

# Information about capital adequacy and risk management 2007

*(Basel Regulations, Third Pillar)*

# Contents

<b>The SBAB Group</b>	<b>3</b>
<b>Organisation</b>	<b>4</b>
<b>The risk classification system</b>	<b>5</b>
<b>Internal model for calculation of risk capital</b>	<b>7</b>
<b>Capital adequacy</b>	<b>10</b>
<b>Information about the loan portfolio</b>	<b>11</b>
<b>Information about counterparty risk</b>	<b>17</b>
<b>Operational risk</b>	<b>18</b>
<b>Information about interest rate risk and equity risk for positions not included in the trading portfolio</b>	<b>19</b>
<b>Information about risks in the trading portfolio</b>	<b>20</b>
<b>Glossary</b>	<b>21</b>

# 1. The SBAB Group

The information in this document concerns the financial corporate group SBAB (hereinafter referred to as SBAB). The SBAB Group consists of

- The Swedish Housing Finance Corporation, SBAB (publ), reg. no. 556253-7513, (hereinafter referred to as the parent company) with its wholly-owned subsidiary
- The Swedish Covered Bond Corporation (publ), 556645-9755, (hereinafter referred to as SCBC) and the associated company
- FriSpar Bolån AB, 556248-3338, (hereinafter referred to as FriSpar) of which 51% is owned by the parent company.

The principal activity of all companies is to provide mortgages for residential properties and shares in tenant-owner associations against collateral in the form of mortgage deeds and tenant-owned property as well as financing office and commercial properties. During 2007, the activities of the parent company have been expanded to enable private customers to open deposit accounts.

## 1.1 Difference in consolidation basis for subsidiaries

SCBC has been consolidated in the parent company at 100 % and FriSpar at 51 % by proportionate consolidation. When calculating capital adequacy, the proportionate method is not used for FriSpar, but the company is consolidated to 100 % and a minority holding reported. This is due to differences in rules relating to group definitions between the Act concerning Capital Adequacy and Large Exposures and FFFS 2007:1 on the one hand and the International Financial Reporting Standards, IFRS on the other hand. Furthermore, they are now consolidated in the almost wound-up securitisation companies SRM 2 and SRM 3 since these companies are controlled by SBAB by agreement. For the purpose of capital adequacy, the securitisation companies are not included in the group.

## 1.2 Overall goals for risk management

The risk policy, decided by the board of SBAB, include the overall goals for risk management.

- SBAB's risk management shall support the company's business activity and rating targets. To maintain a balanced level the total risk should be kept at a level compatible with the long term financial goals for return, the size of risk capital and the rating aimed at.
- Relevant risks shall be identified, measured, controlled and monitored.
- Within the different business areas, allocation of capital should be based on the desired risk level and earning capacity.
- The risk management within SBAB should be transparent, and thereby easily presented for and understood by external parties.

## 1.3 Risk appetite

SBAB's goal is that the strategy adopted for lending activities shall, with respect to management and pricing, consider the risks that arise in the operation and the capital needed to cover these risks. On the basis of the strategy adopted, SBAB establishes the risk that the company is intended to take (the risk appetite).

Goals for SBAB's risk appetite:

- The target return on equity is five percentage points added to the interest rate on five-year government bonds after tax, viewed over a business cycle.
- The economic capital shall not exceed 85 % of the available capital.
- SBAB's primary capital ratio shall not be less than 7 %.

In addition, earnings should be based on credit risk and interest rate risk. Income may not be generated by speculative currency positions.

To follow up the outcome of risk in relation to the decided risk appetite, the outcome of selected parameters is reported to the executive management and the Board.



## 2. Organisation

### **2.1 SBAB's risk function**

SBAB's risk function (Risk) is a section within the finance department responsible for analysing and reporting on the overall risks of the SBAB Group. Credit risk, the most significant risk for SBAB, is in particular monitored and analysed

Credit risk is monitored in the individual transaction by the credit department and also by Risk within the portfolio management and analysis. The practical management of risks is dealt with within each of the business areas.

Risk is also responsible for the design, implementation, reliability and monitoring of SBAB's risk classification systems and for SBAB's internal capital evaluation.

A monthly report on the overall risk scenario is delivered by Risk to the Head of Accounts and Risk Department, the CEO and the Board together with a description of the development of economic capital and risk-adjusted return. A more in-depth analysis of risk is reported quarterly to the Board and the CEO of the parent company, SCBC and FriSpar. Furthermore, continuous reports are made on capital adequacy to the CEO, the Board and senior executives at the parent company.

The "Asset and Liability Management Committee" (ALCO) prepares issues relating to risk and capital planning, which are dealt with by the executive management. A quarterly risk report and stress test is delivered to the company's ALCO of a "downturn scenario" and a normal scenario with an in-depth consequence analysis.

### **2.2 Internal audit**

The internal audit in SBAB is an internal independent inspection function in accordance with the Financial Supervisory Authority's regulations (FFFS 2005:1, Chapter 6). The internal audit is organisationally subordinate to the CEO although it also reports directly to the Board and to the company's Audit Committee, whose responsibilities include examining the administration of the company, its external reporting and internal control.

The principal task of the internal audit is to examine and evaluate the internal control of companies within SBAB. The audit is in accordance with an audit plan which is prepared annually by the Audit Committee and determined by the Board. The use and risk management of the internal risk classification system for credit risk and operational risk is periodically monitored by the internal audit.

### 3. The risk classification system

79 % of SBAB's total lending consists of retail- or corporate-exposures with tenant-owned apartments or mortgages in a residential property as collateral. The credit risk of these exposures is assessed by the credit risk models. The standardised method is used for measurement of credit risk for other types of exposures (see Table 10). External rating obtained from Standard & Poor's has been used in a few cases. In credit risk models, an assessment is made of PD, LGD and the part of the off-balance sheet exposure, which is utilised in the event of default, CCF. On the basis of these parameters, together with EAD, customers can be ranked according to credit risk and the expected or unexpected loss estimated. After assessment, the exposure is referred to one of eight risk classes for corporate and consumer loans respectively, where the eighth class consists of customers in default. Customers in high risk classes are thoroughly monitored and the exposure is, when necessary, actively managed by credit analysts in the credit department.

The models in use are validated annually by Risk and all deviations from the measured risk class are analysed. IRB models are used throughout SBAB's activities, including granting of credit, pricing, portfolio analysis and performance monitoring.

A more rigorous process, where qualitative factors complement the previous quantitative assessment of a customer's risk class, has been developed and implemented during the year in the Corporate Market. This regards the customer segment where current financial reports are available, which entails increased uniformity in the assessment and easier handling

of the underlying data. For other customer segments, the credit analysts, as before, add their assessment of the risk class together with an explanatory statement to the supporting material for assessment of risk class in the decision processing system.

#### 3.1 Risk classification method for exposure classes

Exposures are categorised in exposure classes for the purpose of capital adequacy and risk classification.

