Capital Adequacy and Risk Management report (Pillar 3)

09

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 and household mortgage portfolios in Sweden, Germany and the Baltic states – corresponding to 80 per cent of the total credit volume. In 2008, retail, corporate and interbank exposures in Estonia, Latvia and Lithuania were approved for IRB reporting. 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.

Following supervisory approval, the Group reports operational risk according to the Advanced Measurement Approach from the second quarter of 2008. For market risk, the Group has been approved to use its internal VaR model for calculating capital requirements for general market risks in the parent company since 2001.

Whereas SEB views positively the increased transparency provided by pillar 3 reporting, SEB continues to analyse and report the RWA and capital ratios according to both Basel I and Basel II. The quality of the Group's credit portfolio and the internal risk management culture translate into substantial RWA reductions for the Group. 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 I 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 2009 on corporate governance, risk and capital management as well as the Notes to the financial statements.

Contents

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.

English version of the regulation can be found at:
http://www.fi.se/upload/90_English/30_Regulations/1_Regulatory%20code/FFFS0705_eng.pdf

SEB Financial Group of Undertakings

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

Company	Ownership, %	Consolidation	
		Full	Pro rata
Credit institutions			
Möller Bilfinans AS, Oslo	51	✔	
Njord AS, Oslo	100	✔	
OJSC 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 Norge AS, Oslo	100	✔	
SEB Asset Management S.A., Luxembourg	100	✔	
SEB Enskilda ASA, Oslo	100	✔	
SEB Enskilda Corporate Finance Oy Ab, Helsinki	51	✔	
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			
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	✔	
SEB IT Partner Estonia OÜ, Tallinn	100	✔	
SEB NET S.L., Barcelona	100	✔	
Skandic Projektor AB, Stockholm	100	✔	
Skandinaviska Kreditaktiebolaget, Stockholm	100	✔	
Team SEB 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 an adequate capitalization 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 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 Control function. Risk mandates are established by the Board and allocated by board committees and executive management committees.

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. 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.

Risk management objectives and guidelines (Cont.)

Group Risk Control is the unit responsible for monitoring Group risks, primarily credit risk, market risk, insurance risk, operational risk and liquidity risk. It is a function that is deeply embedded in, yet independent from, business operations at the divisional level.

Responsibility for day-to-day risk management within SEB rests with the divisions, Group Treasury and support functions. Each of these have dedicated risk 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

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. The regulatory capital requirements serve as one measure of the necessary capital buffer to meet these risks. Requiring a more precise and risk-sensitive measure for internal capital assessment and performance evaluation, SEB uses an economic capital framework. This framework assesses how much capital is needed to carry out various business activities. The greater the risk – granted that all business is pursued within strong internal control procedures – the larger risk buffer is needed. This capital need constitutes SEB's Economic Capital and is based on a Capital at Risk (CAR) model.

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 Economic Capital 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 the process 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. For capital injections from the parent bank to subsidiaries there is a clear governance process in place.

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

SEKm	2009-12-31
Total equity according to balance sheet (1)	99,669
./. Proposed dividend (excl repurchased shares)	–2,193
./. Investments outside the financial group of undertakings (2)	–47
./. Other deductions outside the financial group of undertakings (3)	–2,570
= Total equity in the capital adequacy	**94,859**
Adjustment for hedge contracts (4)	–419
Net provisioning amount for IRB-reported credit exposures (5)	–297
Unrealised value changes on available-for-sale financial assets (6)	1,096
./. Exposures where RWA is not calculated (7)	–1,169
./. Goodwill (8)	–4,464
./. Other intangible assets	–2,616
./. Deferred tax assets	–1,609
= Core Tier I capital	**85,381**
Tier I capital contribution (non-innovative)	5,130
Tier I capital contribution (innovative)	11,093
= Tier I capital	**101,604**
Dated subordinated debt	11,028
./. Deduction for remaining maturity	–658
Perpetual subordinated debt	7,386
Net provisioning amount for IRB-reported credit exposures (5)	–297
Unrealised gains on available-for-sale financial assets (6)	642
./. Exposures where RWA is not calculated (7)	–1,169
./. Investments outside the financial group of undertakings (2)	–47
= Tier II capital	**16,885**
./. Investments in insurance companies (9)	–10,601
./. Pension assets in excess of related liabilities (10)	–543
= Capital base	**107,345**

Specification of the net provisioning amount above	
Provisions and value adjustments for IRB reported credit exposures	17,927
./. Expected loss (EL)	–18,521
Net provisioning amount (5)	**–594**

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 I and Tier II 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 Rating Based approach fall short of expected losses on these exposures, the difference (5) should be deducted in equal parts from Tier I and Tier II. A corresponding excess can, up to a certain limit, be added to the Tier II 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 II capital.

