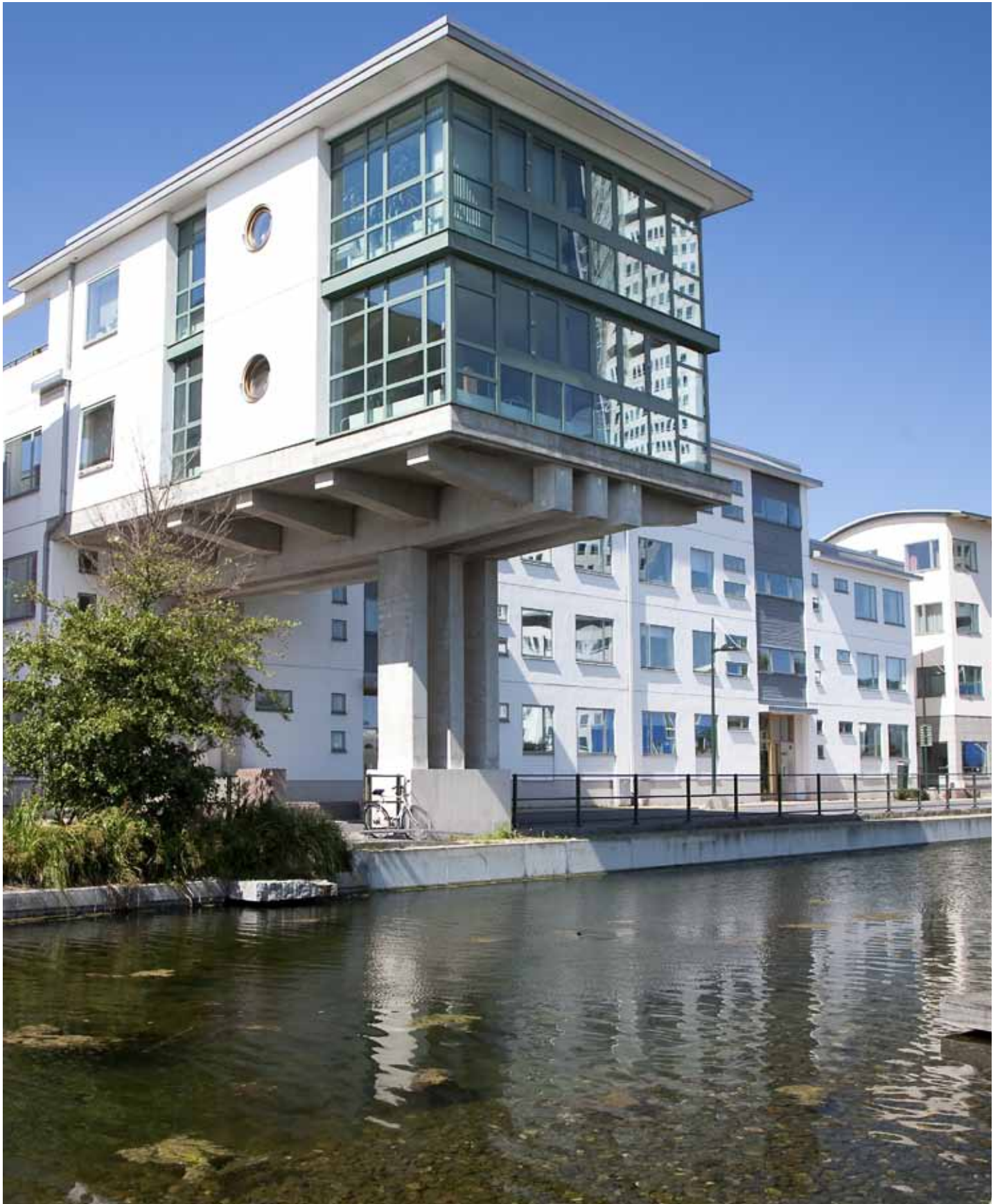


Information about Capital Adequacy and Risk Management 2009

Basel Regulations, Third Pillar



The Swedish Housing Finance Corporation, SBAB

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1. Introduction

The aim of the regulations governing capital adequacy and large exposures that took effect in 2007 (Basel II) is to increase stability in the international bank sector. The rules are structured under three pillars. Under Pillar 1, the minimum capital requirement for credit risk, market risk and operational risk are calculated on the basis of established regulations. Under Pillar 2, the company determines the capital requirement for measurable risks based on the results of its internal models. The results are supplemented with an assessment based on the outcome of stress tests and an assessment of other risks. Pillar 3 regulates the information that credit agencies are required to disclose to the market.

The prevailing regulations governing capital adequacy and large exposures entail the following:

- new measurement methods have been developed for credit risk, operational risk and market risk
- the capital requirement is linked to a greater extent to the actual risk in the credit agency's operations
- the process for assessing equity in relation to the company's risk profile and the strategy for maintaining a certain level of capital have been developed
- the risk classification system constitutes an integrated component of the company's control, credit process, risk management and internal allocation of capital and
- banks and credit agencies are to submit comparable information to the market regarding risk management and capital adequacy.

In November 2009, the Swedish Financial Supervisory Authority (FI) announced that the transitional regulations for the previous rules, which were originally intended to apply until year-end 2009, would apply for a minimum of another two years.

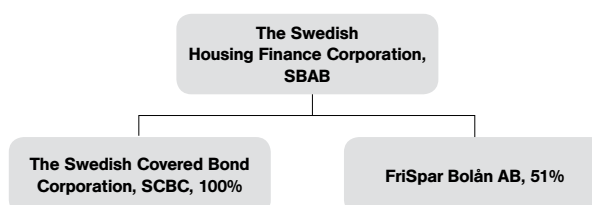
This report applies to the financial corporate group SBAB and pertains to the conditions prevailing on 31 December 2009, unless otherwise specified. The report was published on sbab.se in conjunction with the publication of the company's Annual Report.

The SBAB Group comprises the following three companies:

- The Swedish Housing Finance Corporation, SBAB, corp. reg. no. 556253-7513 (hereinafter referred to as the Parent Company),
- The Swedish Covered Bond Corporation, corp. reg. no. 556645-9755 (hereinafter referred to as SCBC),
- FriSpar Bolån AB, corp. reg. no. 556248-3338, of which 51% is owned by the Parent Company (hereinafter referred to as FriSpar).

The principal activity of all of these companies is to provide loans for residential properties and shares in tenant-owner associations against collateral in the form of mortgage deeds and tenant-owner rights and, to a limited extent, the funding of commercial properties. In 2007, the activities of the Parent Company were expanded to enable private customers to open deposit accounts. In 2009, the operations were supplemented with an offering of deposit products for commercial customers and tenant-owner associations. The intention is to further expand the product range as of 2010.

Figure 1. The SBAB Group



2. Risk management

A broad definition of risk is “the volatility in future income that is dependent on changes in the value of assets and liabilities.” Risk is a natural element in a business and one that must be managed. For SBAB, risk arises primarily in the lending operations in the form of credit risk, although various types of risks must also be managed in other activities. The recent crisis of confidence in the financial sector exemplifies the importance of efficient liquidity risk management.

SBAB conducts its operations in three business areas. Corporate and Retail focus on loans, while Finance focuses on funding and financial risk management.

For SBAB, risk management entails, in each individual transaction, that the company shall be able to measure the value generated by the transaction with regard to risk-adjusted return and the optimal level of capital. In tangible terms, this means that SBAB engages in continuous discussions concerning the following questions:

- What are the various risks generated in SBAB's operations, and how can these be measured consistently to create comparability?

- How can SBAB organise its risk management and integrate it into business management so that all employees understand the value of correct risk management in the operations?
- Does SBAB have sufficient capital to counter the company's risks?

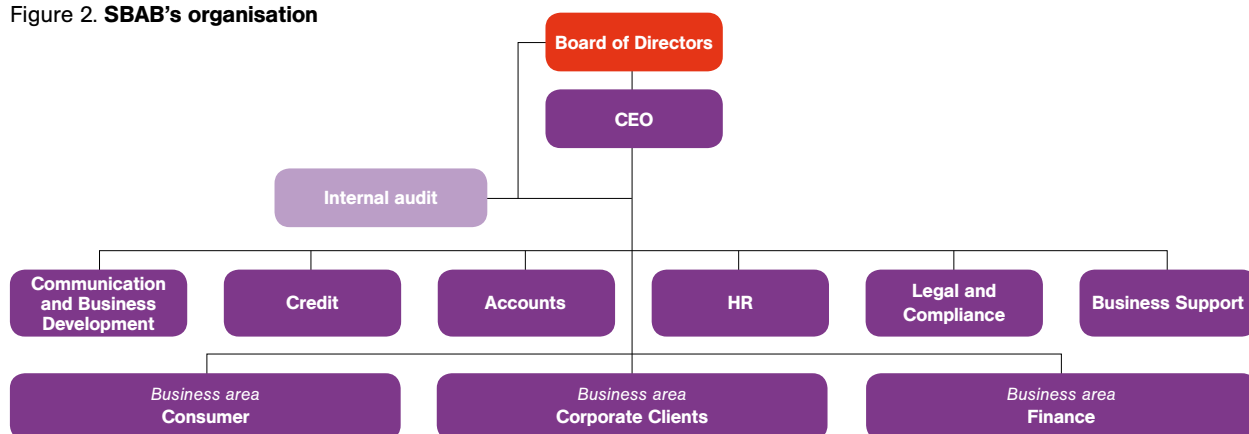
SBAB's goal is that the strategy adopted for the lending operations will, with respect to management and pricing, consider the risks that arise in the operations and the capital needed to cover these risks.

2.1 Overall aims for risk management

The risk policy determined by SBAB's Board of Directors includes the following overall aims for risk management.

- SBAB's risk management shall support the company's business operations and rating targets. Risk-taking shall be low (balanced), which will be achieved by ensuring that total risk is kept at a level that is compatible with SBAB's long-term financial objectives for return, the size of risk capital and target rating.
- Relevant risks shall be identified, measured, controlled and monitored.
- Within the company's various business areas, allocation of capital shall be based on the desired risk level and earnings capacity.
- SBAB's risk management shall be transparent and thus easily presented to and understood by external parties.

Figure 2. **SBAB's organisation**



2.2 Risk appetite

Risk is an integrated part of all activities conducted by SBAB. Given the company's strategy of generating income primarily by taking credit risks, it is important to know how much risk is actually desirable, both at an aggregated level and in relation to various segments and individual customers. Risk appetite can be defined as "the impact on earnings that a company can accept to support a particular strategy." On the basis of the strategy adopted, the Board of the Parent Company establishes the risk that SBAB should be prepared to take (the risk appetite). In this context, how various risks arise and the size of the individual risk as a proportion of total risk should be clear.

SBAB's risk appetite is expressed as follows:

- SBAB shall generate a return on equity that is five percentage points higher than the return on five-year government bonds after tax, viewed over a business cycle.

- The capital ratio for the SBAB Group shall exceed 1.13 (corresponds to capital adequacy of 9%).
- According to Basel II, Pillar 1, including transitional regulations, SBAB's primary capital ratio shall not be less than 7%.
- Economic capital shall not exceed 85% of the available capital.

Earnings should be based primarily on credit risk and interest rate risk. Income may not be generated by means of speculative currency positions.

All of these objectives were achieved. The return on equity exceeded the target by 0.4 percentage points and economic capital corresponded to 78% of the available capital. The capital ratio and primary capital ratio are presented in Chapter 5.

To monitor the risk outcome in relation to the decided risk appetite, the outcome of selected parameters is presented monthly to executive management and the Board.

3. Organisation

The Risk Department is an integral part of SBAB's internal governance and control. Along with the Compliance Officer, Internal Audit and AML Officer, the company's risk function is part of the work flow that provides the Board and management with information on the established goals regarding the organisation and administration of the operations.

3.1 SBAB's risk function

SBAB's risk function (Risk Department) is a unit within the credit division that is responsible for analysing and reporting on the overall risks of the SBAB Group in accordance with FI's regulations (FFFS 2005:1, Chapter 4). In particular, credit risk, the most significant risk for SBAB, is monitored and analysed. The Middle Office of the Finance business area is responsible for compiling reports and analyses of SBAB's financial risks (market, funding and liquidity risk) and submitting these reports and analyses to the Risk Department.

