality risk grading.

**Operational risk:** SEB's framework contrasts key economic criteria from recession scenarios with historical observed operational loss levels both internally and externally to produce an "expected loss" for each adverse scenario. Individual highly unlikely scenarios of, for example, rogue trader events are also run as special cases to contrast their effect both during mild and severe downturns.

**Market risk:** SEB's framework allows for the use of our existing highly detailed market risk calculation engines to simulate potential losses from extreme market risk movements which form part of the scenarios.

**Business risk:** SEB's framework contrasts key economic criteria from recession scenarios with historical observed trading and fee income levels together with projections of likely costs.

Net interest income levels are also estimated using the scenario interest rate and credit margin data. Overall the result in most scenarios is a lowering of business income before credit, market and operational risk losses.

**Effects:** The projected risk loss amounts are then deducted from the estimated annual earnings in order to produce an estimated effect on available capital resources. These stressed capital levels are contrasted with the RWA levels to produce estimated internal and regulatory capital ratios.