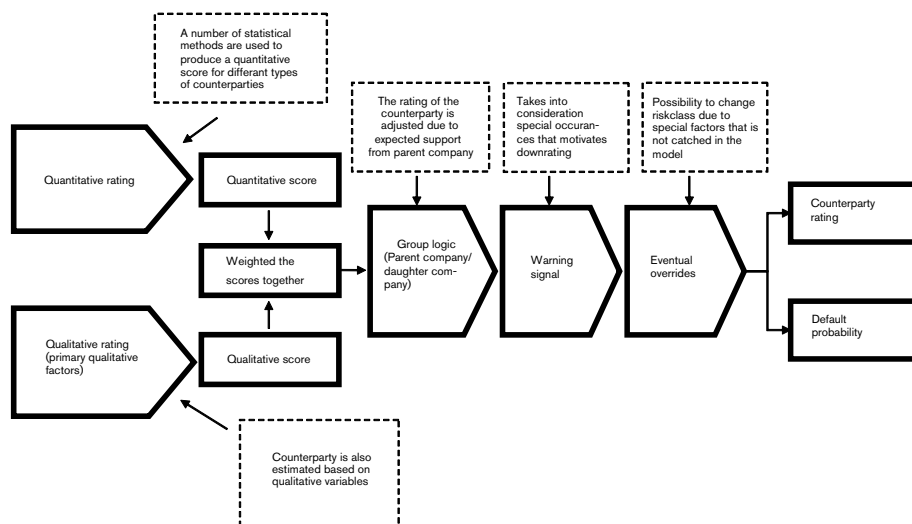
The IRB method is applied for corporate exposures for housing where a mortgage deed has been received as collateral and for household exposures. The distribution of exposure classes and capital requirement is shown in Chapter 5.2.

- Household exposures refer to loans to private persons for financing of single-family dwellings, tenant-owned apartments and holiday homes to the extent that the loan does not relate to letting activity.
- Corporate exposures refer to loans to legal entities and private persons for multi-family dwellings and loans for letting of housing.

The standardised method is applied for central government exposures, institutional exposures and corporate exposures which are not for residential property or where other collateral than a mortgage deed or tenant-owned apartment is received. The part of the loan where a municipality or the National Housing Credit Guarantee Board has provided collateral is assigned to central government exposures.

With regards to exposures that are assessed with the IRB-method, SBAB has opted to use a scoring method for risk

**Figure 1: SBAB:s internal rating process for corporate customers**



classification of counterparties in the PD dimension. The statistical method used to estimate the probability of default is logistic regression. The statistical method has been chosen according to what is to be analysed, i.e. default, and on the basis of the existing available data. In the choice of method, account has also been taken to the ability of the method to generate reliable predictions to be able to anticipate future default.

The available data on which the scoring models are based has been obtained from both internal and external sources. Internal data consists of loan information, default outcomes, and internal payment records. Data obtained externally consists, for example, of accounts, external payment records, property data, municipal and parish data. PD estimates for corporate exposures is based on 10-year data as at December 2007, and PD estimates for household exposures is based on 5-year data. The distinction drawn between household exposures and corporate exposures is shown in Table 1.

For off-balance sheet commitments, the part of the commitment utilised in the event of a future default has been calculated (CCF). In the case of household exposures, which are off-balance sheet items, CCF estimates have been developed to calculate the exposure amount for these exposures. This calculation has been carried out differently depending on where the single loan is in the credit granting process and whether the customer is an existing customer or not. In the case of existing customers, CCF states how large a part of the unutilised amount that the counterparty utilises. In the case of counterparties which are not existing customers, CCF

states how large a share of the unutilised amount that the counterparty utilises given that the counterparty becomes a customer of SBAB. In the latter case, the CCF estimate has been adjusted by the estimated probability of the counterparty becoming a customer. The exposure amount for off-balance sheet items related to household exposures has been calculated by the exposure being multiplied by the CCF factor.

On the funding side, the SBAB group has a limited number of counterparties which mainly consist of institutions. All counterparties are to be approved and limits set in a special arrangement before transactions may be carried out.

### **3.2 Approval by the Swedish Financial Supervisory Authority, Finansinspektionen**

The decision of Finansinspektionen of 29 March 2007 allows SBAB to use the internal method (IRB method) to calculate risk-weighted exposure amounts for credit risk. At the same time, SBAB was granted:

- the right to calculate exposure amounts in relation to the Swedish state, Sveriges Riksbank and Swedish municipalities according to the standardised method for credit risk,
- a time-limited consent to apply the standardised method for credit risk for portfolios of insignificant size and
- the right to apply the standardised method in 2008 to all central government and institutional exposures.

SBAB will apply for consent to use its own estimates for LGD and CCF for corporate loans and loans to tenant-owner associations for collateral in the form of mortgage deeds.

**Table 1 Exposure classes**

<b>Portfolio</b>		<b>Exposure class</b>	<b>PD model</b>
<b>Consumer</b>	Single-family dwellings and holiday homes	Household exposures	Retail
	Tenant-owned apartments		
<b>Company</b>	Private properties	Corporate exposure	Corporate
	Tenant-owner associations		
	Commercial properties		

## 4. Internal model for calculation of risk capital

The market is on the verge of regulatory changes with transitional rules that lead to a phased reduction of the capital requirement on the basis of Pillar I. SBAB has chosen to use a model for economic capital as a basis for assessment of the company's capital requirement within the framework of the ICAAP process and Pillar II. In addition, there are the effect of qualitative assessments and the result of stress tests.

SBAB aims at optimising the use of capital.

### 4.1 Strategy

Risk appetite can be defined as the types of result that a company can accept to support a particular strategy (cf 1.3). The factors that contribute to risk should be apparent.

As shown by the overall goals for risk management (cf 1.2), risk management shall support the company's activities and its rating targets. Activities shall be governed in such a way that allocation of capital takes place on the basis of the desired level of risk and earning capacity in the company's various business areas. Earnings shall mainly be based on credit risk and interest rate risk. For this to be accomplished, risk, capital and strategy must harmonise.

### 4.2 Method

Economic capital can be defined as the quantity of capital needed to ensure solidity over a particular period of time given a particular confidence level. The confidence level reflects the company's long-term rating objective. In SBAB's case, the confidence level is 99.97 % when SBAB's long-term rating is currently AA- (S & P). With a selected time period of one year and the given risks of SBAB, the overall interpretation is that the probability of SBAB going bankrupt during a one-year period is 0.03 %.

Besides the model for economic capital providing scope for a more finely-adjusted management of the credit risk, the measurable risks can be calculated and handled in the same model. Furthermore, diversification effects are also taken into account both within and between the different risk types. The model is therefore used to calculate SBAB's capital requirement within the framework of the ICAAP process. Other risks which SBAB is exposed to and extraordinary events are also taken into account.

### 4.3 Assessment

The assessment of the SBAB group's capital requirement consists of three steps:

- Calculation of the measurable risks in economic capital.
- A qualitative assessment of the capital requirement which needs to be set aside for the risks not included in the calculation of economic capital.
- A capital buffer linked to stress tests to meet the risk in extraordinary events.

Credit risk, market risk, operational risk and commercial risk are measured in the SBAB group's model for economic capital.

The credit risk is calculated in a first step as credit loss given a particular probability. This depends in turn on the company's rating target. Operational risk and commercial risk are calculated on the basis of standards while market risk is calculated by VaR. With the aim of not overestimating the total risk and thus the capital requirement, the sum of these types of risk is reduced by reflecting the effects of diversification, both within the respective risk type and between risk types. The amount obtained corresponds to the capital required to meet the risks measured in the economic capital model. Risks that are not included in the model for economic capital are handled in another way (see table 3).

### 4.4 Stress tests

In order for the economic capital to also cover unexpected losses in deteriorating economic conditions, stress tests and scenario analysis are carried out on the basis of a number of selected variables. Particular weight is placed on interest-rate development and market price changes of properties. Scenarios with a slackening market, reduced direct margins and migration in the portfolio have a full impact in an increased capital requirement. On this basis, SBAB has assessed that it is reasonable to set aside SEK 400 million as a capital buffer to meet the risk associated with extraordinary events. The total of the measurable risks in the economic capital and the capital buffer constitutes the capital requirement needed to meet the risk in the company's activities.

Stress tests carried out show that in the event of a significant reduction in the economy, the greatest changes take place in the better segments, while the poorest segments are not affected to the same extent. This is explained by more borrowers representing an increasingly low credit risk seen over a ten-year period, among

other things due to a gradual reduction in interest rates. In a downturn scenario, it is largely the same customers that move although in the opposite direction.