The Chief Risk Officer is appointed by the CEO and has overall responsibility for developing and ensuring that SBAB's strategies comply with the original intentions and that policies and processes support relevant follow-ups.

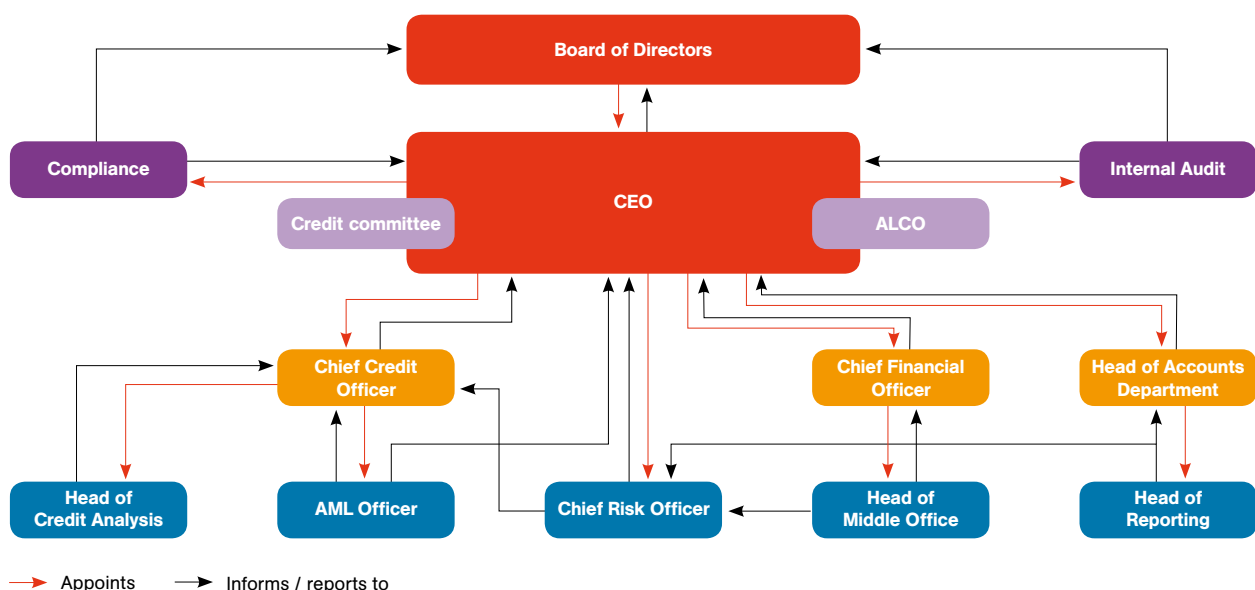
Credit risk in individual transactions is first monitored by the business area, then by the credit division. Credit risk is then monitored through portfolio management by the Risk Department, which is also responsible for analysing credit risk. The practical management of risks is dealt with by each business area.

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

A monthly report on the overall risk scenario is delivered by the Risk Department to senior executives, the CEO and SBAB's Board, together with the controller unit's assessment of the risk-adjusted return trend. Continuous reports on current capital adequacy are submitted to the CEO, the Board and senior executives at SBAB. In addition, the Board and CEO are provided with a detailed quarterly analysis of risks.

The Asset and Liability Management Committee (ALCO) handles matters relating to risk and capital planning, which are then addressed by executive management. A quarterly risk report is presented to the company's ALCO, as is a report on a biannually stress test of a downturn scenario and a normal scenario with an in-depth consequence analysis. The Chief Financial Officer is the chairman of the ALCO. Other committee members are the managers of each business area, the Chief Credit Officer and the Chief Risk Officer.

Figure 3. Risk reporting in the SBAB Group



3.2 Compliance

SBAB has a centrally located Compliance Officer in accordance with FI's regulations (FFFS 2005:1, Chapter 5). The Compliance Officer's task, on a comprehensive level, is to monitor that operations are managed in accordance with the laws and regulations applicable for financial businesses subject to licences. The Compliance Officer is also responsible for leading and organising the structure required to ensure that the controlling functions in SBAB implement monitoring in their areas of instruction in accordance with a shared model. In addition to continuous reporting to SBAB's Chief Legal Counsel, reporting occurs biannually to the CEO and Board. The annual plan for the compliance function is established by the CEO and the Chief Legal Counsel.

3.3 Internal Audit

The Internal Audit unit in SBAB is an internal independent inspection function in accordance with FI's regulations (FFFS 2005:1, Chapter 6). The Internal Audit is organisationally subordinate to the CEO, but it also reports directly to the Board and to the company's Audit Committee, whose responsibilities include reviewing the company's governance, external reporting and internal control.

The principal task of the Internal Audit is to review and evaluate the internal control of the companies in SBAB. Auditing occurs in accordance with an audit plan that is prepared annually by the Audit Committee and decided on by the Board. The Internal Audit also periodically reviews the internal ratings-based (IRB) system for credit risk and its use, as well as risk management pertaining to operational risk.

3.4 Central function to combat money laundering and financing of terrorism (AML function)

SBAB has a centrally located AML Officer who heads the company's anti-money laundering (AML) function and internal efforts to combat money laundering and financing of terrorism in accordance with FI's regulations (FFFS 2009:1). The AML Officer is organisationally subordinate to the Chief Credit Officer, but also reports directly to the CEO with regard to functional matters pertaining to money laundering. The annual plan for the AML function is established by the CEO, and the AML Officer reports to the CEO on a semi-annual basis.

The work of the AML Officer includes designing internal regulations and monitoring and controlling compliance, risk analyses, individual transactions and customer relations. The AML Officer is supported by local AML managers who, together with a number of specialists, form an AML advisory group. With local support in each business area, the AML Officer is able to quickly distribute information and identify any relevant concerns and risk patterns at an early stage. The AML Officer is responsible for reporting to the National Swedish Police Board and for the procedures and systems necessary for such reporting. The local managers in each business area are responsible for the daily and monthly monitoring of transaction patterns and, where necessary, for supporting customer account managers in their initial assessment of transactions or customer relations.

4. Internal model for calculating risk capital

In accordance with Pillar 2 of the Basel regulations, the aim of SBAB's internal capital evaluation is to ensure that SBAB has sufficient capital to deal with any financial problems that arise. The Board and executive management are responsible for the internal capital evaluation. In relation to strategic decisions, business planning and changes in the operating environment, SBAB conducts an assessment of how the capital requirement has changed based on risk. SBAB uses an economic capital model as the basis for its assessment of the company's capital requirement within the framework of the internal capital evaluation process.

4.1 Capital requirement

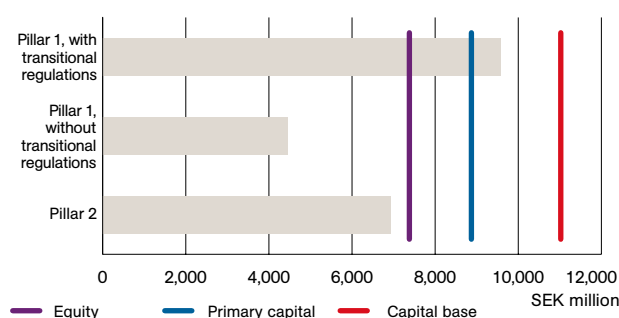
The size of SBAB's capital depends on laws and regulations (Pillar 1 of the Basel regulations), the company's internal assessment based on decided strategies (Pillar 2 of the Basel regulations), the assessments of investors and rating agencies and the evaluations of shareholders and executive management. This means that banks and credit agencies apply several different capital standards.

- *Capital in accordance with Pillar 1* refers to the minimum amount of capital that SBAB is to have in accordance with the Capital Adequacy and Large Exposures Act (2006:1371) and FI's Code of Statutes FFFS 2007:1. Based on these regulations, SBAB was granted a licence to use its own models based on its own data. These provisions also include transitional regulations that apply through 2011.
- *Capital in accordance with Pillar 2* refers to economic capital which, in combination with capital based on stress tests and capital for further risk, comprises SBAB's assessment of the appropriate size of risk capital. In accordance with Pillar 2, the capital requirement may not be less than the capital standard per risk type in accordance with Pillar 1. The objective is for this measurement to comprise the company's minimum capital requirement when the Pillar 1 transitional

regulations cease to apply. Economic capital is also based on SBAB's own relatively advanced models in which quantifiable risks are summarised as a single entity. This is also an important component in the company's pricing and financial control.

- *Assessments of investors and rating agencies* regarding the company's capital requirements compared with the capital held by the company represent a significant aspect of the assessment of SBAB's financial strength. The views of rating agencies are reflected in SBAB's rating, which directly impacts the company's borrowing costs.

Figure 4. **Capital requirement in accordance with Pillar 1, with and without the transitional regulations, and in accordance with Pillar 2 on 31 December 2009**



4.2 Internal capital evaluation, Pillar 2 of the Basel regulations

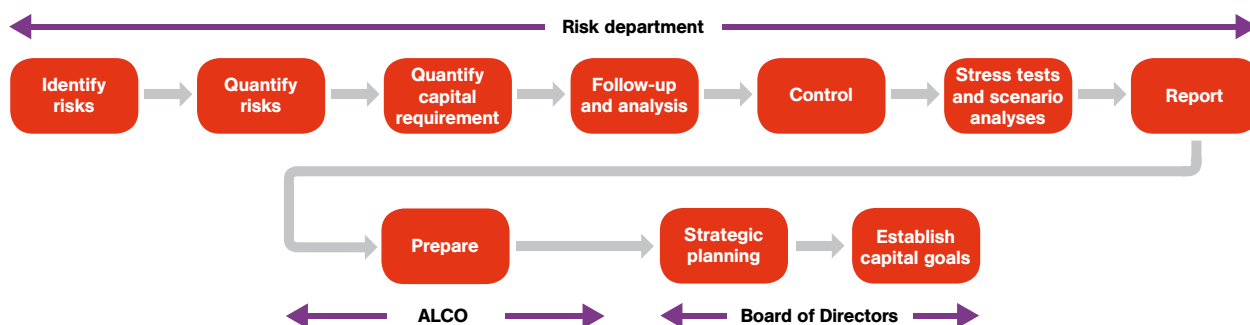
The business conducted by SBAB affects the extent of the risk taken by the company, which in turn impacts the size of the capital required. The size of the capital in turn affects the price of individual transactions for customers. The better the risk can be assessed by the company, the better the assessment of the size of the capital requirement that is utilised in the individual transaction. In addition, the risk-adjusted return can also be assessed.

The quality and utilisation of risk information are essential to SBAB's long-term competitiveness in the market. The purpose of the internal capital evaluation process is to ensure that the company identifies, measures, secures and manages the risks to which SBAB is exposed and that SBAB has risk capital that is compatible with the selected risk appetite. The process is revised annually to capture changes in the operating environment that continuously affect the company's performance.

4.3 Process for calculating capital requirement

SBAB's process for establishing internally calculated capital requirements is shown in the diagram in Figure 5.

Figure 5. **SBAB's process for calculating capital requirement**



First, the risks generated in the operations are identified. The risks are then measured in various models depending on the type of risk to be measured.

The next step is to calculate the size of the capital required to counter the combined risk in the company's operations. SBAB's evaluation is based primarily on the calculation of its economic capital. A qualitative assessment is also made of the risks that are not included in the calculation of economic capital. The results of the capital assessment are analysed and controlled.

In the calculation of capital requirements in Pillar 2, two different stress tests are used to include the impacts of a worsened and a probable future state of the market. The results of the assessments of other interested parties, such as rating agencies, are also taken into account.

Based on the quantitative assessment and stress tests, economic capital is supplemented with an extra buffer capital which, together with economic capital, corresponds to the company's calculated risk capital.

Finally, the material is evaluated and then reported to ALCO, which prepares the matter to be presented to executive management and the Board for the establishment of capital requirements, taking into consideration future strategic plans.

4.4 Economic capital

Economic capital comprises most of the capital that, according to SBAB's assessment, is required to cover unexpected losses during the coming year. Expected losses shall be covered by earnings from operating activities. The economic capital evaluation takes into account credit risk, market risk, operational risk and business risk. As shown in Table 1, credit risk is the dominant risk in SBAB's operations. The levels include diversification effects, meaning that the risk has been reduced by taking into account the probability that several risks will be realised simultaneously.