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

Capital requirements

SEKm	2009-12-31
Credit risk IRB approach:	
Institutions	4,016
Corporates	32,406
Securitisation positions	847
Retail mortgages	5,202
Other retail exposures	863
Other exposure classes	131
Total credit risk IRB approach	**43,465**
Credit risk Standardised approach:	
Central governments and central banks	64
Local governments and authorities	107
Administrative bodies, non-commercial undertakings	21
Institutions	108
Corporates	2,010
Retail	3,400
Exposures secured by real estate property	362
Past due items	167
Securitisation positions	123
Other exposure classes	1,443
Total credit risk Standardised approach	**7,805**
Market risk – Internal VaR model (used only in parent company)	
Foreign exchange rate risk, general interest rate risk, general equity price risk	787
Market risk Standardised approach	
Foreign exchange rate risk	636
General interest rate risk and general equity price risk	142
Specific interest rate risk	1,929
Specific equity price risk	157
Collective investment undertakings	345
Commodities risk	13
Settlement risk	3
Total market risk Standardised approach	**3,225**
Operational risk Advanced Measurement approach	**3,157**
Summary	
Credit risk	51,270
Market risk	4,012
Operational risk	3,157
Total	**58,439**
Adjustment for flooring rules	
Additional requirement according to transitional flooring	5,175
Total regulatory capital requirement	**63,614**

Capital ratios

SEKm	2009-12-31
Capital resources	
Core Tier I capital	85,381
Tier I capital	101,604
Capital base	107,345
Capital adequacy without transitional floor (Basel II)	
Capital requirement	58,439
Expressed as Risk-weighted assets (12.5 times capital requirement)	730,492
Core Tier I capital ratio	11.7%
Tier I capital ratio	13.9%
Total capital ratio	14.7%
Capital adequacy quotient (capital base / capital requirement)	1.84
Capital adequacy as officially reported, with transitional rules (Basel II)	
Transition floor applied	80%
Capital requirement	63,614
Expressed as Risk-weighted assets (12.5 times capital requirement)	795,177
Core Tier I capital ratio	10.7%
Tier I capital ratio	12.8%
Total capital ratio	13.5%
Capital adequacy quotient (capital base / capital requirement)	1.69
Capital adequacy with risk weighting according to Basel I	
Capital requirement	80,260
Expressed as Risk-weighted assets (12.5 times capital requirement)	1,003,250
Core Tier I capital ratio	8.5%
Tier I capital ratio	10.1%
Total capital ratio	10.7%
Capital adequacy quotient (capital base / capital requirement)	1.34

Significant subsidiaries

Within the SEB Group, risk and capital are managed in a homogeneous fashion 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 (except for SEB AG where the Basic Indicator approach is used).

2009-12-31, amounts in SEKm	Germany: SEB AG	Estonia: SEB Pank	Latvia: SEB Banka	Lithuania: SEB Bankas
Available capital				
Tier I capital	15,833	4,781	3,115	4,037
Capital base	23,796	6,640	4,530	6,026
Capital requirements				
Credit risk	11,371	2,787	2,549	3,555
Market risk	856	19	166	524
Operational risk	1,062	63	72	86
Total	**13,289**	**2,869**	**2,788**	**4,165**
Adjustment for flooring rules				
Additional requirement according to transitional flooring	977	434	0	0
Total capital requirements	**14,266**	**3,303**	**2,788**	**4,165**
Capital requirements as percentage of Risk-weighted asset	8%	10%	8%	8%
Risk-weighted assets	178,320	33,026	34,848	52,060
Tier I capital ratio	8.9%	14.5%	8.9%	7.8%
Total capital ratio	13.3%	20.1%	13.0%	11.6%
Capital adequacy quotient (capital base / capital requirement)	1.67	2.01	1.62	1.45