#### 4.5 Concentration risk

SBAB defines concentration risk as "if the same underlying factor realises the risk" in combination with the concentration having to be regarded as risky. SBAB considers that a concentration can also be an expression of risk aversion. Lending concentrated to the metropolitan regions as well as financial investments concentrated on a few asset types with high credit rating are examples of this. That is to say that there are examples of concentrations which de facto entail a lower risk. Stress tests carried out of SBAB's loan portfolio have, however, not identified any risky concentrations. Large exposures, that is to say borrower concentrations or "event risks" are dealt with in SBABs' credit directives and in current legislation and regulations.

Lending in SBAB is concentrated to the property market and almost exclusively to residential property. Accordingly, the company is above all exposed to credit risk. The requisite capital has been allocated to meet credit risks in the activity. In a broader perspective, SBAB is furthermore exposed to interest rate risk, operational risk, commercial risk, liquidity risk and financing risk.

Regarding financial investments,

SBAB's internal policies and guidelines limit these to a few securities with the highest rating, and the company accordingly considers that this concentration is not to be regarded as risky. A risky concentration of interest rate risk, liquidity risk and financing risk means risk concentrated at one point in time. In reality, this is not the case and it is considered that it is not possible to show any risky concentration in these risk types.

#### 4.6 Capital requirement within the ICAAP process

Overall, the calculated capital requirement within the ICAAP process is met by a broad margin by the capital that SBAB has at present, both from Pillar I perspective and from Pillar II perspective. This process aims at ensuring the companies identify, evaluate, ensure and manage the risks that they are exposed to and that companies have a risk capital that is corresponding to the selected risk profile.

Table 3 shows the risks that SBAB is exposed to and which of these are included in the model for economic capital.

SBAB's assessment of the size of the risk capital needed to meet the overall risk in the company's activity is predominantly based on the calculation of SBAB's economic capital. In addition to this, a qualitative assessment is made of the risks which are not included in the economic capital.

Furthermore, the risk is taken into account linked to extraordinary events clarified in connection with stress tests. The economic capital, the result of the qualitative assessment and the capital buffer constitute together the capital requirement needed to meet the risk in the company's activities.

The economic capital consists of the capital which the company considers is required to cover unexpected losses during the coming year. The expected losses are to be covered by the result of current operations. In the assessment of the economic capital, credit risk, market risk, operational risk and commercial risk are taken into account. The credit risk is the predominant risk in SBAB's activities, as shown in Table 2. The levels reflect diversification effects, that is to say the risk has been reduced by taking into account the probability that several risks are realised at the same time.

#### 4.6 Model for economic capital

The model for economic capital is based to a great extent on the result from the Group's IRB model for measurement of credit risk. In addition to constituting an assessment of the company's overall capital requirement to meet the risks in the company's activities, the economic capital is also used for following up the return in the company's activities, for financial control and for strategic considerations.

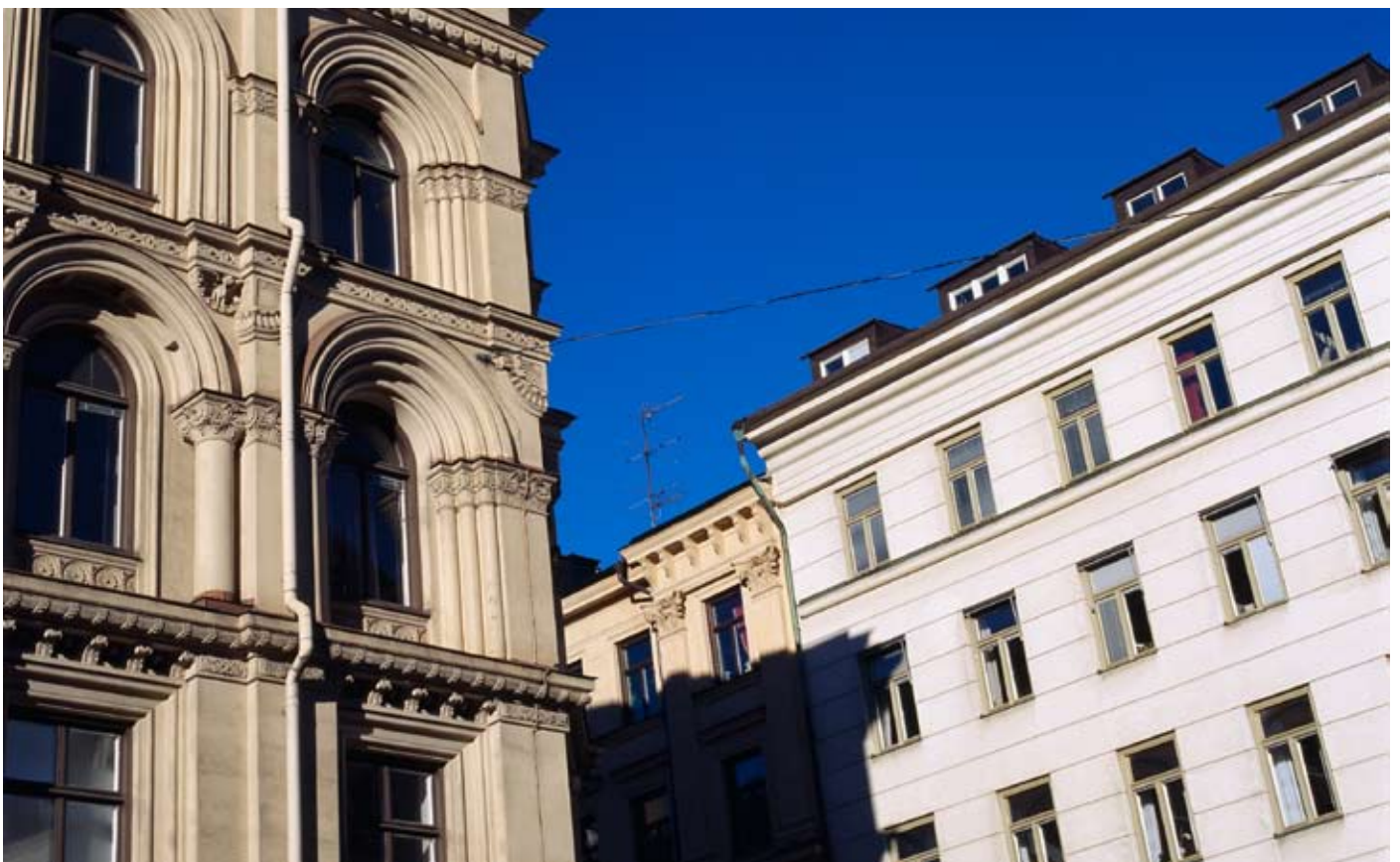
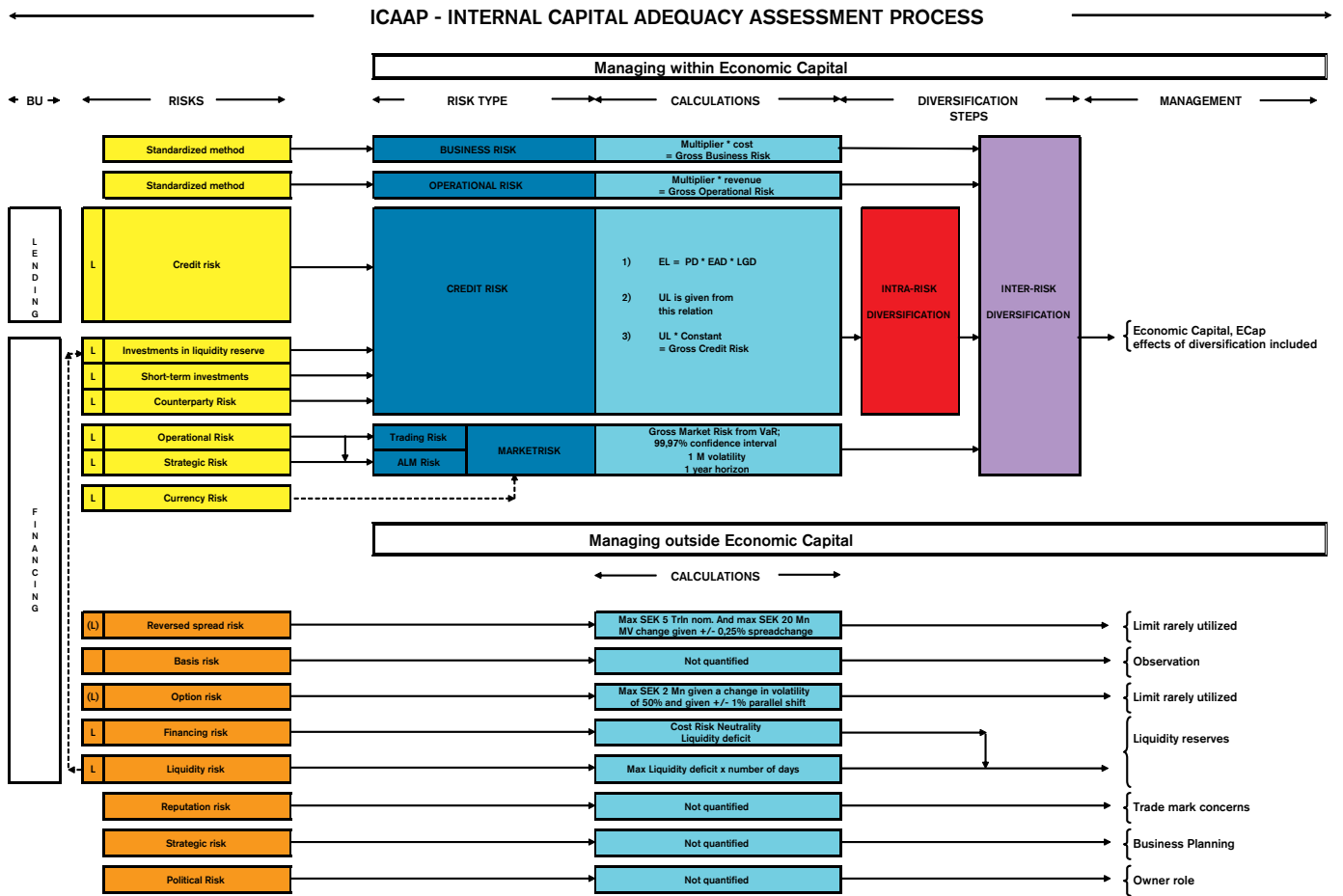
**Table 2 Proportion of economic capital per risk**