To a substantial extent, the economic capital model is based on the result of the Group's IRB models for quantification of credit risk. Operational risk and business risk are calculated using standards based on the business areas' operating income and operating expenses, while market risk is calculated using Value at Risk (VaR). In addition to comprising an assessment of the combined capital requirement to counter the risks in the company's operations, the economic capital (model) is also used to monitor profitability in the company's operations, for economic control and for strategic considerations. Economic capital corresponds to 78% of the available capital (equity).

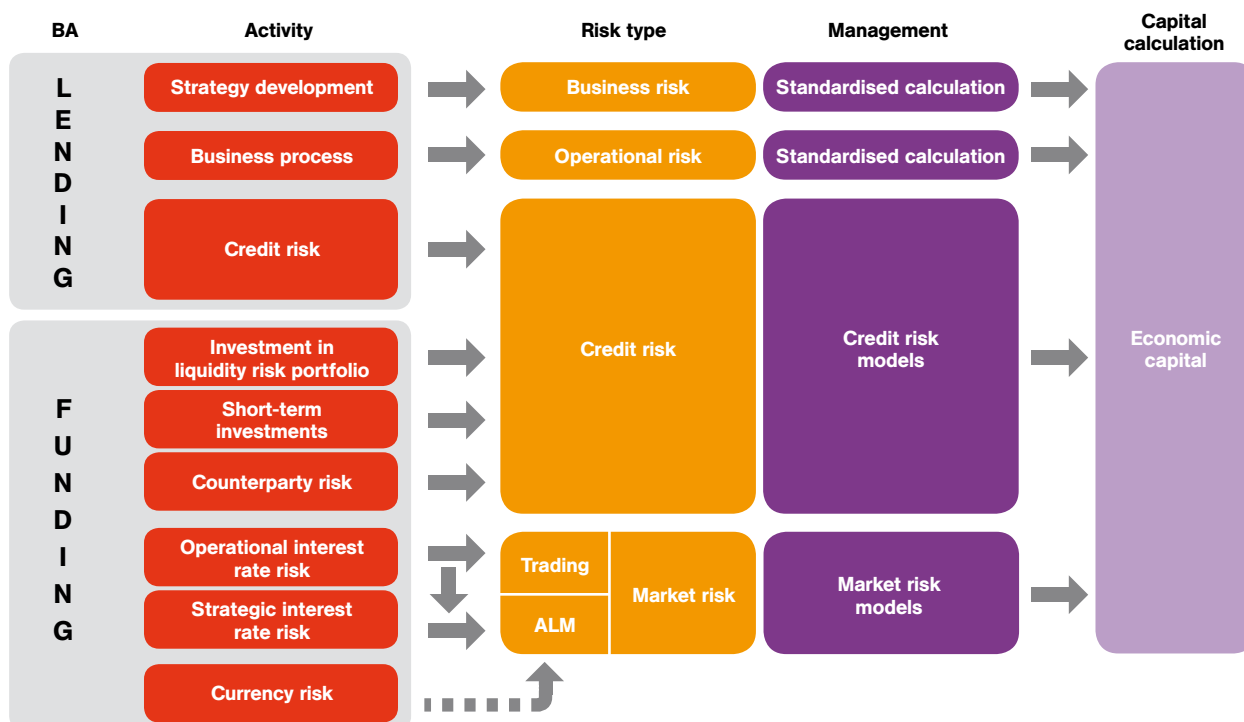
Table 1. **The SBAB Group's economic capital allocated by risk type**

SEK million	2009	2008
Economic capital	5,763	4,896
Of which,		
Credit risk	73%	71%
Market risk	20%	25%
Business risk	3%	3%
Operational risk	4%	1%

4.5 Stress tests

To ensure that the economic capital can also cover unexpected losses in economic conditions that are worse than today's, stress tests and scenario analyses are conducted on the basis of a number of selected variables. Particular weight is placed on the interest rate trend and market price changes pertaining to properties. Stress tests are based on two main scenarios: one referred to as a downturn scenario and one known as a flexible scenario, which is based on the current time period. The latter illustrates the effects of SBAB's future outlook. Although the essential purpose of the tests is to indicate the need for the supply of capital, the effects on the Group's earnings trend are also illustrated. According to SBAB's assessment, it is reasonable to set

Figure 6. **Comprehensive process for calculation of economic capital**



aside SEK 600 million as a capital buffer to counter the risk associated with unexpected events.

Implemented stress tests show that, in the event of a significant economic decline, the greatest changes take place among risk classes in the superior segments, while the poorest segments are not affected to the same extent. This is explained by the fact that more borrowers have ended up representing an increasingly lower credit risk viewed over a ten-year period, due in part to a gradual reduction in interest rates. In a recessionary scenario, a corresponding shift between the risk classes occurs but in the opposite direction, meaning towards the inferior risk classes.

4.6 Concentration risk

SBAB defines concentration risk as “if the same underlying factor realises the risk” in combination with the fact that the concentration must be regarded as risky.

In 2009, SBAB developed a model designed to manage concentration risks. Requisite capital has been allocated to counter the concentration risks that arise from the business operations.

SBAB’s operations primarily concentrate on the Swedish

property market, which gives rise to a slight concentration risk from a sector perspective and from a geographical perspective.

Large exposures, meaning borrower concentrations, are dealt with on the basis of the SBAB Group’s credit directives. The loans concerned are identified, checked and monitored to ensure that they fall within the statutory framework for large exposures.

4.7 Assessment of the Swedish Financial Supervisory Authority (FI)

FI has reviewed SBAB’s internal process for capital evaluation. On the basis of this review, FI determined that SBAB was sufficiently capitalised in relation to the risk to which it deemed SBAB to be exposed. Furthermore, SBAB was assessed to have satisfactory processes for identifying, quantifying, managing and reporting its risks, with the exception of concentration risks. The company’s capital planning was assessed as favourable and the structure pertaining to the internal capital evaluation process efforts was deemed satisfactory. To manage concentration risks, SBAB developed a new model in 2009, which will be implemented in early 2010.

5. Capital adequacy

All credit agencies have been impacted by the turbulence in the global financial markets and the progressively deteriorating macroeconomic conditions, which resulted in a reassessment of the market's capital requirements. In addition to an expectation of increased loan losses, the reason that European banks have strengthened their capital bases recently is due to a question of confidence from rating agencies and the investors that purchase the banks' securities and the need to prove to new and existing customers that the institution has a favourable capital situation. Moreover, regulatory changes are expected to stipulate requirements for higher capitalisation. The target for the primary capital ratio has been changed from between 6% and 7% to between 9% and 10% in accordance with Basel II, Pillar 1 (not taking the transitional regulations into account). After full implementation of Basel II, without taking the transitional regulations into account, SBAB's capital adequacy according to Pillar 1 is 19.7% (16.8) and the primary capital ratio is 15.9% (13.5).

5.1 Capital base

The company's capital adequacy is governed by the Capital Adequacy and Large Exposures Act (2006:1371) and FI's Code of Statutes FFFS 2007:1. These regulations include the following provisions regarding the calculation of the capital base.

SCBC is consolidated in the Parent Company at 100% and FriSpar at 51% by means of proportional consolidation. However, when calculating FriSpar's capital ratio, the proportional method is not used. Instead, the company is consolidated in its entirety and a minority holding is reported. This is due to differences in the definition of Group affiliation in the Capital Adequacy and Large Exposures Act and FFFS 2007:1, which govern how capital adequacy should be reported, and the International Financial Reporting Standards (IFRS), which regulate the company's accounting.

When calculating primary capital, subordinated loans can be included if certain prerequisites are met in accordance with Chapter 7, Section 15 of FFFS 2007:1 and consent has been obtained from FI. SBAB has been granted such consent and has classified SEK 994 million as primary capital (see Table 3).

In accordance with Chapter 7, Section 13 of FFFS 2007:1, changes in the value of equity that are attributable to derivative instruments being included in cash flow hedges are excluded and thus do not affect the size of capital. An adjustment of SEK 136 million was made at 31 December 2009. In accordance with Chapter 7, Section 9 of FFFS 2007:1, unrealised accumulated changes in the value of loan receivables and accounts receivable that have been classified as available-for-sale financial assets may not affect the size of the capital base except in relation to changes in value that are recognised as impairment losses or reversals of impairment losses in profit and loss. An adjustment of SEK 4 million was made at 31 December 2009.

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

There are no ongoing or anticipated material obstacles or legal barriers to a rapid transfer of funds from the capital base other than those that ensue from the terms for the subordinated debentures (see Note 29 in the SBAB Group's 2009 Annual Report) or what generally arises from the Companies Act. (2005:551).

The starting capital required for the Parent Company in accordance with 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.

5.2 Capital requirement

When calculating the capital requirement, each exposure is allocated to an exposure class, either using the standardised method or the IRB method. (Chapter 6. Credit risk addresses SBAB's allocation of exposure classes and methods for calculating credit risk.) Table 3 shows the individual exposure amounts distributed according to exposure class.

Taking into account the transitional regulations, the SBAB Group's capital ratio at 31 December 2009 was 1.15 (1.17), capital adequacy was 9.2% (9.4) and the primary capital ratio 7.4% (7.6). After full implementation of Basel II,

without taking the transitional regulations into account, capital adequacy was 19.7% (16.8) and the primary capital ratio was 15.9% (13.5). Earnings for the year are included in the calculation of the capital base and primary capital. The figures do not include the dividend paid to shareholders, which was in line with the Board of Directors' proposal for the appropriation of profits.

Table 2. **Capital base**

Group SEK million	2009	2008
Primary capital		
Equity	7,517	6,637
Primary capital contribution	994	994
Minority interest	492	500
Total primary capital gross	9,003	8,131
Less other intangible assets	(39)	(48)
Less deferred tax assets	–	(24)
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	(116)	(411)
Total primary capital net	8,848	7,648
Supplementary capital		
Perpetual subordinated debentures	–	–
Time-limited subordinated debentures	2,260	2,260
Deductions in accordance with Chapter 3, Section 8 of the Capital Adequacy Act	(115)	(410)
Total supplementary capital	2,145	1,850
Expanded part of capital base	–	–
Deduction from entire capital base	–	–
Amount for capital base net after deductible items and limit value	10,993	9,498

Table 3. **Capital requirements and risk-weighted assets**

Group SEK million	2009		2008	
	Capital-requirements	RWA	Capital-requirements	RWA
Credit risk reported in accordance with IRB method				
- Corporate exposures	2,014	25,171	1,577	19,709
- Retail exposures	889	11,115	672	8,401
Total in accordance with IRB method	2,903	36,286	2,249	28,110
Credit risk reported in accordance with standardised method				
- Exposures to governments and central banks	0	0	0	0
- Exposures to municipalities and comparable associations	0	0	0	0
- Institutional exposures	188	2,345	978	12,233
- Corporate exposures	1,044	13,051	980	12,251
- Retail exposures	23	287	14	173
- Unregulated items	1	12	1	5
- Other items	5	70	4	50
Total in accordance with standardised method	1,261	15,765	1,977	24,712
Risks in the commercial portfolio	158	1,975	149	1,861
Operational risk	140	1,750	143	1,786
Currency risk	–	–	–	–
Raw material risk	–	–	–	–
Total minimum capital requirement	4,462	55,776	4,518	56,469
Addition during transitional period	5,120	64,000	3,577	44,713
Total capital requirement and RWA including transitional regulations	9,582	119,776	8,095	101,182