Credit exposure by exposure class

Exposure 2009, SEKm	Year-end	Average
Institutions	308,322	325,239
Corporates	711,087	763,267
Securitisation positions	46,763	53,796
Retail mortgages	378,812	367,185
Other retail exposures	28,019	29,006
Other exposure classes	17,212	17,740
Total IRB approach	**1,490,215**	**1,556,233**
Central governments and central banks	198,918	139,856
Local governments and authorities	111,587	121,639
Administrative bodies, non-commercial undertakings	8,540	5,196
Institutions	17,474	16,537
Corporates	25,459	27,891
Retail	57,179	60,357
Exposures secured by real estate property	14,917	15,388
Past due items	1,511	1,424
Securitisation positions	3,080	2,214
Other exposure classes	24,342	27,529
Total Standardised approach	**463,007**	**418,031**
Total	**1,953,222**	**1,974,264**

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 2,237 bn 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 2009-12-31, SEKm	Sweden	Other Nordic	Germany	Estonia	Latvia	Lithuania	Other Europe	Other	Total
Institutions	30,421	29,849	75,509	77	189	258	119,524	52,495	308,322
Corporates	261,039	115,483	119,204	22,265	22,578	41,589	71,302	57,627	711,087
Securitisation positions			428				31,462	14,873	46,763
Retail mortgages	259,035	350	67,273	16,726	10,385	23,212	1,029	802	378,812
Other retail exposures	20,941	59	21	2,558	2,338	1,646	362	94	28,019
Other exposure classes	16,145	1		117	947			2	17,212
Total IRB approach	**587,581**	**145,742**	**262,435**	**41,743**	**36,437**	**66,705**	**223,679**	**125,893**	**1,490,215**
Central governments and central banks	80,095	52,275	38,024	4,673	3,967	7,364	7,581	4,939	198,918
Local governments and authorities	24,894	273	79,728	1,207	220	1,953	2,455	857	111,587
Administrative bodies, non-commercial undertakings	253		8,042	14			6	225	8,540
Institutions	1,292	613	14,065			44	617	843	17,474
Corporates	7,594	4,322	4,061	4	3	261	3,186	6,028	25,459
Retail	13,967	17,778	15,119	1,971	1,232	2,375	3,072	1,665	57,179
Exposures secured by real estate property	3,040	4,538	7,266			24	35	14	14,917
Past due items	150	525	577	86	156		5	12	1,511
Securitisation positions							1,308	1,772	3,080
Other exposure classes	9,409	3,221	2,103	1,017	825	2,550	3,467	1,750	24,342
Total Standardised approach	**140,694**	**83,545**	**168,985**	**8,972**	**6,403**	**14,571**	**21,732**	**18,105**	**463,007**
Total	**728,275**	**229,287**	**431,420**	**50,715**	**42,840**	**81,276**	**245,411**	**143,998**	**1,953,222**

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, SEKm		2009-12-31
Institutions		308,322
Corporates		711,087
of which	Finance and insurance	57,414
	Wholesale and retail	51,486
	Transportation	38,609
	Shipping	32,361
	Business and household services	80,285
	Construction	12,804
	Manufacturing	145,867
	Agriculture, forestry and fishing	5,621
	Mining and quarrying	13,323
	Electricity, gas and water supply	35,972
	Property management	214,095
	Other	23,250
Securitisation positions		46,763
Retail mortgages		378,812
Other retail exposures		28,019
Other exposure classes		17,212
Total IRB approach		**1,490,215**
Central governments and central banks		198,918
Local governments and authorities		111,587
Administrative bodies, non-commercial undertakings		8,540
Institutions		17,474
Corporates		25,459
of which	Finance and insurance	5,718
	Wholesale and retail	3,693
	Transportation	370
	Shipping	61
	Business and household services	1,688
	Construction	124
	Manufacturing	1,337
	Agriculture, forestry and fishing	129
	Mining and quarrying	14
	Electricity, gas and water supply	2,011
	Property management	3,514
	Other	6,800
Retail		57,179
Exposures secured by real estate property		14,917
Past due items		1,511
Securitisation positions		3,080
Other exposure classes		24,342
Total Standardised approach		**463,007**
Total		**1,953,222**