<b>Economic capital (SEK million)</b>	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>3 880</b>	<b>2 816</b>
of which		
Credit risk	82 %	84 %
Market risk	13 %	10 %
Commercial risk	4 %	5 %
Operational risk	1 %	1 %

*The higher level of economic capital as at 31 December 2007 reflects an ongoing calibration and development of the model. This calibration is aimed to better balance the increasingly clear requirement scenario for Pillar Two in relation to the regulatory requirements in Pillar One.*



**Table 3 Risks managed within and outside the calculation of economic capital**



## 5. Capital adequacy

### 5.1 Capital base

The company's capital adequacy is governed by the Act (2006:1371) concerning Capital Adequacy and Large Exposures (Capital Adequacy Act) and Finansinspektionen's code of regulations FFFS 2007:1. The following may be mentioned from the regulations concerning calculation of the capital base.

- Due to different definitions of subsidiaries between the rules for capital adequacy (FFFS 2007:1) and financial reporting (IFRS 31), SBAB's subsidiary FriSpar Bolån AB is consolidated in its

entirety when calculating the capital base while Proportional Method is used in financial reporting.

- When calculating primary capital, subordinated debt can be included if certain prerequisites are met in accordance with FFFS 2007:1 Chapter 7, section 15, and consent has been obtained from Finansinspektionen. SBAB has been granted consent and has classified SEK 994 million as primary capital (see Table 4).
- According to FFFS 2007:1 Chapter 7, section 13, the changes in value of equity which are attributable to derivative instruments, included in cash flow hedges are excluded and thus do not affect the size of equity. Adjustment has been made at SEK 14 million as at

31 December 2007.

- Deductions from primary capital are made for intangible fixed assets according to Chapter 3, section 2, of the Capital Adequacy Act. The difference between EL (expected loss) and the actual provision in accordance with Chapter 9, section 11 FFFS 2007:1 is also deducted from primary capital. Remaining amounts are deducted from supplementary capital

There are no ongoing or anticipated material obstacles or any legal impediments to transfer of funds from the capital base than those that follow from the conditions for the subordinated loan (see Note 31 in the SBAB group's 2007 annual report) or from the general provisions of the Swedish Companies Act (2005:551).

The starting capital required for the parent company according to the Banking and Financial Undertakings Act (2004:297) totals SEK 45,650,000. The corresponding capital requirement for the subsidiaries is SEK 44,300,000 for FriSpar and SEK 47,000,000 for SCBC respectively.

**Table 4, Capital base**

Group  
31 December 2007 (SEKm)

<b>Primary capital</b>	
Equity	6 198
Primary capital contribution	994
Minority interest	467
Total gross primary capital	7 659
Less other intangible assets	(58)
Less deferred tax assets	(103)
Deduction pursuant to Ch 3, section 8 of the Capital Adequacy Act	(346)
<b>Total primary capital net</b>	<b>7 152</b>
<b>Supplementary capital</b>	
Perpetual loans	722
Time-limited subordinated debentures	1 260
Deduction pursuant to Ch. 3 section of the Capital Adequacy Act	(346)
<b>Total supplementary capital</b>	<b>1 636</b>
Expanded part of capital base	0
Deduction from whole capital base	0
<b>Amount for capital base less deductible items and limit amounts</b>	<b>8 788</b>

**Table 5, Capital requirements**

Capital requirements  
31.12.2007, (SEKm)

<b>Minimum capital for:</b>	
Credit risk reported in accordance with the standardised method of which	1 067
- exposures to states and central banks	0
- exposures to municipalities and similar associations	0
- institutional exposures	523
- corporate exposures	518
- household exposures	18
- unregulated items	0
- other items	8
Credit risk reported according to IRB method of which	1 982
- corporate exposures	1 590
- household exposures	392
Risks in trading portfolios	487
Operational risk	170
Currency risk	0
Raw material risk	0
<b>Total minimum capital requirement</b>	<b>3 706</b>
Supplement during a transitional period	3 675
<b>Capital requirement including supplements</b>	<b>7 381</b>

### 5.2 Capital requirement

As from 1 February 2007, new rules apply to capital adequacy and large exposures. During a transitional period of three years, the effect is limited, however, due to transitional provisions. These entail that the minimum capital for 2007 must not be less than 95 % of the capital requirement calculated in accordance with the previous rules. For 2008 and 2009, the corresponding limit is 90 % and 80 % respectively.

SBAB's capital ratio amounted as at 31 December 2007 to 1.19. The calculated minimum capital requirement amounts to SEK 3706 million and the supplement according to the transitional provisions amounts to SEK 3675 million. The distribution of the capital base and capital requirement is shown in Tables 4 and 5.

Every exposure is allocated to an exposure class, either through the standardised method or by the IRB method.