Table 4. **Capital adequacy**

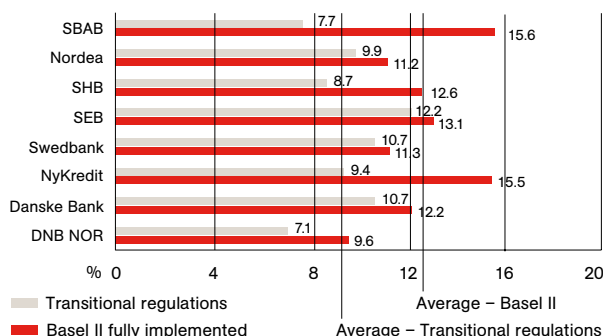
	SBAB Group		Parent Company		FriSpar Bolån		SCBC	
SEK million	2009	2008	2009	2008	2009	2008	2009	2008
Primary capital	8,848	7,648	8,647	7,287	992	993	8,993	7,371
Total capital	10,993	9,498	10,855	9,481	992	993	8,993	7,371
With the transitional regulations								
Risk-weighted assets	119,776	101,182	35,311	26,840	3,790	1,024	80,760	73,535
Primary capital ratio	7.4%	7.6%	24.5%	27.2%	26.2%	96.9%	11.1%	10.0%
Capital adequacy	9.2%	9.4%	30.7%	35.3%	26.2%	96.9%	11.1%	10.0%
Capital ratio	1.15	1.17	3.84	4.42	3.27	12.12	1.39	1.25
Without transitional regulations								
Risk-weighted assets	55,780	56,474	29,147	23,666	791	504	27,172	33,783
Primary capital ratio	15.9%	13.5%	29.7%	30.8%	125.4%	197.1%	33.1%	21.8%
Capital adequacy	19.7%	16.8%	37.2%	40.1%	125.4%	197.1%	33.1%	21.8%
Capital ratio	2.46	2.10	4.66	5.01	15.68	24.63	4.14	2.73

5.3 Extension of transitional regulations

As a result of the regulations implemented in 2007 for capital adequacy and large exposures, the low risk in the company's operations is reflected in the minimum capital requirement. However, during a transitional period of three years, the effect will be limited due to transitional provisions. These entail that the minimum capital for 2009 must not be less than 80% of the capital requirement calculated in accordance with the Basel I regulations. Due to the uncertainty regarding capital requirements in the global banking industry, changes to the regulations are now being discussed. FI has announced that the transitional regulations will be extended for at least two years. SBAB is among the credit agencies impacted most appreciably by the extension of the transitional provisions and postponement of the implementation of Basel II. As shown in Figure 7, the difference between the regulations is not as significant for many Nordic banks. However, since SBAB's loans are largely granted to households and the underlying collateral composition comprises highly favourable collateral, the institution will be severely impacted by the delay.

A significant difference in the calculation of capital requirements with and without the transitional regulations pertains to the handling of tenant-owner rights. In accordance with the transitional regulations, lending for tenant-owner rights is not deducted from the capital requirement. This means that lending against collateral in units in tenant-owner associations is considered equal to lending without collateral, while lending against mortgage deeds is weighted at 50%. If the actual risk is calculated based on earlier defaults, the credit risk in lending for tenant-owner rights is lower than for corresponding lending against collateral in, for example, mortgage deeds for properties owned by companies. Considering lending against collateral in tenant-owner rights to be equal to lending without collateral is questionable, even during a brief transitional period, due to the major difference between the regulations. An extension of the regulations entails that the imbalance between the capital requirement for asset types with similar risk profiles is maintained.

Figure 7. **SBAB's primary capital ratio in accordance with Basel II, Pillar 1 compared with other Nordic banks as of 30 June 2009**



6. Credit risk

SBAB conducts customer-oriented credit operations in which guiding principles such as professionalism, simplicity and quality create the conditions for favourable profitability and long-term customer relations. This means that the credit operations are to be characterised by high credit quality, efficient decision-making processes, respect for and understanding of the customer's situation, straightforward conduct, language and procedures, balanced risk-taking in the portfolio and in each individual transaction, and risk-based pricing.

6.1 Risk classification system

For each individual exposure to corporate or retail customers with tenant-owner rights or residential property as collateral, as is the case for 92% of SBAB's total lending, the credit risk is assessed in the Group's credit risk models. For other types of exposures, the standardised method is used for measurement of credit risk. For cases in which external ratings are used, the lowest rating from either Moody's or Standard & Poor's is selected. In credit risk models, an assessment is made of the probability of default ¹⁾, loss given default and the proportion of the loan promises utilised in the event of default. On the basis of these parameters, together with EAD, customers can be ranked according to credit risk and the expected and unexpected loss can be estimated. After assessment, the exposure is referred to one of eight risk classes for corporate and retail loans, of which the eighth class comprises customers in default. Customers in high risk classes are monitored thoroughly and, when necessary, the exposure is managed actively by credit monitoring personnel in the credit division.

The expected loss (EL) is calculated using the formula $EL = PD \cdot LGD \cdot EAD$. To calculate EAD for off-balance sheet exposures, the unutilised amount is multiplied by a credit conversion factor (CCF).

- EL (expected loss) refers to the expected loss according to the models

¹⁾ An exposure is considered to be in default if the claim is more than 60 days past due or if the assessment has been made that the customer will probably not pay the agreed interest or amortisation.

- PD (probability of default) is the probability of default for a customer
- LGD (loss given default) states the extent of the loss in the event of default
- EAD (exposure at default) measures the expected exposure in the event of default
- CCF (credit conversion factor) comprises the portion of an off-balance sheet commitment that is utilised at the time of a potential future default

The IRB models are used throughout SBAB's operations for tasks such as granting of credit, pricing, portfolio analysis and performance monitoring. The models produced are validated annually by the Risk Department, and all deviations from the quantitatively calculated risk class are analysed. For corporate credit, the preceding year's validation showed, inter alia, an increased concentration of customers in the best risk classes, which indicates that the risk differentiation is not optimal. Accordingly, an adjusted model was developed in 2009.

A system-oriented qualitative assessment on the basis of the rules and regulations for loans complements the quantitative assessment process for the customers' risk classes in the corporate market for customer segments for which current financial accounts are available (see Figure 8). This ensures greater uniformity in the assessment and facilitates handling of supporting documentation. For other customer segments in the corporate market, credit analysts add their assessment of risk class and an explanatory statement to the supporting material for assessment of risk class in the decision-processing system.

6.2 Risk classification method

For the purpose of capital adequacy and risk classification, exposures are categorised in exposure classes.

The IRB method is applied for corporate exposures and retail exposures with residential property as collateral. For central government, institutional, corporate and other exposures that do not pertain to residential properties or for which collateral other than a mortgage deed or tenant-owner right has been received, the standardised method is applied. The portion of the loan for which a municipality or guarantee from the Swedish National Housing Credit Guarantee Board (BKN) has provided collateral is attributed to central government exposure. The distribution of exposure classes and capital requirement is shown in Chapter 5.2. Capital requirements.

- Retail exposures refer to loans to private individuals for funding of single-family dwellings, holiday homes and tenant-owner rights to the extent that the loan does not relate to letting activity.
- Corporate exposures refer to loans to legal entities and private individuals for multi-family dwellings or loans for letting of housing.

With regard to exposures that are assessed using the IRB method, SBAB has opted to use a scoring method for risk classification of counterparties in the PD dimension. The statistical method used to estimate the probability of default is logistic regression. This statistical method was chosen on the basis of the factor that is to be analysed, meaning default, and on the basis of the existing available data. In its choice of method, SBAB also considered the method's ability to generate reliable predictions so that future default can be anticipated.

The available data on which the scoring models are based was obtained from both internal and external sources. Internal data consists of customer information, loan information, default outcomes and internal payment records. Data obtained externally includes financial accounts, external payment records, property data, and municipal and parish data. PD estimates for corporate exposures are based on data originating in December

1996, and PD estimates for retail exposures are based on data originating in September 2001. The distinction drawn between retail exposures and corporate exposures is shown in Table 5.

For off-balance sheet retail exposures, SBAB has developed its own estimates of the credit conversion factor (CCF). Two different methods were used to calculate CCF, depending on where each individual loan was located in the SBAB credit-granting process. For a large proportion of the off-balance sheet retail exposures, a scoring method was used to estimate the probability that the exposure would end up on SBAB's balance sheet. For the exposures not covered by the scoring method, SBAB estimated this probability based on the location of the individual loan in the credit-granting process and on whether or not the counterparty was an existing SBAB customer. The estimated probability was used to allocate each exposure into one of eight CCF risk classes. The CCF estimate for each risk class is then calculated as the realised average proportion of total off-balance sheet exposures that leads to a commitment by SBAB. To avoid underestimation, safety margins were added.

In terms of borrowing, the SBAB Group has a limited number of counterparties, and these are mainly institutions. All counterparties are to be approved and limited in a specific order before transactions may be carried out.

Figure 8. **SBAB's internal rating process for corporate clients**

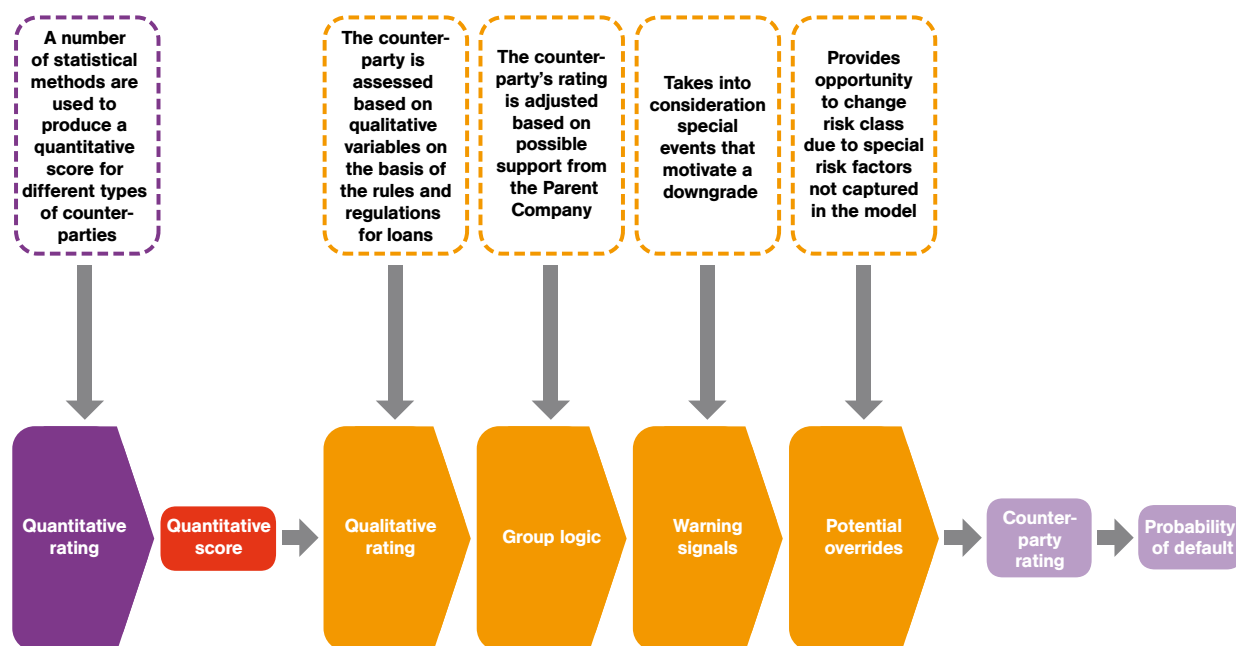


Table 5. **Loan portfolios and exposure classes for which the IRB method is applied**

Portfolio	Property	Exposure class	PD model
Retail	Single-family dwellings and holiday homes, tenant-owner rights	Retail exposures	Retail
Corporate	Private properties, tenant-owner associations	Corporate exposures	Corporate

6.3 Swedish Financial Supervisory Authority (FI)

FI's decision in March 2007 allows SBAB to use the 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 Government, the Riksbank and Swedish municipalities in accordance with the standardised method for credit risk,
- ➔ a time-limited licence to apply the standardised method for credit risk for portfolios of insignificant size, and
- ➔ the right to apply the standardised method to all central government and institutional exposures.

7. Credit risk in the loan portfolio

Credit risk is the single largest risk in SBAB and accounts for 93% of the total risk-weighted assets. Credit risk is defined as the risk of loss due to the customer or counterparty's inability to make interest payments and amortisation or otherwise fulfil the loan agreement.

Credit risk arises in conjunction with loans and loan promises, and also in connection with impairment of the value of pledged assets entailing that these no longer cover the Group's receivables.