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 2009-12-31, SEKm	< 3 months	3 < 6 months	6 < 12 months	1 < 5 years	5 years <	Total
Institutions	117,227	15,942	17,077	95,755	62,321	308,322
Corporates	126,198	43,246	64,769	300,411	176,463	711,087
Securitisation positions	979	816	1,851	2,122	40,995	46,763
Retail mortgages	31,111	3,987	3,622	11,951	328,141	378,812
Other retail exposures	8,866	1,452	2,493	7,031	8,177	28,019
Other exposure classes	289	74	16,312	537		17,212
Total IRB approach	**284,670**	**65,517**	**106,124**	**417,807**	**616,097**	**1,490,215**
Central governments and central banks	169,070	779	8,954	8,276	11,839	198,918
Local governments and authorities	39,560	3,524	8,666	40,374	19,463	111,587
Administrative bodies, non-commercial undertakings	135	8	38	6,678	1,681	8,540
Institutions	1,651	208	710	7,859	7,046	17,474
Corporates	11,602	478	1,341	8,920	3,118	25,459
Retail	10,772	1,034	9,789	18,688	16,896	57,179
Exposures secured by real estate property	1,367	357	529	2,367	10,297	14,917
Past due items	575	5	544	141	246	1,511
Securitisation positions		18	3,013	49		3,080
Other exposure classes	1,234	367	1,453	17,384	3,904	24,342
Total Standardised approach	**235,966**	**6,778**	**35,037**	**110,736**	**74,490**	**463,007**
Total	**520,636**	**72,295**	**141,161**	**528,543**	**690,587**	**1,953,222**

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 provision is reversed by the same amount. 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 the value of 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

2009-12-31, SEKm	Impaired loans past due > 60 days	Impaired loans performing or past due < 60 days	Total
Finance and insurance	38		38
Wholesale and retail	1,177	409	1,586
Transportation	819	478	1,297
Shipping	7		7
Business and household services	1,152	200	1,352
Construction	778	114	892
Manufacturing	2,167	354	2,521
Agriculture, forestry and fishing	154	43	197
Mining and quarrying	29	3	32
Electricity, gas and water supply	61	5	66
Property management	9,664	1,420	11,084
Other	853	39	892
Total	**16,899**	**3,065**	**19,964**

Impaired loans (gross) by geography

Total exposures in all exposure classes

2009-12-31, SEKm	Impaired loans past due > 60 days	Impaired loans performing or past due < 60 days	Total
Sweden	1,181	69	1,250
Other Nordic	459	20	479
Germany	4,443	361	4,804
Estonia	1,358	566	1,924
Latvia	3,528	23	3,551
Lithuania	6,338	2,119	8,457
Other Europe	657	9	666
Other	194		194
Total	**18,158**	**3,167**	**21,325**

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

Provisions and write-offs on impaired loans

SEKm	2009-12-31
Provisions:	
Net collective provisions	–3,806
Specific provisions	–7,256
Reversal of specific provisions no longer required	621
Net provisions for contingent liabilities	–224
Net provisions	**–10,665**
Write-offs:	
Total write-offs	–2,559
Reversal of specific provisions utilized for write-offs	632
Write-offs not previously provided for	–1,927
Recovered from previous write-offs	144
Net write-offs	**–1,783**
Net credit losses	**–12,448**

Change of reserves for impaired loans

SEKm	Collective reserves	Specific reserves
Opening balance, 2009-01-01	4197	5,022
Net collective provisions	3,806	
Specific provisions		7,256
Reversal of specific provisions utilized for write-offs		–633
Reversal of specific provisions no longer required		–621
Currency differences, group structure changes, reclassifications etc.	–382	–569
Closing balance, 2009-12-31	**7,621**	**10,455**

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 analyzed 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