(In Chapter 3 Risk classification system, SBAB's distribution of exposure class and methods for calculation of credit risk are described.) Table 5 shows the individual exposure amounts broken down by exposure class and risk classification method.

**Table 6, Key ratios for capital adequacy for group companies**

Capital adequacy  
31.12.2007, (SEKm)

	Group	Parent Company	FriSpar Bolån	SCBC
Primary capital	7 152	7 240	940	4 806
Total capital	8 788	9 187	940	4 806
Risk-weighted assets Basel I)	98 918	27 901	11 294	59 692
Risk-weighted assets * 95%	93 972	26 506	10 730	56 707
Capital requirement / 8 %	92 258	25 636	10 566	56 027
Primary capital ratio	7.6%	27.3%	8.8%	8.5%
Capital adequacy	9.4%	34.7%	8.8%	8.5%
Capital ratio	1.19	4.48	1.11	1.07

## 6. Information about the loan portfolio

Credit risk is defined as the risk of loss due to the customer or counterparty not being able to make interest payments and amortisation or otherwise fulfilling the loan agreement. Credit risk arises, besides in connection with loans and loan promises, also in connection with impairment of pledged assets which means that these no longer cover the group's receivables.

Credit risk in lending operations is restricted by limits decided upon for the customer or customer group. The credit risk is also managed in the credit granting procedure, where potential customers' ability to meet their obligations is analysed. New loans for consumers are granted, for example, only to borrowers, who are expected to be able to pay interest and amortisation in an interest rate situation which is above current levels. Furthermore, risk classification is used, which is based on internal risk classification methods, in the analysis of new and existing customers in the loan portfolios.

In order to grant credit, adequate collateral is required which can be provided in the form of real estate or a tenant-owned apartment. Adequate collateral usually means mortgage deeds in a property or a

tenant-owned apartment up to 75 %-85 % of the market value. 85 % applies provided that collateral can be obtained with priority right and that the customer has risk class R1-R4 for consumers and C1-C4 respectively for corporate customers. In other cases, a loan-to-value ratio of 75 % applies. If collateral is complemented with credit insurance, it is possible to provide loans up to 100% of the market value. Besides the above collateral, it is possible to grant credit for, inter alia, collateral in the form of a state credit guarantee, a municipal guarantee, securities, bank guarantees and deposits at a Swedish bank. To a limited extent, shares up to 85% of the market value in the underlying property can be accepted as collateral. SBAB does not hold any collateral which has been taken over to protect a claim.

The information in this section dates from 31.12.2007 although it differs in some aspects from the information in the 2007 annual report:

1. Exposure amounts including accrued interest are reported instead of the capital claim.
2. FriSpar's loan portfolio is included at 100%.

**Table 7 Total exposures without credit risk protection and average value per exposure**

<b>(SEK 000s)</b>	<b>Exposure</b>	<b>Of which off-</b>	<b>EAD</b>	<b>Capital</b>	<b>Average value/</b>
<b>Exposures</b>	<b>amount</b>	<b>balance sheet items</b>	<b>requirements</b>	<b>exposure class*</b>	
<b>IRB exposures</b>					
Household exposure	116 451 139	22 018 497	96 941 596	392 348	103 989 682
Corporate exposure	50 703 758	2 088 331	50 340 672	1 589 491	47 423 561
<b>Standard exposures</b>					
Corporate exposure	6 482 140	-	6 482 140	518 571	5 037 876
Household exposure	300 874	117	300 757	18 047	275 369
Municipal exposure	10 203 057	-	10 203 057	0	8 019 424
Institutional exposure	18 472 865	-	18 472 865	286 699	12 338 686
Unregulated exposures	2 034	-	2 034	184	5 710

\*Exposures in off-balance sheet items have been excluded.

### 6.1 Total amount of all exposures during the period

The total amount for all exposures in the loan portfolios without taking into consideration credit risk protection amounts as at 31.12.2007 to SEK 202, 616 million and the average exposure amount, calculated on the basis of the exposure amount at the end of each month for the past year, amounts to SEK 177,090 million, of which 59% is exposures to household exposures (cf, Table 7).

### 6.2 Exposure amount broken down by geographical distribution, remaining period until change of conditions up to stipulated time of expiry and type of counterparty

#### 6.2.1 Exposure amounts broken down by geographical distribution

The SBAB group's division of Sweden which consists of:

- Greater Stockholm: Stockholm's labour market region according to Statistics

Sweden (SCB) (2004)

- Greater Gothenburg: Gothenburg's labour market region according to SCB (2004)
- The Öresund Region: Malmö and Helsingborg's labour market regions according to SCB (2004)
- University and growth regions: Municipalities with universities and municipalities with especially buoyant growth according to analysis made by SBAB\*.
- Weak regions: Municipalities with very weak or negative growth according to analysis made by SBAB\*.
- Other regions: Municipalities which are not allocated to any category.

\* This analysis is based on statistics from SCB such as population growth in the short and long term, the proportion of the population older than 64, average income and the vacancy rate in public housing, and on the local knowledge of SBAB analysts.

**Table 8 Exposure amount by geographical distribution**

(SEK 000s)	Greater Stockholm	Greater Göteborg	Öresund region	University and growth regions	Other regions	Weak regions
<b>IRb exposures</b>						
Household exposure	40 164 562	8 157 354	28 078 492	6 193 910	8 027 808	3 810 516
Corporate exposure	15 739 409	4 131 305	9 384 332	8 332 913	8 722 350	2 305 118
<b>Standard exposures</b>						
Corporate exposure	3 636 360	467 347	1 269 972	340 755	603 747	163 959
Household exposure	192 012	30 406	45 522	13 271	13 621	5 925
Municipal exposure	1 664 390	787 605	914 505	959 295	3 173 732	2 703 530
Institutional exposure	14 447 218	1 567 204	1 759 884	487 008	190 047	21 504
Unregulated exposures	712	100	513	48	229	432
<b>Total</b>	<b>75 844 663</b>	<b>15 141 321</b>	<b>41 453 220</b>	<b>16 327 200</b>	<b>20 731 534</b>	<b>9 010 948</b>

The greatest part of the SBAB's group's portfolio is secured by housing in the Stockholm area (42 %) and the Öresund region respectively (23 %). Only 5 % of the underlying collateral derives from weak regions (see Table 8).

#### 6.2.2 Exposure amounts distributed according to the next stipulated term of expiry.

A large proportion (50 %) of the portfolio has less than 1 year left to the next stipulated term of expiry \*. The group which has a remaining term of between 1 and 5 years accounts for 45 % of the outstanding loans (see Table 9).

\* The stipulated term of expiry refers to the day for confirmation of the conditions that are to apply for the loan during the coming new term. These conditions shall be supported by the terms of the original loan agreement.

**Table 9 Exposure amount distributed by remaining term**

(SEK 000s)	< 1 year	1 - 5 years	> 5 years
<b>IRB exposures</b>			
Household exposure	47 353 187	42 281 816	4 797 639
Corporate exposure	23 558 172	21 765 293	3 291 962
<b>Standard exposures</b>			
Corporate exposure	2 954 797	3 486 613	40 730
Household exposure	264 648	29 974	6 135
Municipal exposure	4 981 409	4 943 140	278 508
Institutional exposure	9 367 702	8 628 751	476 412
Unregulated exposures	1 445	446	143
<b>Total</b>	<b>88 481 360</b>	<b>81 136 033</b>	<b>8 891 529</b>

6.2.3 Exposure amount distributed by type of property

The greatest exposure amounts derive from lending to single-family dwellings (45 %), tenant-owned apartments (19 %) and

tenant-owner associations (19 %). Lending to commercial premises accounts for a minor part (4 %) of the loan portfolio (see Table 10).