Credit risk in the lending operations is restricted by limits determined for the customer or customer group. The credit risk is also managed in the credit granting process by analysing the potential borrowers' ability to make their interest payments. For example, new retail loans are granted only to borrowers who are expected to be able to pay interest and amortisation in an interest rate situation that comfortably exceeds the prevailing rate. Furthermore, risk classification based on IRB methods is used in the analysis of the credit risk for 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-owner right. Adequate collateral usually means mortgage deeds in a property or a tenant-owner right up to 75%-85% of the market value. The 85% ratio applies provided that collateral can be obtained with priority right and that the customer has risk class R1-R4 for retail customers and C1-C4 for corporate customers. In other cases, a loan-to-value ratio of 75% applies. If collateral was complemented with credit insurance, it was possible in 2008 to provide loans to private customers at up to 95% of market value. This remained possible as of 2009, but the credit insurance requirement has been replaced by a requirement for "Låneskydd Trygg"²⁾ and the loan amount exceeding 85% of market value must be amortised over a maximum of 10 years (previously 15 years). In addition to 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 in a Swedish bank.

²⁾ Unemployment and sickness insurance with no life insurance component.

To a limited extent, equities corresponding to up to 85% of the market value in the underlying property can be approved as collateral. SBAB does not hold any collateral that has been taken over to protect a receivable.

The information in this chapter dates from 31 December 2009, but differs in the following respects from the information presented in the 2009 Annual Report:

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

7.1 Total amount of all exposures

SBAB uses the IRB method for corporate and retail exposures with collateral in a residential property or a tenant-owner right. Without taking credit risk protection into account, the total amount for all credit risk exposures was SEK 320,197 million at 31 December 2009 (see Table 6). Corporate exposures comprised only 31% of total exposures for which the IRB method is used, but due to the higher average risk weight, the exposures account for 69% of the total capital adequacy requirement when the IRB method is applied.

The average exposure amount, calculated on the basis of the exposure amount in the loan portfolios at the end of each month in the past year, amounted to SEK 207,883 million, of which 59% comprised retail exposures. Loan promises and other credit-related commitments totalled SEK 53,376 million (including 100% of FriSpar's loan portfolio) which, after the credit conversion factor was taken into account, amounted to SEK 9,537 million.

LGD indicates how large the loss will be in the event of default. The exposure-weighted LGD for single-family dwellings and holiday homes was 8.55% and exposure-weighted LGD for tenant-owner rights 12.72%. Average PD per counterparty for both groups was virtually unchanged compared with the preceding year, while exposure-weighted LGD declined 0.8% for single-family dwellings and holiday homes and 2.2% for tenant-owner rights. The average exposure-weighted LGD for all groups reported in accordance with the IRB method fell from 18.0% to 16.3% compared with the preceding year. The exposure-weighted amount for LGD is controlled by the limitation rule, which entails a lowest total level for LGD of 10% for exposures covered by the advanced IRB method assuming that collateral consists of a tenant-owner right, a mortgage in a residential property or the site leasehold of such a property.

Table 6. Exposures per exposure class

SEK million	Exposure	Of which, off-balance sheet items before CCF	Exposure after CCF ¹⁾	Of which, off-balance items after CCF	Average value of exposures in lending portfolio ²⁾	RWA	Capital require- ment	Average risk weight	Pro- vision	Expec- ted loss	Average PD per counter- party	Exo- sure- weighted LGD
Credit risk reported in accordance with IRB method												
Corporate exposures	83,714	2,936	76,458	2,936	62,767	25,171	2,014	32.9%	97	304	2.10%	31.45%
Retail exposures	190,339	50,440	145,818	6,470	122,145	11,115	889	7.6%	251	209	0.72%	10.10%
<i>Of which,</i>												
Single-family dwellings and holiday homes	111,462	21,481	91,803	2,372	85,217	5,498	440	6.0%	149	112	0.69%	8.55%
Tenant-owner rights	78,877	28,959	54,015	4,098	36,928	5,617	449	10.4%	102	97	0.78%	12.72%
Total credit risk in accordance with IRB method	274,053	53,376	222,276	9,406	184,912	36,286	2,903	16.3%	348	513		
Credit risk reported in accordance with standardised method												
Exposures to states and central banks	8,100	–	8,100	–	–	0	0	0.0%				
Exposures to municipalities and similar associations	686	–	8,501	–	8,311	0	0	0.0%				
Institutional exposures	8,294	–	8,294	–	5,957	2,345	188	28.3%				
Corporate exposures	28,470	–	28,470	1	8,331	13,051	1,044	45.8%				
Retail exposures	486	–	486	130	369	287	23	59.0%				
Unregulated items	0	–	8	–	3	12	1	150.0%				
Other items	108	–	108	–	–	70	5	64.4%				
Total credit risk in accordance with standardised method	46,144	–	53,967	131	22,971	15,765	1,261	29.2%				
Total	320,197	53,376	276,243	9,537	207,883	52,051	4,164	18.8%				

¹⁾ For exposures after inflows and outflows, adjustments have been made of amounts to be recognised and covered by capital in an exposure class other than the original one.

²⁾ Off-balance sheet exposures have been excluded.

7.2 Geographical distribution of exposure amounts

The SBAB Group's portfolio is mainly secured by housing in the Stockholm area (47%) and the Öresund region (23%). Only 4% of the underlying collateral derives from weak regions (see Table 7).

The SBAB Group's division of Sweden comprises:

- ✚ **Greater Stockholm:** Stockholm's labour market region according to Statistics Sweden (SCB) (2004).
- ✚ **Greater Gothenburg:** Gothenburg's labour market region according to SCB (2004).

- ✚ **Öresund Region:** Labour market regions in Malmö and Helsingborg according to SCB (2004).
- ✚ **University and growth regions:** Municipalities with universities and municipalities with especially buoyant growth according to analyses by SBAB ³⁾.
- ✚ **Weak regions:** Municipalities with very weak or negative growth according to analyses by SBAB ³⁾.
- ✚ **Other regions:** Municipalities that are not allocated to any other category.

³⁾ This analysis is based on SCB statistics, including short and long-term population growth, the proportion of the population that is older than 64 years of age, average income and the vacancy rate in public housing, and on the local knowledge of SBAB analysts.

Table 7. Geographical distribution of exposure amounts

	Greater Stockholm	Greater Gothenburg	Öresund region	University and growth regions	Weak regions	Other regions
IRB exposures						
Retail exposures	71,307	10,705	37,606	7,085	3,847	8,798
Corporate exposures	29,022	8,742	14,008	10,265	2,169	9,316
Standardised exposures						
Corporate exposures	5,401	334	1,262	856	684	530
Retail exposures	241	34	53	14	6	8
Municipal exposures	2,406	715	689	469	1,813	2,409
Unregulated exposures	2	3	2	1	0	1
Total	108,379	20,533	53,620	18,690	8,519	21,062

7.3 Exposure amounts distributed according to the next stipulated term of expiry ⁴⁾

A large proportion (67%) of the portfolio has less than one year left until the next stipulated term of expiry. The group with a remaining term of between one and five years accounts for 30% of the outstanding loans (see Table 8).

7.4 Exposure amounts distributed according to type of property

The largest exposure amounts derive from lending for single-family dwellings (39%), tenant-owner rights (22%) and tenant-owner associations (21%). Lending for municipal and commercial properties account for a smaller proportion (4% and 3%, respectively) of the loan portfolio (see Table 9).

Table 8. Exposure amounts distributed according to the next stipulated term of expiry

SEK million	< 1 year	1 - 5 years	> 5 years
IRB exposures			
Retail exposures	102,399	33,246	3,703
Corporate exposures	39,014	30,844	3,663
Standardised exposures			
Corporate exposures	7,114	1,925	29
Retail exposures	345	10	2
Municipal exposures	5,405	2,879	217
Unregulated exposures	5	3	0
Total	154,282	68,907	7,614

⁴⁾ 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 are to be supported by the terms of the original loan agreement.

Table 9. Exposure amounts distributed according to type of property

SEK million	Single-family dwellings and holiday homes	Tenant-owner rights	Tenant-owner associations	Private multi-family dwellings	Municipal multi-family dwellings	Commercial properties
IRB exposures						
Retail exposures	89,431	49,917	–	–	–	–
Corporate exposures	28	2	46,722	23,796	2,973	–
Standardised exposures						
Corporate exposures	0	–	333	953	5	7,778
Retail exposures	177	180	–	–	–	–
Municipal exposures	551	–	2,117	608	5,216	8
Unregulated exposures	5	0	0	3	–	–
Total	90,192	50,099	49,172	25,360	8,194	7,786

7.5 Past due exposures and exposures subject to impairment requirements

Past due exposures refer to total claims where any part is more than five days past due. SBAB has chosen not to take into account claims that are past due by five days or less so that the result of the analysis is not distorted when payments are delayed because the payment date coincided with a public holiday.

Exposures subject to impairment requirements refer

to doubtful exposures whereby individual provisions have been posted for commitments relating to corporate loans or retail loans, meaning that in SBAB's assessment, future payments are exposed to risk and the collateral does not cover the amount of the claim.

The selection of provisions comprises all corporate customers where there is objective evidence of impairment and individual private customers where special reasons for impairment exist. All exposures in risk class

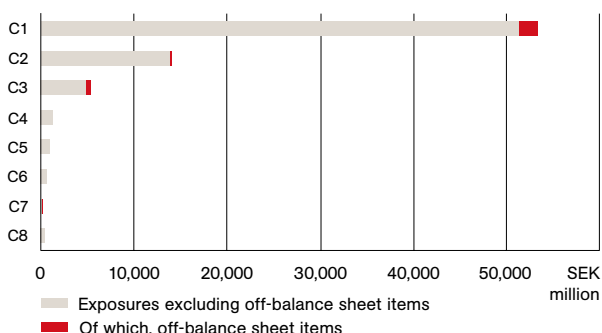
Table 10. Exposures with past due amounts and individual provisions

SEK million	Total exposure amount in the loan portfolio	Exposure amounts with past due receivables	Exposure amounts for exposures with individual provisions	Individual provisions	Total exposure amount in the loan portfolio after individual provisions
Single-family dwellings and holiday homes	90,192	414	11	8	90,184
Tenant-owner rights	50,099	198	7	7	50,092
Tenant-owner associations	49,172	17	78	53	49,119
Private multi-family dwellings	25,360	50	10	7	25,353
Municipal multi-family dwellings	8,194	–	–	–	8,194
Commercial properties	7,786	–	–	–	7,786
Total	230,803	679	106	75	230,728

Table 11. **Geographical distribution of exposures with past due amounts and individual provisions**

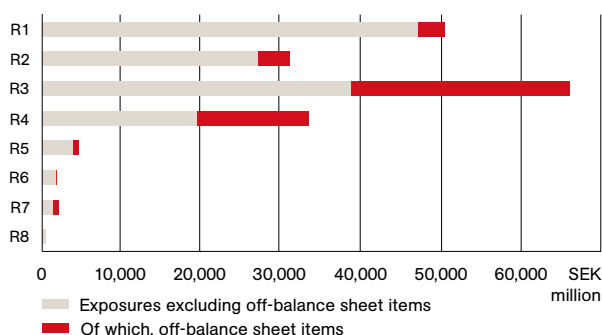
SEK million	Total exposure amount in the loan portfolio	Exposure amounts with past due receivables	Exposure amounts for exposures with individual provisions	Individual provisions	Total exposure amount in the loan portfolio after individual provisions
Greater Stockholm	108,379	258	25	14	108,366
Greater Gothenburg	20,533	68	12	12	20,521
Öresund region	53,620	194	5	4	53,616
University and growth regions	18,690	37	6	3	18,687
Weak regions	8,519	63	6	3	8,515
Other regions	21,062	59	52	39	21,023
Total	230,803	679	106	75	230,728

Figure 9. **Corporate exposures per PD risk class**



C8 are reviewed monthly and assessed for risk. The size of the individual provision is assessed by comparing the agreed payment flow from the customer with the expected future payment capacity, whereby 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 covered by the individual provision in special cases after individual assessment. The individual provision amounts to 11% of the total exposure amount for past due exposures (compare Table 10).