2009-12-31, SEKm	Exposure	Protection via guarantees and credit derivatives	Protection via pledged collaterals	Of which, financial collaterals
Institutions	308,322	3,535	36,883	34,677
Corporates	711,087	40,553	218,410	31,848
Securitisation positions	46,763			
Retail mortgages	378,812	4,984	278,446	309
Other retail exposures	28,019	143	2,681	34
Other exposure classes	17,212		3	2
Total IRB approach	**1,490,215**	**49,215**	**536,423**	**66,870**
Central governments and central banks	198,918	171	36,302	34,773
Local governments and authorities	111,587	5	102	
Administrative bodies, non-commercial undertakings	8,540	33		
Institutions	17,474			
Corporates	25,459	99	325	320
Retail	57,179	862	1,126	1,060
Exposures secured by real estate property	14,917	236	13,176	
Past due items	1,511	6	342	1
Securitisation positions	3,080			
Other exposure classes	24,342			
Total Standardised approach	**463,007**	**1,412**	**51,373**	**36,154**
Total	**1,953,222**	**50,627**	**587,796**	**103,024**

Exposure amounts for off balance sheet items are after application of relevant conversion factors.
Only CRM arrangements eligible in capital adequacy reporting are represented above.
Collateral protection values are downturn estimates used in LGD calculations and thus considerably lower than current valuations.
They cannot be used to assess typical loan-to-value relations.
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 US 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 super 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).

Reporting approach

SEKm, 2009-12-31	S&P / Moody's	Exposure	Risk weight	RWA
External rating	AAA/Aaa	29,816	7.4%	2,212
External rating	AA/Aa	7,834	8.5%	664
External rating	A/A	6,812	12.9%	880
External rating	BBB/Baa	877	62.3%	546
External rating	BB/Ba	1,424	441.7%	6,288
External rating	sub BB/Ba	2,338	(1,325%)	(deducted)
Standardised	A/A	3,081	50.0%	1,540
Total		**52,182**		**12,130**

Securitisations by asset type

			Reported as risk -weighted assets		
SEKm, 2009-12-31	Total Exposure	Of which, deducted	Exposure	risk weight	RWA
CDO, Collateralised debt obligations	3,318	919	2,399	74.1%	1,779
CLO, Collateralised loan obligations	10,865		10,865	11.9%	1,295
CMBS, Commercial mortgage backed securitisations	3,795		3,795	8.6%	327
CMO, Collateralised mortgage obligations	2,297		2,297	7.4%	170
RMBS, Residential mortgage backed securitisations	18,122	1,419	16,703	19.5%	3,250
of which, sub-prime	952	541	411	259.4%	1,066
Securities backed with other assets	7,058		7,058	46.8%	3,305
Conduit financing	6,726		6,726	29.8%	2,004
Total	**52,182**	**2,338**	**49,844**		**12,130**

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

SEKm, 2009-12-31	Equivalent S&P rating	Exposure
1	AAA/AA	307,253
2	A	81
3	BBB	2,493
4/5	BB/B	287
6	CCC and worse	391
Total		**310,505**

IRB approval and implementation plan

SEB started to use 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 from 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. During 2009 SEB started to report also other Swedish household exposures than mortgages following IRB, as a next implementation step after successful IRB implementation in 2008 for retail exposures, largely mortgages, in Estonia, Latvia and Lithuania.

Revolving retail exposures and other portfolios in the Group's credit card business are being prepared for IRB implementation. Furthermore SEB has applied for permission to use internal LGD models for a large share of its non-retail exposures, with start in 2010.

At year-end 2009 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 risk-wise homogeneous pools 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 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 assessment process.

Likewise, estimates of Loss-Given-Default 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 Credit Risk Control & Quantification Unit in accordance with the Instructions for Validation of Credit Risk Class Assignment Systems. The validation is done in order to both secure that the Credit Risk Class Assignment system is working satisfactorily and that it is used in accordance with the internal rules and instructions. Assessing the discriminatory power and evaluation of the through-the-cycle PD (SEB Masterscale) is monitored 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.

	Risk class	Lower PD	Upper PD	Moody's	S&P
Investment grade	1–4	0.00%	0.07%	Aaa to A3	AAA to 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 to C	B– to D

Credit risk rating & estimation

The SEB Group Risk Class Assignment (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 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. High-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 business cycles. In those geographies where internal data has been insufficient, external data has been used to extrapolate the time series to span full business cycles.