**Table 10 Exposure amount distributed by type of counterparty**

(SEK 000s)	Single-family dwellings & Holiday homes	Tenant-owned apartments	Tenant-owner associations	Private multi-family dwellings	Municipal dwellings	Commercial properties
<b>IRC exposures</b>						
Household exposure	79 175 330	15 257 312	-	-	-	-
Corporate exposure	18 163	1 003	31 365 181	16 690 669	540 411	-
<b>Standard exposures</b>						
Corporate exposure	-	-	152 686	704 223	15 311	5 609 920
Household exposure	179 070	121 687	-	-	-	-
Municipal exposure	806 094	-	2 172 555	726 355	6 488 466	9 587
Institutional exposure	-	18 472 865	-	-	-	-
Unregulated exposures	1 783	166	85	-	-	-
<b>Total</b>	<b>80 180 440</b>	<b>33 853 033</b>	<b>33 690 507</b>	<b>18 121 247</b>	<b>7 044 188</b>	<b>5 619 507</b>

**6.3 Exposure fallen due and exposure with impairment requirements**

SBAB uses the following definitions for exposures fallen due and exposures with impairment requirements.

- Exposure fallen due > 5 days refers to the total claim where any part has fallen due for payment for more than five days.
- Exposure with impairment requirements

refers to doubtful exposure where individual provision has been made for commitments relating to corporate loans and consumer loans, i.e. SBAB has assessed that there is a risk in future payments and that the collateral does not cover the amount of the claim.

All commitments in risk class C8 are reviewed monthly and risk assessed. The

size of the individual provision has been assessed by the agreed payment flow from the customer being compared with the expected future payment capacity where an analysis of the property's cash flow is included as an important parameter in combination with a valuation of the underlying collateral. Customers in risk class R8 are placed in the individual reserve in special cases after individual assessment.

**Table 11 Exposures with and without amounts due with individual provision**

(SEK 000s)	Exposure amount
Exposures without unpaid amounts due or individual provision	177 633 969
Exposures with unpaid amount due > 5 days	693 444
Exposures with individual provision	181 509
<b>Total exposures without amounts due and individual provision</b>	<b>178 508 922</b>
Exposure amount for individual provision	118 746
<b>Total exposures after individual provision</b>	<b>178 390 176</b>

**Table 12 Exposures with undue unpaid amounts with individual provision per sub-group**

(SEK 000s) Sub-group	Exposures fallen due	Exposure amount for loans with individual provision	Individual provision
Single-family dwellings & Holiday homes	336 674	14 495	12 278
Tenant-owned apartments	147 088	-	-
Tenant-owner associations	97 430	138 645	90 589
Private multi-family dwellings	107 705	28 369	15 879
Commercial properties	4 547	-	-
<b>Total</b>	<b>693 444</b>	<b>181 509</b>	<b>118 746</b>

6.3.1 Exposures fallen due and exposures with impairment requirements according to geographical distribution

For a claim to be considered to have fallen due, it must be older than five days. The reason for not taking into account claims fallen due with a due date less or the same as five days is to avoid the analysis being disturbed by payment not received because of public holidays. Doubtful exposure means a claim where individual provi-

sion has been made. The selection for provisions is all corporate customers where there is an objective basis for impairment and the individual private customers where there are special reasons for impairment. Individual provision includes at present loans to tenant-owner associations and private multi-family dwellings and a few single-family dwellings. Doubtful exposures are reported in Tables 11 and 13 without taking into consideration pledged assets.

**Table 13 Exposures fallen due, doubtful exposures and individual provisions according to geographic distribution**

<b>Expo.</b>	<b>Regions</b>	<b>Greater Stockholm</b>	<b>Greater Gothenburg</b>	<b>Öresund Region</b>	<b>University &amp; growth region</b>	<b>Other regions</b>	<b>Weak regions</b>	<b>Total all regions</b>
Exposures fallen due		288 041	113 106	104 362	65 872	55 243	66 821	693 444
Exposures with individual provisions		26 168	5 512	3 141	7 571	76 420	62 698	181 509
Individual provisions		15 570	5 187	2 961	3 895	50 569	40 565	118 746

**6.4. Information about risk-weighted exposure amounts for credit risk**

6.4.1 Exposures per risk class in the PD dimension

SBAB uses the IRB method for corporate and household exposures with collateral

in a residential property or a tenant-owned apartment. Corporate exposures only constitute 34 % of total exposures for which the IRB method is used, but due to the average risk weight being substantial, the exposures have a relatively great weight in the capital adequacy calculation (cf Table 5).

**Table 14 Exposure per IRB-risk class and average risk weight (SEK 000s)**

<b>Type of exposure</b>	<b>Exposure</b>	<b>Of which off-balance sheet items</b>	<b>Average risk weight*</b>
Corporate exposures	50 703 758	2 088 331	42,8%
Household exposures	116 451 139	22 018 497	5,0%
- of which single-family dwellings and holiday homes	90 267 013	11 091 683	4,4%
- of which tenant-owned apartments	26 184 125	10 926 813	8,1%

\* Risk weight /number of loans

6.4.2 Corporate market exposure per risk class in the PD dimension.

The quality of the portfolio is good. 95 % of all exposures in the balance sheet derive from the four best risk classes (C1-C4 and R1-R4 respectively).

The corporate exposures include exposures with risk class according to the model for household exposures. These exposures relate to loans to sole proprietorships. They are included in the process for corporate loans and, given this, are to be allocated to this group although from the point of view of risk, the small sole proprietorships have more in common with private persons than corporate customers and may then be risk classified with the model for household exposures instead of the model for corporate exposures.

**Table 15 Corporate market exposures per PD risk class**

<b>Risk class</b>	<b>Exposure</b>	<b>Of which off-balance sheet items</b>
C1	27 075 905	1 062 938
C2	11 430 170	443 033
C3	7 361 391	481 127
C4	1 945 248	6 233
C5	1 443 387	-
C6	924 511	95 000
C7	87 669	-
C8	354 479	-
R1	12 823	-
R2	3 600	-
R3	45 493	-
R4	4 223	-
R5	14 859	-
R6	-	-
R7	-	-
R8	-	-

6.4.3 Household exposures per risk class  
and sub-group in the PD dimension

**Table 16 PD risk classes distributed by sub-groups for Retail Market**

(SEK 000s)

Sub-group	Single-family dwellings & Holiday homes	Of which off-balance sheet items	Tenant-owned apartments	Of which off-balance sheet items
R1	33 980 525	465 179	3 927 795	487 551
R2	17 242 075	991 857	3 549 741	774 779
R3	23 103 387	5 516 940	8 384 449	3 650 842
R4	11 777 223	3 865 873	8 913 254	5 777 887
R5	2 155 905	52 371	782 987	83 337
R6	1 060 199	5 061	335 022	13 054
R7	852 223	194 402	254 177	139 363
R8	95 476	-	36 700	-

6.4.4 Exposure-weighted LGD for  
household exposures

LGD states how large the loss will be in the event of default. The exposure-weighted LGD for single-family dwellings and holiday homes amounts to 9.27 % and exposure-weighted LGD for tenant-owned apartments amounts to 11.49 %. The amounts are relatively small, although with a smaller predominance for tenant-owned apartments which indicates that the difference in loss given default is not important between the two segments. The exposure-weighted amount for LGD is controlled by the limitation rule which

means a lowest total level for LGD of 10 % for exposures covered by advanced IRB method and where collateral consists of a tenant-owned apartment, a mortgage in a residential property or the site leasehold of such a property.