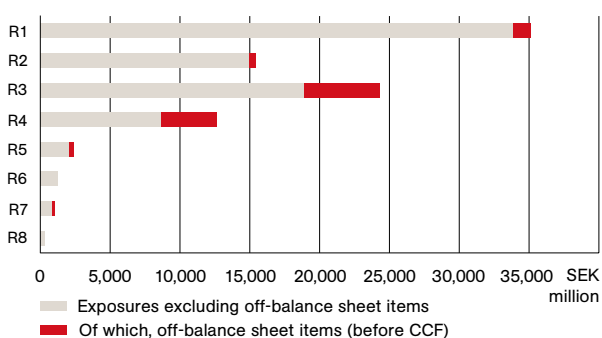
Figure 10. **Retail exposures per PD risk class**



7.6 Geographical distribution of past due exposures and exposures subject to impairment requirements

Individual provisions account for a total of 0.03% of the total exposure amount (see Table 11). Other regions account for the largest share (0.2%) of individual provisions in relation to the total exposure amount.

Figure 11. **Retail exposures against collateral in single-family dwellings and holiday homes per PD risk class**



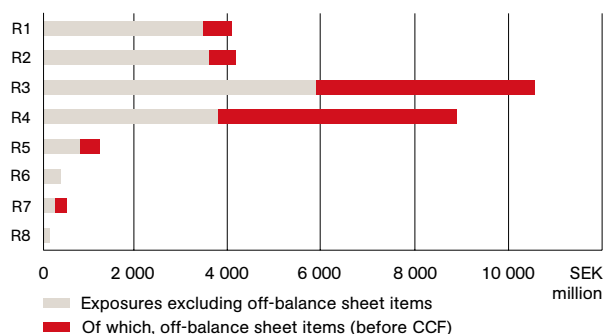
7.7 Exposures per risk class in the PD dimension

The quality of the portfolio is favourable. A total of 97% of corporate exposures and 95% of retail exposures in the balance sheet derive from the four best risk classes (C1-C4 and R1-R4, respectively). See Figures 9-12.

7.8 Realised outcome in the PD and LGD dimensions

Table 12 shows the PD estimate as of 31 December 2009 and the PD outcome in 2009. The estimated outcome for the corporate model significantly exceeds the actual outcome, which indicates that, in the prevailing economic conditions, the PD models overestimate the risk of default. The number of default outcomes estimated by the model is much closer to the number of actual outcomes for retail exposures than it is for corporate exposures.

Figure 12. **Retail exposures against collateral in tenant-owner rights per PD risk class**



The exposure-weighted amount for LGD is controlled by the above-mentioned limitation rule, which entails that the lowest total level for LGD is 10% for exposures covered by the advanced IRB method and where collateral comprises a tenant-owner right, a mortgage in a residential property or the site leasehold of such a property.

7.9 Comparison of expected loss and outcome

In a comparison of expected loss (EL) according to the IRB method (foundation and advanced) in 2008 and 2009 (see Table 13), it can be noted that EL increased for corporate loans for which the foundation method was used, while a certain decrease was noted for loans for which the advanced method was applied. For retail exposures, EL increased for both groups. A significant reason for this increase was the higher interest rates prevailing during the comparative period.

The market values of properties were updated for all exposures, which at an aggregated level contributed to a decline in LGD. Accordingly, the increase in EL was primarily attributable to the PD dimension.

Table 12. **Realised outcome in the PD and LGD dimensions**

Default outcome	PD estimate	Realised outcome ¹⁾	LGD estimate	Realised outcome ²⁾
Corporate exposures	2.1%	0.4%		
Retail exposures	0.7%	0.6%	10.1% ³⁾	1.5% ³⁾

¹⁾ An exposure is considered to be in default if the claim is more than 60 days past due or if the assessment has been made that the customer will probably not pay the agreed interest or amortisation.

²⁾ Realised outcome has been calculated on default loans where the default was concluded during the year.

³⁾ The results are exposure-weighted.

Realised outcome was substantially lower than the outcome estimated by the models, which indicates that the models overestimated the size of EL in the prevailing state of the economy. The relatively minor confirmed losses that arose during the year occurred partly in cases where borrowers failed to pay interest and amortisation and partly in cases where the market value of the collateral provided was less than the value of SBAB's receivable.

Unregulated claims older than five days declined from SEK 1,010 million to SEK 649 million compared with the preceding year. This was reflected in a decline of SEK 20 million in the individual provision. Despite this, a certain increase in EL was noted for borrowers for single-family dwellings and tenant-owner rights, which resulted in the collective provision for retail exposures rising from SEK 135 million to SEK 230 million before deductions for guarantees (see SBAB's 2009 Annual Report).

Table 13. **Comparison of expected loss between outcome and model, and provision ¹⁾**

SEK million	EL-IRB/IRB foundation 31 Dec 2008	EL-IRB/IRB foundation 31 Dec 2007	EL-IRB/IRB advanced 31 Dec 2008	EL-IRB/IRB advanced 31 Dec 2007	Realised outcome 2009	Realised outcome 2008	Individual provision 2009	Individual provision 2008
Exposure class								
Corporate exposures	267	240	141	146	9	0	59	80
Retail exposures	154	69	154	69	18	7	15	15
Of which, single-family dwellings and holiday homes	108	52	108	52	13	5	8	10
Of which, tenant-owner rights	46	17	46	17	6	2	7	5
Total	421	309	295	215	27	7	75	95

¹⁾ Expected loss (EL) has been calculated for those loan receivables existing at the end of 2007 and 2008. In Table 13, the expected loss is compared with the realised outcome of confirmed losses during the realised outcome years of 2008 and 2009, respectively.

7.10 Credit risk coverage

The guarantee from the Swedish National Housing Credit Guarantee Board (BKN) is utilised to reduce the capital requirement. The receivable of SEK 640 million covered by the credit insurance from BKN was weighted by 0% in the calculation of capital adequacy. Approximately SEK 8.5 billion of the lending was to Swedish municipalities or was secured by a municipal guarantee. When calculating capital adequacy, this lending was weighted at 0%. SBAB has also received loan loss guarantees totalling SEK 1.4 billion from business partners, although these were not utilised in the calculation of the capital ratio.

In addition, the Parent Company and SCBC previ-

ously had joint credit insurance from Genworth Financial Mortgage Insurance Limited (Genworth) that was not used in the calculation of the capital ratio. The credit insurance covers the portion of the loan amount that exceeds 85% of the value of pledged collateral. The total insured loan amount is SEK 1.4 billion. The insurance agreement was terminated as of 1 January 2009 and cannot be utilised for new loans. For existing loans, however, the insurance applies as before. Genworth has rating of A (Standard & Poor's) and Aa3 (Moody's). As of 2009, "Låneskydd Trygg" is instead required for corresponding loans, including a requirement that loan amounts exceeding 85% of the market value be amortised within not more than ten years.

8. Funding

The SBAB Group's operations are financed primarily through funding in the capital and money markets. Funding takes place in SBAB and SCBC, with funding in SCBC occurring through the issuance of covered bonds. The company's funding operations use Swedish and international funding programmes. Funding takes place in both public and private markets, and is mainly targeted toward major institutional investors. While international funding is primarily intended for European investors, the SBAB Group also attracts investors in the US, the Middle East, Africa, Japan and other areas of Asia.

8.1 Long and medium-term funding

Non-covered funding

SBAB has a regular programme for long and medium-term funding known as the Euro Medium Term Note Programme (EMTN programme), which is used for both Swedish and international funding. The EMTN programme has a limit of USD 11 billion. The programme grants investors the right to demand premature repayment of a bond in the event that the Swedish Government no longer has the right to exercise at least 51% of the voting rights for the shares in the company. This right applies on the condition that the Swedish Government has not previously guaranteed SBAB's obligations under the bonds, in which case the right to premature repayment expires. In all other cases, the terms of the EMTN programme are in line with market practice for similar programmes and entitle investors to premature repayment of the bonds if, for example, SBAB fails to pay the interest or capital amount on time, if SBAB breaks other terms of the programme (with consideration given to certain healing periods) or if SBAB enters into bankruptcy or liquidation. Under the EMTN programme, SBAB can choose between various types of interest structures, including floating and fixed rates, and issue bonds in several currencies and denominations. Under the terms of the EMTN programme, SBAB can issue both non-subordinated loans and dated or perpetual subordinated loans, which with FI's permission may qualify as primary or supplementary capital.

Covered funding

SCBC has two funding programmes for issuing covered bonds: a Swedish covered mortgage bond programme with no fixed limit and an international Euro Medium Term Covered Note Programme (EMTCN programme) with a limit of EUR 10 billion. The terms of these programmes for the issuance of covered bonds are in line with market practice for similar programmes and entail, for example, that investors are not entitled to premature repayment of the bonds. The terms also stipulate that SCBC can choose between various types of interest structures, including floating and fixed rates, and issue bonds through these two programmes in several currencies and denominations.

8.2 Guaranteed funding

In the first quarter of 2009, SBAB joined the Swedish Government's guarantee programme for medium-term funding. In conjunction with this, SBAB established a guaranteed Euro Medium Term Note Programme (guaranteed EMTN programme) under which issuances have been carried out to the Swedish and international markets, including the US. Government-guaranteed bonds in SBAB are being phased out through repurchases and maturities. The longest outstanding guaranteed bond falls due in the first quarter of 2012. The terms of the guaranteed EMTN programme grant investors the right to premature repayment of the bonds if, for example, SBAB fails to pay the interest or capital amount on time, if SBAB breaks other terms of the programme (with consideration given to certain healing periods) or if SBAB enters into bankruptcy or liquidation. SCBC joined the guarantee programme in the second quarter of 2009, but has not established a funding programme or issued any Government-guaranteed bonds.

SBAB and SCBC decided not to extend their participation in the guarantee programme after 31 October 2009, when the Government extended the right to participate through 30 April 2010. This means that neither SBAB nor SCBC can issue any further Government-guaranteed bonds.

8.3 Short-term funding

The SBAB Group manages its short-term funding primarily through three commercial paper programmes in SBAB:

- a Swedish commercial paper programme with a limit of SEK 25 billion,
- a European commercial paper programme with a limit of USD 2 billion, and
- a US commercial paper programme with a limit of USD 4 billion.

The terms of these commercial paper programmes are in line with market practice for similar programmes and include limited opportunities for an investor to demand premature repayment. Issuances are performed through issuing houses. Through these three programmes, SBAB is able to issue commercial paper in several currencies and denominations in both the Swedish and the international market. The commercial paper mainly comprises “discount paper,” which means it does not have floating or fixed coupon rates, but rather is issued in an amount that is less than the nominal amount, and when it falls due, the nominal amount is repaid.

8.4 Funding strategy

The size of the funding portfolio is adjusted based on the volume of the outstanding loans and the composition of the assets, taking into consideration such factors as liquidity risk. Funding shall be well-diversified. The long-term goal of the SBAB Group is for approximately 50% of funding to comprise securities issued in Sweden and about 50% securities issued outside Sweden. The portfolio shall have an effective distribution between covered and non-covered funding with evenly distributed maturity dates, meaning that there should be no periods with large concentrations of debt maturities. The maturities shall exceed the registered

average duration of the lending. The portfolio shall also comprise funding in several currencies with a diversified investor base. Funding shall take place through many leading banks and through public and private issuances. Interest rate risk and currency risk associated with funding are managed through the use of derivatives, primarily interest rate swaps and currency swaps.

Short-term funding under SBAB’s commercial paper programme shall be adjusted based on market conditions, but shall always constitute a relatively small share of the portfolio. SBAB’s assets shall be used efficiently through covered funding. Covered funding is primarily utilised for long durations. The financing mix between SCBC and SBAB shall be well-balanced taking into account the companies’ ratings and total long-term borrowing cost.

Both SBAB and SCBC shall have an active market presence, with favourable and frequent relationships with investors in each investor segment. SBAB’s loans are marketed to investors who invest in non-covered loans in credit institutions and SCBC’s loans to investors who invest in covered bonds. The investors’ investment decisions are governed by an understanding of SCBC’s strong structure in combination with Swedish legislation on covered bonds, the high quality of the collateral composition and SBAB’s business model and financial strength.

9. Credit risk in the finance operations

In the finance operations, credit risk arises in the form of counterparty risks for the derivative contracts entered into by SBAB to manage the company's interest rate and currency risks and as a result of investments, primarily in the form of investments in the liquidity portfolio.

In accordance with the finance directives established by the Board of Directors, the credit-risk limit is established by SBAB's Finance Committee for all counterparties, with the exception of the Government of Sweden and companies included in the SBAB Group, for which no limits are placed on exposure. The exposure amount for the counterparty risk is calculated in accordance with the "market valuation method" and "agreements on netting of derivative contracts".