SEB's through-the-cycle rating approach makes PD estimates reflect the expected long term average default frequency over a full business 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 was, during the extremely severe year 2009, some 35 bn SEK for corporate and interbank exposures representing about 7 per cent of combined RWA in these portfolios.

Similarly LGD and CCF estimates are based on the Group's historical data together with relevant external data used e.g. for business cycle calibration.

IRB reported credit exposures by risk class

2009-12-31, SEKm	Risk class	PD Range	EAD	RWA	Average risk weight
Institutions	1–4	0 < 0.08%	261,955	33,124	12.6%
	5–7	0.08 < 0.32%	41,565	12,893	31.0%
	8–10	0.32 < 1.61%	2,367	1,773	74.9%
	11–12	1.61 < 5.16%	982	1,300	132.4%
	13–16	5.16 < 100%	1,453	1,110	76.4%
Total Institutions			**308,322**	**50,200**	**16.3%**
Corporates	1–4	0 < 0.08%	123,613	17,482	14.1%
	5–7	0.08 < 0.32%	279,931	115,823	41.4%
	8–10	0.32 < 1.61%	183,456	133,772	72.9%
	11–12	1.61 < 5.16%	66,256	72,487	109.4%
	13–16	5.16 < 100%	57,831	65,508	113.3%
Total Corporates			**711,087**	**405,072**	**57.0%**
Retail mortgages		0 < 0.2%	96,783	4,230	4.4%
		0.2 < 0.4%	158,205	12,662	8.0%
		0.4 < 0.6%	10,449	3,110	29.8%
		0.6 < 1.0%	62,833	13,023	20.7%
		1.0 < 5.0%	29,943	15,398	51.4%
		5.0 < 10%	8,699	6,882	79.1%
		10 < 30%	5,108	7,748	151.7%
		30 < 50%	1,233	987	80.0%
		50 < 100%	5,559	981	17.6%
Total Retail mortgages			**378,812**	**65,021**	**17.2%**
Other retail exposures		0 < 0.2%	6,779	543	8.0%
		0.2 < 0.4%	2,601	658	25.3%
		0.4 < 0.6%	1,496	514	34.4%
		0.6 < 1.0%	4,457	1,929	43.3%
		1.0 < 5.0%	6,422	3,835	59.7%
		5.0 < 10%	3,873	1,972	50.9%
		10 < 30%	860	947	110.1%
		30 < 50%	265	290	109.4%
		50 < 100%	1,266	104	8.2%
Total Other retail exposures			**28,019**	**10,792**	**38.5%**
Securitisation positions	AAA/Aaa		29,816	2,212	7.4%
	AA/Aa		7,834	664	8.5%
	A/A		6,812	880	12.9%
	BBB/Baa		877	546	62.3%
	BB/Ba		1,424	6,288	441.7%
Total Securitisation positions			**46,763**	**10,590**	**22.6%**
Other IRB reported exposure classes			**17,212**	**1,638**	**9.5%**
Total IRB reported credit exposures			**1,490,215**	**543,313**	**36.5%**

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

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.

IRB reported exposures with own estimates of LGD

2009-12-31, SEKm	LGD	Exposure amount
Retail mortgages	0 < 1%	37,055
	1 < 10%	190,611
	10 < 20%	39,876
	20 < 30%	14,093
	30 < 40%	23,381
	40 < 50%	23,268
	> 50%	50,528
Total	**17.2%**	**378,812**
Other retail exposures	0 < 1%	516
	1 < 10%	521
	10 < 20%	893
	20 < 30%	9,696
	30 < 40%	690
	40 < 50%	2,814
	> 50%	12,889
Total	**40.8%**	**28,019**

LGD – Loss Given Default – statistically expected loss in the event of default, expressed as a percentage of exposure in the event of default.
The overall average is a forward-looking estimate at 2009-12-31, thus it differs slightly from the value reported in section "Comparison between expected and actual losses", which is forward-looking at 2008-12-31.