6.4.5 Size of exposures off-balance sheet

SBAB has issued loan promises for single-family dwellings, holiday homes and tenant-owned apartments totalling SEK 22019 million which amounts to SEK 2510 million after the credit conversion factor has been taken into consideration.

**Table 17 Exposures off-balance sheet, retail market**

(SEK 000s)

Sub-group	Size of exposure	Exposure amount after CCF
Single-family dwellings and holiday homes	10 927 048	1 130 933
Tenant-owned apartments	11 091 826	1 379 001
<b>Total</b>	<b>22 018 874</b>	<b>2 509 934</b>

6.4.6 Default outcome

Table 18 shows the PD outcome for 2007. The anticipated outcome for the corporate model is substantially higher than the actual outcome, which indicates that the PD models in the current state of the economy overestimates the risk of default. The level of default outcomes for consumer loans is much closer to the actual outcome than for corporate loans.

**Table 18 Default outcomes in PD and the LGD dimension respectively**

	Estimated PD	Realised outcome**	Estimated LGD	Realised outcome***
Corporate exposures	1,32 %	0,27 %	-	-
Household exposures	0,45 %	0,37 %	10,00 %*	0,5 %*

\* The results are exposure-weighted

\*\* An exposure is considered to be in default if the claim has fallen due for more than 60 days or if the assessment has been made that the customer will probably not pay agreed interest or amortisation.

\*\*\* Realised outcome has been calculated on default loans where the default has been concluded during the year.

In a comparison between expected loss (EL) according to internal rating based approach (basic and advanced method) and actual outcome for established losses during 2006 and 2007 (Table 19 and Table 20), it can be noted that expected loss has decreased radically for corporate loans while the opposite applies for consumer loans. The market values for properties in the corporate segment has been up-

dated, which, above all, means that LGD decreased at the same time as a positive migration in the PD dimension took place. The converse difference can be observed in the household portfolio, although not to the same extent. Realised outcome is substantially less than the estimated outcome of models which indicates that the models overestimate the size of EL in the current state of the economy.

**Table 19 Comparison of EL between outcome and model in 2006 and 2007**

<b>(SEK)</b>				
<b>Year</b>	<b>Exposure class</b>	<b>EL - IRB/ Basic</b>	<b>EL - IRB/ Advanced</b>	<b>Realised outcome</b>
2006	Company	423 118 247	345 768 453	6 991 655
	Consumer	38 355 862	38 355 862	3 364 168
2007	Company	311 455 680	176 402 242	3 552 396
	Consumer	55 451 847	55 451 847	3 239 774

**Table 20 Comparison of EL between outcome and model, retail market 2006 and 2007**

<b>(SEK)</b>				
<b>Year</b>	<b>Retail</b>	<b>EL - IRB/ Basic</b>	<b>EL - IRB/ Advanced</b>	<b>Realised outcome</b>
2006	Single-family dwellings and holiday homes	26 346 472	26 346 472	2 793 907
	Tenant-owned apartments	12 009 389	12 009 389	570 261
2007	Single-family dwellings and holiday homes	37 774 812	37 774 812	2 731 457
	Tenant-owned apartments	17 677 034	17 677 034	508 317

The relatively small established losses that have arisen during the year depend partly on the borrower not succeeding in paying interest and amortisation and partly on the market value of the collateral provided being less than the value of SBAB's claim.

#### 6.4.7 Credit risk coverage

Guarantee from the National Housing Credit Guarantee Board (BKN) is utilised to reduce the capital requirement. The claim of SEK 815 million which is covered by the credit insurance from BKN is weighted by 0 % in calculation of capital adequacy.

Around SEK 9.5 billion of the lending in relation to Swedish municipalities is or has been secured by a municipal guarantee. This lending is weighted when calculating capital adequacy at 0 %. In addition, the parent company and SCBC have together a guarantee of SEK 2.1 billion from Genworth Financial Mortgage Limited which has not been used in calculation of capital adequacy. Genworth has rating AA (Standard & Poor's and Fitch) and Aa2 respectively (Moody's). The credit loss guarantee of SEK 1.7 billion from business partners has not been taken into consideration in the calculation of capital adequacy.



## 7. Information about counterparty risk

Counterparty risk arises in financial activities through derivative transactions. SBAB uses derivatives in order to eliminate interest rate and currency risks in lending and borrowing at fixed rates.

In accordance with the financial directives, the credit risk limit is established by SBAB's Finance Committee for all counterparties in financial activities (i.e. borrowers and financial counterparties) with the exception of the Swedish state and companies in the SBAB group for which no limitation of the exposure is made. The calculation of the exposure amount for the counterparty risk is made in accordance with the Market Valuation method and the agreement on net calculation for derivative contracts.

The credit risk limit can be established for a time period of at most a year before being reviewed. Decisions on credit limits made by the Financial Committee shall be reported to the Board at the next board meeting.

The Capital Adequacy and Large Exposures Act (2006:1371) limits single-hand commitment to at most 25 %

of the capital base. Individual limits for investment and counterparty exposure (excluding money market limits) may as a main rule amount to at most 15% of the capital base. Exempted from these rules are certain Nordic counterparties for which the maximum limit can amount to the equivalent of 20% of the capital base. The current rating of individual counterparties issued by Moody's or Standard & Poor's constitutes an additional restriction in the establishment of individual credit risk limits. The higher the rating class the counterparty has, the greater the exposure that may be allowed in relation to SBAB's capital base.

To limit the potential counterparty risk in derivative transactions with non-standardised derivative instruments which are not cleared by, according to Finansinspektionen's capital adequacy rules, FFFS 2007:1, approved clearing organisations, standard agreements for so-called netting in bankruptcy (so-called ISDA Master agreements or other similar agreements, in appropriate cases with appurtenant collateral arrangements, so-called Credit

Support Annex (CSA)), shall have been entered into between the SBAB company in question (the parent company or SCBC) and the counterparty. When SCBC enters into the derivative agreement, an appurtenant CSA shall always be created. The ISDA Master agreement means that, among other things, netting is regulated in the event of, for example, bankruptcy. A CSA means that the parties have agreed in advance to transfer assets if the exposure exceeds a certain so-called threshold amount. The threshold amount and the lowest amount which shall be transferred to or from the counterparty can vary depending on the parties' rating.

See Table 22 and 23, Derivative Instruments for an overview of derivative instruments.

### 7.1. Money market investments

SBAB has separate limits for money market investments, i.e. investments that extend maximally a year forward in time. Individual money market limits may at most amount to SEK 500 million or 5.75 % of the capital base.

**Table 22 Derivative instruments for SBAB**

Derivative instruments Group 31.12.2007, (SEKm)	Total nominal amount	Assets at fair value	Liabilities at fair value
< 1 year Interest swaps	67 503	229	539
> 1 year Interest swaps	132 443	1 183	1 055
< 1 year Interest currency swaps	39 004	605	444
> 1 year Interest currency swaps	57 681	1 701	885
< 1 year Share-related derivative contracts	15	1	0
> 1 year Share-associated derivative contracts	129	49	0
> 1 year Credit derivatives	18 600	30	0
<b>Total</b>	<b>315 375</b>	<b>3 799</b>	<b>2 923</b>

**Table 23 Derivative instruments distributed by rating**

Derivative instruments distributed by rating group	Net market values	Positive market values	Negative market values
<b>31.12.2007, (SEKm)</b>			
A-	-26	0,5	-27
A+	-60	518	-578
AA	19	619	-600
AA-	661	1 964	-1 304
AA+	192	585	-393
AAA	90	108	-19
No rating	1	3	-2
<b>Total</b>	<b>877</b>	<b>3 799</b>	<b>-2 922</b>

Netting gains 2 273

\* Netting gains means the total of the estimated reduction in exposure per counterparty which arises in the cases positive market values (receivables) can be reduced against market values (liabilities).