The credit-risk limit may be established for a period of no longer than one year, following which a new assessment must be conducted. Decisions on the credit-risk limit that are taken by the Finance Committee must be reported to the Parent Company's Board of Directors at the following Board meeting.

The Capital Adequacy and Large Exposures Act (2006:1371) limits large individual exposures to a maximum of 25% of the capital base. Individual limits for investment and counterparty exposure (excluding money market limits) may, as a main rule, not exceed 15% of the capital base. Certain Nordic counterparties are exempted from these rules; for such counterparties, the maximum limit can amount to the equivalent of 20% of the capital base. Current ratings for individual counterparties, as issued by Moody's or Standard & Poor's, constitute an additional restriction on the establishment of individual credit risk limits. The higher the counterparty's rating class, the greater the exposure that may be permitted in relation to SBAB's capital base.

9.1 Counterparty risk

To limit the potential counterparty risk associated with derivative transactions involving non-standardised derivative instruments that are not cleared by clearing organisations approved by FI (in accordance with FFFS 2007:1), standard agreements covering "netting in bankruptcy" have been entered into with the counterparty. These agreements, known as ISDA Master Agreements, or similar

Table 14. Derivative instruments for the SBAB Group

31 Dec 2009	Total nominal amount	Positive market values	Negative market values
SEK million			
< 1 year Interest rate related	89,664	1,658	(1,065)
> 1 year Interest rate related	240,601	5,627	(4,531)
< 1 year Currency related	66,037	3,235	(728)
> 1 year Currency related	66,819	4,603	(2,006)
Total	463,121	15,123	(8,330)

Table 15. Derivative instruments distributed according to rating for the SBAB Group

31 Dec 2009	Net market value	Positive market values	Negative market values
SEK million			
A	2,624	6,388	(3,764)
A-	(31)	16	(46)
A+	2,679	4,479	(1,800)
AA-	1,391	3,925	(2,534)
AA	(26)	139	(166)
AAA	156	176	(20)
Total	6,793	15,123	(8,330)
Collateral			7,184
Netting gains			6,914

"Netting gains" refers to the total of the estimated reduction in exposure per counterparty, which arises in cases where positive market values (receivables) can be reduced against negative market values (liabilities).

agreements, have in particular cases been supplemented with associated collateral agreements, known as Credit Support Annexes (CSAs). When SCBC enters into derivative agreements, it must always draft an associated CSA. The ISDA Master Agreement entails, inter alia, that netting is regulated in the event of bankruptcy. A CSA means that the parties have agreed in advance to transfer assets if the exposure exceeds a certain "threshold amount." The threshold amount and the lowest amount to be transferred to or from the counterparty can vary depending on the parties' ratings. Tables 14 and 15 provide an overview of the distribution of the market value of individual derivative instrument transactions by various maturities and ratings, respectively.

9.2 Money market investments

SBAB has separate limits for money market investments, meaning investments that extend over a maximum of one week forward. Individual money market limits may not exceed the higher of SEK 500 million or 5.75% of the capital base.

9.3 Credit risk in the liquidity portfolio

SBAB's liquidity portfolio is a liquidity reserve which is intended to manage liquidity and funding risks. The credit risk in the liquidity portfolio is quantified in accordance with the standardised method. At 31 December 2009, the portfolio amounted to SEK 33.1 billion.

SBAB's liquidity portfolio comprises three asset classes:

- European covered bonds
- European and Australian residential mortgage-backed securities (RMBS), meaning securities covered by portfolios of residential mortgages
- Securities issued by or guaranteed by central governments

Holdings in the liquidity portfolio are long term. At 31 December 2009, the portfolio comprised securities with at least one highest rating of Aaa from Moody's, or AAA from Standard & Poor's. The expected average duration for assets in the liquidity portfolio is 3.1 years (3.9). SBAB's liquidity portfolio neither has nor had any exposure to assets that are not classed as "prime". Derivative contracts have been entered into to manage the interest rate risk and currency risk in the liquidity portfolio.

The assets are classified as "Loans and receivables" (RMBS), SEK 19.4 billion (23.1), and "Financial assets at fair value through profit and loss" (covered bonds,

government bonds and securities guaranteed by government), SEK 13.7 billion (8.4). The RMBS portfolio has been classified as "Loans and receivables", which entails that the assets shall be recognised at their accrued acquisition value. Credit risk assessment will take place on the basis of assessed future cash flows and the market value of the collateral. All exposures in the RMBS portfolio are already ranked according to loan to value (LTV) and age (date originated) in three risk classes. Due primarily to the deteriorated market value of properties in parts of Europe, two new models for continued calculation of credit risk in the RMBS portfolio were developed during the year. The first is based on factors such as arrears statistics and credit support per transaction. Using this model, all transactions in the RMBS portfolio have been analysed. The second model is based on information such as actual and expected cash flow, underlying borrower statistics and macro-variables. This model has been used for a few carefully selected transactions with an assessed elevated risk. The model assesses the magnitude of a possible deficit for each separate transaction and whether this deficit will affect the holder of AAA tranches in the form of forthcoming losses or whether any deficit will be covered by subordinated securities and the statutory reserves. Overall, the models show that the portfolio is not subject to any need for provisions.

10. Market risk

Market risk is the risk that unfavourable market fluctuations may negatively affect the company's earnings. SBAB aims to be characterised by low risk-taking, and the company's Board decides ultimately on methods for risk measurement and limits. Market risk is monitored at the Group level and, through daily reporting, the Risk Department monitors current risk levels and compliance with limits.

Interest rate risk arises primarily when the interest rate structure between the company's funding and lending, or Asset and Liability Management risk (ALM risk), is not fully matched. Currency risk refers to the risk of changes in the Swedish krona's exchange rate in relation to other currencies leading to deteriorating profitability.

10.1 Interest rate risk for positions not included in the trading portfolio

The main principle of SBAB's handling of its ALM risk is through direct funding and the use of derivatives to limit the exposure, and to create added value through active management within the limits set by the Board. The limits on interest rate risk set by the Board consist of an operational and a strategic component. The risks are measured daily and add up to SBAB's total interest rate risk exposure. The exposure is quantified by calculating the impact that a parallel shift in SBAB's yield curve upward by one percentage point would have on net present value at a given point in time. The calculation takes into account all contracted transaction flows affecting lending, the liability book and derivatives.

Operational interest rate risk arises in the SBAB Group's current lending and funding activities, including the deposit operations. SBAB's operational interest rate risk is calculated for each currency and then aggregated. The operational interest rate risk, which includes exposures in the ALM and trading operations, is limited to 1% of SBAB's capital base.

The strategic interest rate risk is the reinvestment risk that arises when SBAB's equity and "flow" are invested.

Figure 13. Interest rate risk in the event of a parallel shift of the yield curve upward by one percentage point

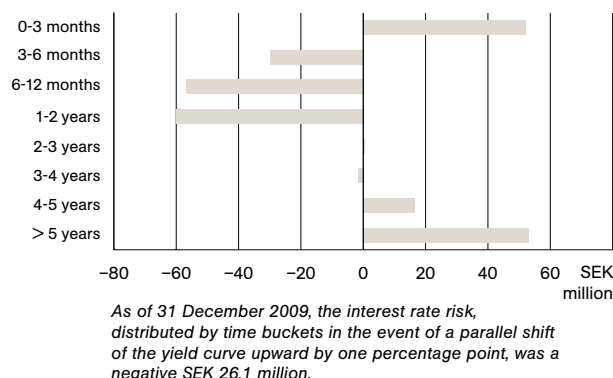


Figure 14. Interest rate risk for assets, liabilities and off-balance sheet instruments in the event of a parallel shift of the yield curve upward by one percentage point

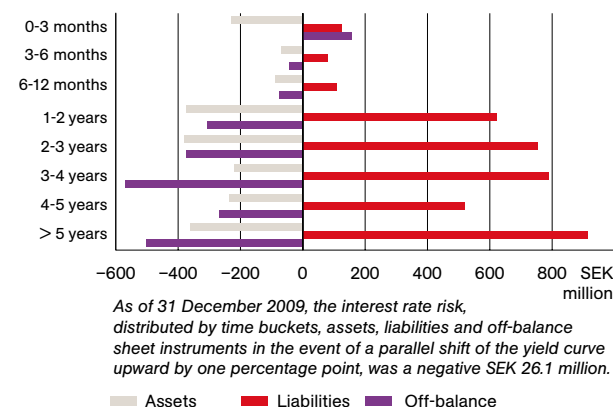
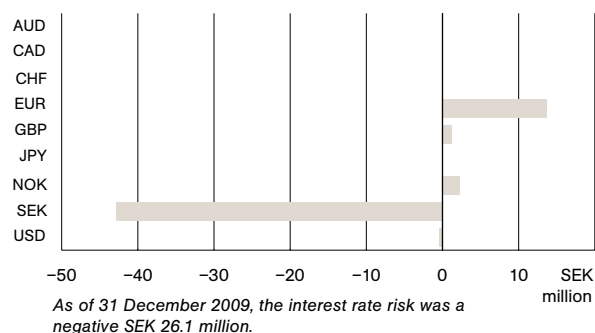


Figure 15. Interest rate risk distributed according to currencies in the event of a parallel shift of the yield curve upward by one percentage point



The flow arises because interest payments for lending and funding have different payment frequencies. SBAB's equity is to be used primarily to fund lending operations. The benchmark for the investment of equity is defined as a series of durations with even fixed-interest maturities every year from one to 10 years. The flow is invested on the basis of the flow's aggregated duration. The interest rate risk associated with equity is the interest rate risk on the deviation from the benchmark. The strategic interest rate risk is limited to +/- SEK 20 million.

The interest rate risk is quantified continuously through sensitivity analysis of the portfolio's change in value in the event of a parallel shift of the yield curve upward by one percentage point and through VaR. The VaR model used is a parametric model with risk measures based on an assumption of normally distributed standard deviations, calculated by variance/covariance matrices for the risk factors included. A unilateral 99.97% confidence interval and a risk settlement period of one year are applied. The change in the value of the portfolio resulting from a parallel shift in the yield curve is used for setting and following up limits, while the VaR result is included in the model for economic capital. The calculation takes into account all contracted transaction flows affecting lending, the liability book and derivatives.

At 31 December 2009, the interest rate risk for positions not included in the trading portfolio amounted to negative SEK 26.1 million. See Figures 13-15.

10.2 Interest rate risk for positions included in the trading portfolio

The trading portfolio predominantly comprises investments in SBAB's liquidity portfolio. The liquidity portfolio is subject to a minimised interest rate risk. The risk in the liquidity portfolio primarily derives from credit risk.

At SBAB, the interest rate, currency, credit and liquidity risk arising from the trading portfolio are managed as an integrated part of the balance sheet, together with other operations, and the risks are limited in accordance with the finance instruction. Interest rate risk in the trading portfolio is included as part of the limit for operational interest rate risks that have been delegated to the Finance Department. Credit risks in the form of issuer and counterparty risk in the trading portfolio are governed by credit risk limits.

10.3 Currency risk

As a main rule, SBAB shall not be exposed to exchange rate fluctuations. Accordingly, funding in international currency shall be immediately hedged or invested in matching currencies. Investments are currency hedged through funding in the corresponding currency or by entering into currency swap contracts. Since certain currency risks can arise because interest rate flows are not completely matched, a limited deviation from the main rule may be accepted. The currency risk, excluding the liquidity portfolio, is calculated as the effect on the present value of all contracted liquid flows given a change in the exchange rate of +/- ten percentage points per corresponding exchange rate. Currency exposure at 31 December 2009 was SEK 7.7 million (6.5). Total currency exposure may not exceed the equivalent of SEK 10 million.

The liquidity portfolio is also hedged through funding in the corresponding currency or through currency swap contracts. Calculated per currency, the portfolio shall be hedged to between 99.5% and 100.5%.

Currency options may only be used for the purpose of hedging, and no open exposures are permitted.

11. Liquidity risk

Liquidity risk is defined as the risk that SBAB will not be able to meet its payment obligations in connection with due dates without the related cost increasing significantly.

SBAB has long understood the importance of advanced liquidity risk management. The company's liquidity risk management is based on the following principles:

Broad and diversified funding

Because SBAB has maintained an active presence in the international capital market since 1989, its brand is well-established. Funding takes place on a global basis on short-term, mid-term and long-term. Moreover, the SBAB Group has access to the covered bond market through SCBC.