IRB reported exposures with own estimates of CCF

2009-12-31, SEKm		Original exposure	Exposure after CCF	Average CCF
Advanced IRB retail	Retail mortgages	24,230	15,299	63.1%
Advanced IRB retail	Other retail exposures	5,405	3,419	63.3%
Total		**29,635**	**18,718**	**63.2%**

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

For retail mortgages, reported as IRB Advanced, the average probability of default at end of year 2008 was 1.07% (non-defaulted exposures only) and the corresponding observed default frequency during 2009 was 0.92%. Especially in Sweden, but also in Germany, 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 2009 came out higher than the average probability of default estimated at end of year 2008. The average recession adjusted Loss Given Default at end of 2008 was estimated to 15.0%.

The expected loss for non-defaulted exposures, based on the PD and LGD above, was estimated to 684 MSEK at end of year 2008 (0.19 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 2009 for the Group's retail mortgages amounted to 1139 MSEK, some 0.31 per cent of the average portfolio volume. This includes losses through outright defaults, as well as provisioning and build-up reserves for homogeneous groups of mortgage exposures. High losses in Baltic portfolios explain the above-average loss level.

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, reported as IRB Foundation, the counterparty weighted probability of default at end of 2008 was 2.06% (non-defaulted exposures only) and the corresponding observed default frequency was 2.85%. That the observed value exceeds the estimated long-term average related to the prevailing economic down-turn and is thus expected during this part of the credit cycle.

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 management arrangements are comprehensively applied 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, SEKm	2009-12-31
Gross positive fair value of contracts	143,436
Netting benefits	–96,015
Value after netting benefits	**47,421**
Collateral benefits	–15,977
Value after netting and collateral benefits	**31,444**

Overall Exposure-At-Default for credit risk in derivative contracts is SEKm 99,003.
This number is after netting benefits but before collateral benefits, and includes add-on for potential future exposure.

Credit derivatives

Nominal amounts, 2009-12-31, SEKm	Reduces the risk	Adds to the risk
Credit derivatives hedging exposures in own credit portfolios		
– Credit default swaps	1,123	0
– Total return swaps	0	0
– Credit linked notes	219	0
Subtotal	**1,342**	**0**
Credit derivatives in trading operations		
– Credit default swaps	18,765	15,510
– Total return swaps	7,690	0
– Credit linked notes	0	0
Subtotal	**26,455**	**15,510**
Total	**27,797**	**15,510**

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 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-time experience and expertise in operational risk management, including incident reporting, operational loss reporting, capital modelling, quality assessment of processes etc.

SEB's AMA model is structured along the regulatory-defined business lines for operational risk and income per such business line serves as a size measure in the calculation. Once the Group-level capital requirement has been decided, it can be sub-allocated to Group units in a fashion which is similar to the mechanics of the Standardised approach – however using capital multipliers representing each business line's riskiness as assessed in the model. This procedure is used both for reporting of legal capital requirements on lower levels than the Group (where approved by local supervisors, else the Basic Indicator approach is used), and for determining the operational risk component of internally allocated capital.

SEB quantifies operational risk with a Loss Distribution approach, using internal data and external information on operational losses that have actually occurred in the global financial sector. The AMA framework requires calculation of both expected and unexpected operational losses. The calculation of expected losses takes into account SEB internal loss statistics while unexpected losses are calculated based on statistics of external losses larger than a certain threshold.

The quality of the risk management of the divisions, based upon their self-assessment, is taken into account as well. Effective operational risk management results in a lower allocation of capital.

SEB's AMA-derived capital requirement for operational risk is not affected by any insurance agreement to reduce or transfer the impact of operational risk losses.

The model is also used to calculate economic capital for operational risk, albeit on a higher confidence level and with the inclusion of loss events relevant for Life insurance operations.

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 to identify, assess, monitor and mitigate risks. This facilitates management of operational risk exposures and minimises the severity of incidents in progress.

Trading book market risk

Since 2001 SEB holds 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 onto 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. 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 the third quarter 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; an application to replace the former model for rgulatory reporting will be filed during 2010 when all requirements for backtesting have been completed.

Backtesting 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 where as the end-of-day positions are remained unchanged. The theoretical result is calculated as the sum of changes in modelled market prices times the market value exposed to each risk factor. Backtesting shall verify that losses have not exceeded the VaR level during significantly more than one per cent of the trading days.

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 discovering 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, stoploss 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. Market risk in form of VaR decreased in the second part of the year. This reduction was driven by lower market exposure and also by decreased market volatility.