## 8. Operational risk

SBAB uses the standardised method to measure and handle operational risk. This method means that the capital requirement is based on 12, 15 and 18% respectively of the average operating income of the business areas. This method includes requirement for documentation, processes and structure such as

- The established controlling documents
- Processes for managing operational risks
- Emergency plans and continuity plans
- Documented risk management
- Internal reporting structure
- Method of distributing operating income to business areas

Capital requirements for operational risk are shown in Table 5. Finansinspektionen has reviewed SBAB's method for measuring and managing operational risk. This method complies with the provisions in Finansinspektionen's regulations and Finansinspektionen considers the method to be reliable.



## 9. Information about interest rate risk and equity risk for positions not included in the trading portfolio

### 9.1 Interest rate risk

SBAB measures the interest rate risk in two categories, the operating interest rate risk and the interest rate risk in equity and flows. The operating interest rate risk in eq-

uity and the flows add up to SBAB's total interest rate exposure and are measured daily.

Operating interest rate risk arises in the SBAB group's current lending and bor-

rowing activity. The operating interest rate risk corresponds to the net of the interest rate risk in on the one hand the total of external lending and investments financed by external lending and on the other hand the total of external lending and derivative instruments. The operating interest rate risk is calculated in terms of the effect that a parallel shift of SBAB's yield curve by + 1 percentage point has on the current result at a given point in time. The interest rate risk is based on all contracted transaction flows in lending, the debt book and in the derivatives. SBAB's operating interest rate risk is calculated for the respective currency to be summarized.

The operating interest rate risk is managed daily in real time. The interest rate risk arises in SBAB's respective portfolios to which capital and interest rate flows are mapped depending on the term and type of funding instrument. The interest rate risk is measured in all portfolios but is aggregated in connection with reporting.

SBAB swaps, as a main rule, down the flows of longer maturities in the loan portfolio to 3-month Stibor, which means that the interest rate risk is low.

The interest rate risk in equity and flows take into consideration the interest rate risk that arises through SBAB's equity, as well as the float that arises given that the flows in lending and funding have different payment frequencies, being invested. SBAB's equity shall be primarily used to finance lending activities. The interest rate risk in the strategic portfolios is calculated in a similar way as the operational risk, i.e. the effect that a parallel shift of SBAB's yield curve by + 1 percentage point would have on the current result at a particular point in time.

The benchmark for investment of equity is defined as maturity steps with even fixed-interest maturities every year from one to ten years. The interest rate risk in equity is the interest rate risk in the deviation from the benchmark.

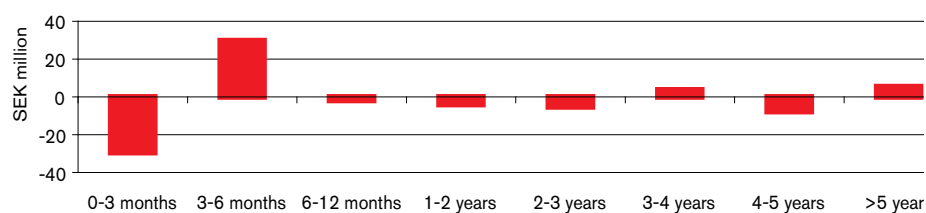
The Board makes decisions on the benchmark.

The benchmark shall be reviewed at least once a year.

See Table 24-26 on the interest rate risk for positions not included in the trading portfolios.

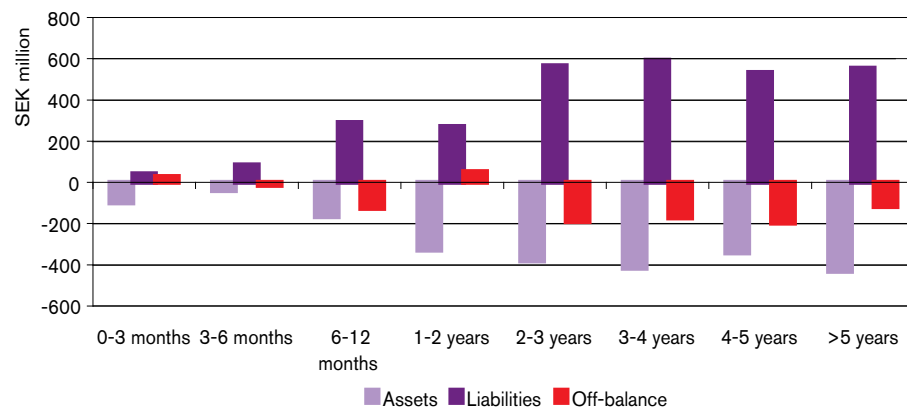
**Table 24 Interest rate risk in a parallel shift of the yield curve by +1 percentage point**

The interest rate risk distributed by time periods in a parallel shift of the yield curve by +1 percentage point. Total SEK -9.5 billion. 31.12.2007



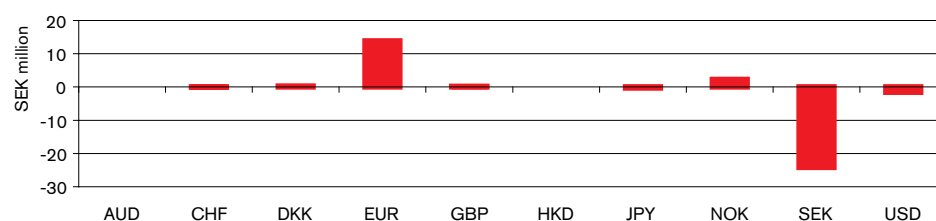
**Table 25 Interest rate risk for assets, liabilities and off-balance in a parallel shift of the yield curve by +1 percentage point**

The interest rate risk distributed by time periods, assets, liabilities, and off-balance in a parallel shift of the yield curve by +1 percentage point Total SEK -9.5 million. 31.12.2007



**Table 26 Interest rate risk by currencies in a parallel shift of the yield curve by + 1 percentage point (SEKm)**

The interest rate risk distributed by currencies in a parallel shift of the yield curve by +1 percentage point Total SEK -9.5 million. 31.12.2007



## 10. Information about risks in the trading portfolios

The trading portfolios consist of the part of SBAB's activities that supplements financing of lending. The trading portfolios consist of two groups of positions, a pure trading portfolio and investments in SBAB's liquidity portfolio.

The liquidity portfolio has a minimized interest rate risk. The risk in the portfolio is attributable to the credit risk.

Interest-rate, currency, credit and liquidity risk in the trading portfolios is dealt with as an integrated part of the balance sheet and the risks are limited in accordance with the Financial Directives adopted by the Board. This means among other things that, for the management of interest risk, the assets and liabilities are set to market value. The interest rate risk in the trading portfolios is included as part of the limit for operational interest rate risks which is delegated to the finance department.

Credit risks in the form of issue and counterparty risks in the trading portfolios are regulated by credit limits. A special framework for credit and liquidity risks applies for the liquidity portfolio.



# 11. Glossary

<b>Terms</b>	<b>Importance</b>	<b>Refers to</b>
Corporate		Corporate exposures
EAD	Exposure at default	Exposure at time of default
ECap	Economic capital	Economic capital
EL	Expected loss	Expected loss
ICAAP process		Process for internal capital valuation
IRB method		Method based on internal risk classification
IRB model		Model based on internal risk classification
CCF	Credit conversion factor	Proportion of a commitment off-balance sheet which is utilised at the point in time
LGD	Loss given default	Share of loss in the event of default for a possible future default
PD	Probability of default	Probability of default of a customer or counterparty within a year
Retail		Household exposures
VaR	Value at risk	Measure of the anticipated probable loss from unfavourable market movements over a defined time period.