Conservative matching of assets and liabilities

SBAB applies strict regulations as to how assets and liabilities are to be matched. As a rule, capital maturity for funding the lending shall be at least as long as that for the lending itself.

Liquidity reserves

At 31 December 2009, SBAB had the following reserves of immediately available liquidity:

- SEK 3.0 billion loan facility at the Swedish National Debt Office (which is reduced by SEK 1 billion at the beginning of each year and expires on 31 December 2011),

- SEK 1.6 billion in bank facilities, and
- SEK 28.0 billion in liquid securities.

When calculating the value of the securities included in the reserves, SBAB applies the valuation deductions issued by the Riksbank, in accordance with the Riksbank's Guidelines for Collateral Management in the Riksbank's regulatory framework for RIX and monetary policy instruments.

In addition to the above reserves, unutilised issuing capacity for covered bonds constitutes a highly liquid reserve.

A liquid balance sheet

SBAB's assets consist primarily of lending against collateral in property and units in tenant-owner associations. SCBC was established in 2006 with the purpose of issuing covered bonds, which has also resulted in increased liquidity in SBAB's balance sheet.

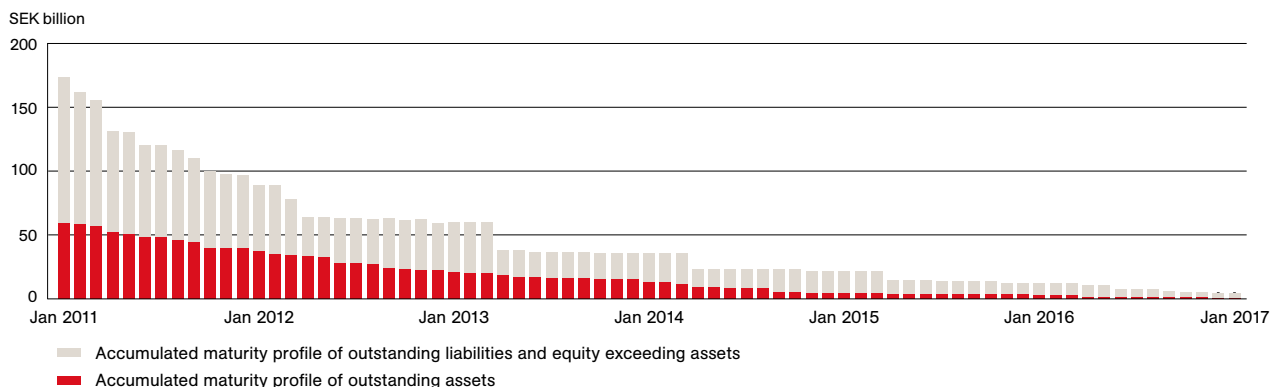
Continuous monitoring of the liquidity risk

The size of SBAB's liquidity reserves and the liquidity of the balance sheet are key factors in SBAB's management of liquidity risk. By coordinating funding with liquidity risk management, concentrations of large funding maturities are avoided.

11.1. Liquidity risk measurements

SBAB measures and stress-tests liquidity risk by aggregating the maximum conceivable need for liquidity for every day during the coming 365 days. This measure of liquidity risk is referred to as Maximum Cumulative Outflow

Figure 16. **Future surplus liquidity, one year and onward, Group**



Assets and liabilities plus equity from one year and onward, as at 31 December 2009. The graph shows that SBAB has longer liabilities and equity than assets.

(MCO) and is limited. The MCO calculations are based on a crisis scenario in which all loans are extended on maturity, meaning that no liquidity is added through loan redemption and that no funding is available. In this way, the maximum need for liquidity can be identified for every given future period, and the necessary liquidity reserve is established on the basis of these calculations.

Furthermore, unutilised issuing capacity for covered bonds is an additional reserve that is not included in the calculation of MCO.

The principal liquidity risk measures for SBAB are:

- how long the company can cope without raising new loans, and
- how long the company can cope if it can only issue covered debt ¹⁾.

¹⁾ The latter measurement is limited by the amount of collateral qualified for covered bonds in SBAB's balance sheet.

11.2 Liquidity situation in 2009

During 2009, liquidity in monetary and capital markets improved steadily.

Liquidity risk continues to be a matter assigned high priority by SBAB and a conservative approach continues to be applied to its management.

During 2009, the liquidity reserve averaged 73 days MCO (87). At 31 December 2009, the liquidity reserve corresponded to 81 days MCO (105). During 2009, SBAB's liquidity reserve was never less than the equivalent of 30 days' future liquidity requirements. As part of liquidity risk management, SBAB also focuses on unutilised capacity for the issuance of covered bonds.

12. Funding risk

SBAB generally endeavours to achieve maturity periods for funding that are at least as long as the maturity of capital tied up in assets. Funding risk is an expression of deviations from complete matching.

SBAB's calculation of funding risk is based on all contracted capital amounts with a remaining maturity exceeding one year. The calculation thus supplements SBAB's use of the liquidity risk model, which covers the interval up to one year. In the funding risk model, equity is calculated as having the same maturity as SBAB's longest lending assets.

Since the second half of 2007, SBAB has adopted a more conservative approach to management of the funding risk than in the past, whereby coming maturities have been prefinanced, the portion of short-term funding reduced and the liability extended. Capital maturity periods for funding are now longer than those for assets. Forthcoming maturities are monitored carefully and repurchases and prefinancing constitute key elements of practical management efforts aimed at minimising the risk. The funding risk is measured as the size of a future liquidity deficit, as well as the cost of achieving risk neutrality in the shape of a fully maturity-matched balance sheet.

13. Operational risk

Operational risk means the risk of losses due to inappropriate or unsuccessful internal processes, human error, incorrect systems or external events. The definition includes legal risk.

SBAB uses the Opera model to manage operational risk. The model is based on self-evaluation of operational risks for established processes and on incident reporting. The results of the self-evaluation are reported annually and any incidents that occur are reported on a monthly basis to the Board of Directors and senior executives.

SBAB uses the standardised approach to measure and manage operational risk. This approach entails calculating a capital requirement based on 12, 15 and 18%, respectively, of the average operating income of the business areas for the past three years. This approach includes requirements for documentation, processes and structures such as:

- Established control documents
- Process for managing operational risks
- Contingency plans and continuity plans
- Documented risk management
- Internal reporting structure
- Method for allocating operating income among business areas

During the year, a mapping of significant processes and risks associated with the financial reporting system was implemented in order to assure their quality.

Capital requirements for operational risk are shown in Table 3. FI has reviewed SBAB's method for measuring and managing operational risk. The method complies with the provisions of FI's directives, and FI considers it reliable.

14. Business risk

Business risk means the risk of declining earnings due to more difficult competitive conditions. Business risk is allocated to two main groups: new business and existing business.

Business risk can be allocated to two main groups: new business and existing business. Business risk is included in the calculation of the capital requirement on the basis of economic capital with the aid of a standardised method, which is based on the business areas' operating expenses.

15. Glossary

Chapter 1. Introduction

Basel II • International regulations for capital adequacy and large exposures intended to strengthen the stability of the financial system.

Chapter 3. Organisation

Asset and liability management committee (ALCO) • The body that handles matters relating to risk and capital planning, which are then addressed to executive management.

Chapter 4. Internal model for calculating risk capital

Asset-Liability Management (ALM) • ALM handles the risk that arises in conjunction with the matching of assets and liabilities in SBAB's balance sheet.

Economic capital • Economic capital is SBAB's own assessment of the appropriate extent for risk capital. In 2012, in combination with stress tests and potential provisions for further risk, economic capital will replace governmental authority capital as the minimum capital requirement. This requirement may not be less than the capital standard in accordance with Pillar 1. Economic capital is also based on SBAB's own relatively advanced models in which all quantifiable risks are summarised in a single entity. This is also an important component in the company's pricing and financial control.

Process for internal capital valuation • Process for calculating the minimum amount of capital that SBAB may have in accordance with the Capital Adequacy and Large Exposures Act (2006:1371) and FI's Code of Statutes FFFS 2007:1.

Value at Risk (VaR) • Measure of the maximum expected loss at a given level of security and over a defined time period.

Chapter 5. Capital adequacy

Capital adequacy ratio • Capital base divided by risk-weighted assets.

Capital base • The capital base is mainly comprises equity (primary capital) and subordinated loans (supplementary capital) and acts as a buffer against unexpected losses.

Capital ratio • Capital base divided by minimum capital requirement.

Fixed-term subordinated loans • Fixed-term subordinated loans may be included in supplementary capital at a maximum of 50% of the primary capital.

Internal ratings-based method (IRB method) • The IRB method is used to calculate the company's statutory capital requirement for credit risk.

Minimum capital requirement • The lowest amount that the company is permitted to have as its capital base in accordance with the Capital Adequacy and Large Exposures Act (2006:1371).

Perpetual subordinated loans • Perpetual subordinated loans have a maturity period that is essentially unlimited, but they can be repurchased if a licence is obtained from FI. Perpetual subordinated loans may be included in the capital base at a maximum of the same amount as the primary capital.

Primary capital • Primary capital mainly comprises equity. To be included in primary capital, it has to be paid.

Primary capital contribution • The primary capital contribution comprises perpetual subordinated loans with terms entailing that FI has granted permission for them to be included in primary capital. For 2009, the rule was that the primary capital contribution may comprise a maximum of 30% of primary capital. The portion exceeding 30% is included in supplementary capital. The European Parliament has decided to introduce new rules as of 31 December 2010, at which time the primary capital contribution may comprise a maximum of 35% of the contribution based on securities that are not convertible to shares. However, if the contribution is based on securities that can be converted in shares in an emergency situation, the primary capital contribution may amount to a maximum of 50% of the primary capital.

Risk-weighted assets, Basel I • All balance-sheet and off-balance sheet assets are weighted according to risk. Under the regulations of Basel I, this is performed on a standardised basis. Assets are divided into categories based on risk, whereby they are multiplied by a number of pre-established risk weightings, primarily 0%, 20%, 50% and 100% of the nominal amount.

Risk weighted assets, Basel II • The regulations of Basel II permit the use of the IRB method, within the framework of Pillar 1, to establish risk-weighted exposure amounts for balance-sheet and off-balance sheet exposures based on SBAB's own models for credit risk, market risk and operational risk. The risk weightings of other exposures are determined on a standardised basis, in appropriate cases based on the counterparty's rating.

Supplementary capital • Perpetual and fixed-term subordinated loans may be included in the capital base at an amount that does not exceed primary capital. If the remaining maturity period is less than five years, a settlement of 20% is applied for each of the remaining years.

Chapter 6. Credit risk

Credit conversion factor (CCF) • Percentage of an off-balance sheet item that is utilised at the time of a possible future default.

Exposure at default (EAD) • Exposure at time of default.

Expected loss (EL) • The calculated expected loss should be covered by earnings from operating activities, while unexpected losses should be covered by the company's equity. EL is arrived at by calculating the risk associated with each individual loan over a long-term period in a statistic model.

Loss given default (LGD) • Share of loss in the event of default.

Off-balance sheet item • Commitment, pledged collateral or similar item that is not recognised in the balance sheet because it is unlikely that it will be necessary to realise or utilise it, or because, due to its extent, it cannot be calculated with sufficient reliability. Off-balance sheet items may also comprise potential commitments, meaning it is uncertain whether the commitment exists.

Probability of default (PD) • Probability of default of a customer or counterparty within a year.

Chapter 9. Credit risk in the finance operations

Credit Support Annex (CSA) • Supplement to the ISDA Master agreement that regulates the provision of collateral in connection with a derivative transaction.

International swap and derivatives association (ISDA Master agreement) • Framework agreement that regulates the rights and obligations between the parties to a derivative transaction, primarily the offsetting of debt in the event of bankruptcy.

Loan to Value (LTV) • Extent of a loan in relation to the value of pledged collateral.

Residential mortgage backed securities (RMBS) • Securities with collateral in the form of residential mortgages.

Chapter 11. Liquidity risk

Maximum cumulative outflow (MCO) • MCO is a measurement of liquidity risk entailing the maximum conceivable need for liquidity for every day during the coming 365 days.

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