Value at Risk (99 per cent, ten days) – enhanced VaR model and former VaR model

SEKm	Min 2009	Max 2009	2009-12-31	Average 2009	Average 2008
Interest rate risk	81	295	153	156	146
Credit spread risk	60	181	64	102	–
Foreign exchange rate risk	17	173	83	65	34
Equity price risk	8	175	32	51	75
Commodities risk	0	14	2	2	–
Diversification			–127	–183	–104
Total	**87**	**357**	**207**	**193**	**151**

The generation shift related above make 2008 and 2009 numbers not fully comparable. While fully relying on the enhanced model version for limit monitoring and control SEB continues to measure VaR levels also with the former version. The following table shows that the overall risk level, on a comparable basis, has decreased somewhat from 2008 to 2009, with reduced average exposure to both interest rate and equity price risk.

Value at Risk (99 per cent, ten days) – former VaR model

SEKm	Min 2009	Max 2009	2009-12-31	Average 2009	Average 2008
Interest rate risk	60	197	96	115	146
Foreign exchange rate risk	10	158	64	46	34
Equity price risk	8	100	14	25	75
Diversification			–81	–60	–104
Total	**61**	**228**	**93**	**126**	**151**

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.)

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 repricing 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 674m 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. As the high volatility has remained in the time series, the underlying position size has decreased during 2009 to maintain the same risk utilisation.

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

SEKm	Min 2009	Max 2009	2009-12-31	Average 2009	Average 2008
Interest rate risk	245	559	245	369	323
Foreign exchange rate risk	62	187	72	127	24
Equity price risk	26	90	33	51	54
Diversification			–114	–166	–93
Total	**236**	**579**	**236**	**381**	**318**

Repricing periods for the Group's overall balance sheet

SEB Group, 2009-12-31, SEKm	< 1 month	1 < 3 months	3 < 6 months	6 < 12 months	1 < 3 years	3 < 5 years	5 years <	Non rate	Insurance	Total
Assets										
Loans to credit institutions	255,363	53,362	1,208	1,125	4,307	7,622	4,295	36	4,142	331,460
Loans to the public	437,515	371,948	76,492	39,342	105,250	76,389	71,251	9,650	0	1,187,837
Financial assets	433,616	50,222	23,382	11,327	5,371	–24,286	20,124	–26,332	246,865	740,289
Other assets	9,052	441	429	456	14	22		21,977	16,250	48,641
Total	**1,135,546**	**475,973**	**101,511**	**52,250**	**114,942**	**59,747**	**95,670**	**5,331**	**267,257**	**2,308,227**
Liabilities and equity										
Deposits by credit institutions	252,824	34,554	28,145	54,197	3,202	1,001	15,374	5,862	2,274	397,433
Deposits and borrowing from the public	654,099	38,763	18,579	11,914	13,605	9,155	52,625	2,348		801,088
Issued securities	199,726	99,622	14,797	33,004	63,788	55,723	25,689	57		492,406
Other liabilities	218,906	5,491	1,872	49	120	173	1,258	34,479	255,283	517,631
Total equity								99,669		99,669
Total	**1,325,555**	**178,430**	**63,393**	**99,164**	**80,715**	**66,052**	**94,946**	**142,415**	**257,557**	**2,308,227**
Interest rate sensitive, net	–190,009	297,543	38,118	–46,914	34,227	–6,305	724	–137,084	9,700	0
Cumulative sensitive	–190,009	107,534	145,652	98,738	132,965	126,660	127,384	–9,700	0	

Equity exposures not included in the trading book

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, are these holdings accounted for under IAS 39.

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

Some entities where the bank has an ownership of less than 20 per cent, has 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.

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 is substantially the same, and valuation with reference to observable market transactions in the same financial instrument.

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.

Equity exposures not included in the trading book

2009-12-31, SEKm	Book value	Fair value	Fair value of listed shares	Unrealised gains/losses	Realised gains/losses	Revaluation gains/losses
Associates (venture capital holdings)	906	906		–68	–104	
Associates (strategic investments)	89	89			15	
Other strategic investments	2,348	2,348	764		55	
Seized shares	62	62				
Total	**3,405**	**3,405**	**764**	**–68**	**–34**	**0**