



Capital Adequacy and Risk Management (Pillar 3) 2008

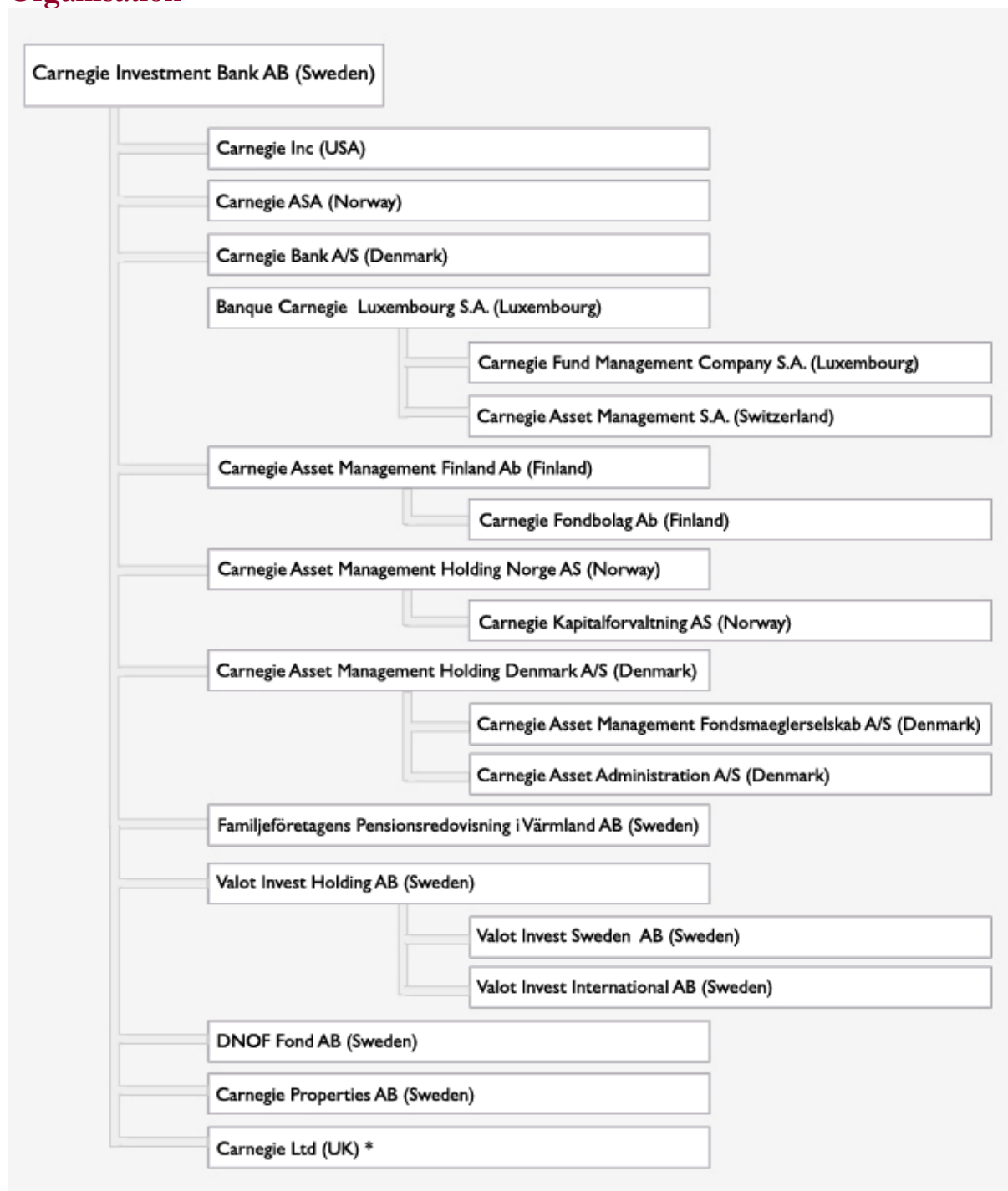
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THE CARNEGIE GROUP

Information about capital adequacy and risk management is provided in accordance with the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2007:5 and apply for Carnegie Investment Bank AB (publ), corporate registration number 516406-0138. The legal structure is shown in the organisation chart below. All subsidiaries are wholly owned and consolidated in accordance with the purchase method.

Organisation





Risk management – first line of defence

Carnegie's business operations entail that the Group is exposed to market, credit, liquidity and operational risks. Accordingly, operations are conducted in a clear organisation with delegated responsibilities and efficient processes for each risk area.

Carnegie operates according to the principle that the line organisation has the initial responsibility for internal controls. Responsibility for risk control thus lies where the risk arises. In the second instance, the control functions are responsible for verifying that the business areas handle risk control in a competent and adequate manner. In the third and final instance, internal and external auditors are responsible for verifying that the line organisation and the control functions fulfil their assignments.

The goal for Carnegie's risk control organisation is to check and in other ways contribute to ensuring that the line organisation handles business risks in a satisfactory manner. Guidelines and procedures for risk control have been established with the objective of identifying, measuring, controlling and following up the most important risk areas. Since taking and exposing the business to risks is an important part of Carnegie's business operations, Carnegie is constantly developing clear and practical methods to ensure that risk exposure at any given time is within established limits and mandates.

Preventive actions are a key component in the Group's work with risk control. Both business management and the risk control functions act to instil high awareness of guidelines and procedures among Carnegie's employees that include how they must measure, monitor and evaluate Carnegie's risk profile and maintain it within the prescribed limits.

Board of Directors

The Board of Carnegie Investment Bank AB is ultimately responsible for the Group's risk control. The Board takes decisions on the Group's risk strategy and the internal rules and principles that supplement the general external rules and principles that regulate operations. These documents are updated regularly, although at least once a year.

Risk control organisation

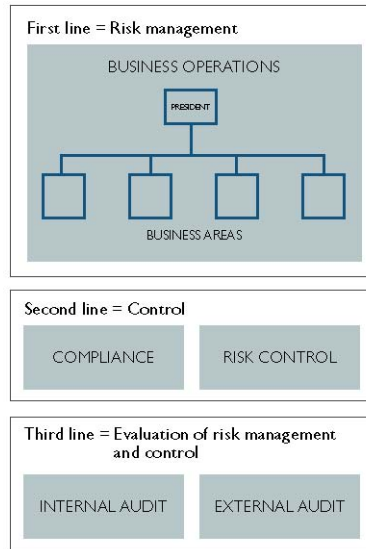
In addition to commercially operated activities, Carnegie has three independent control functions: Compliance, Risk Control and Internal Audit, which are charged with ensuring that the commercially operated activities conduct risk management in a competent and satisfactory manner. The control functions report to the CEO and the Board. They comprise Compliance, with responsibility for ensuring compliance with regulations, and Risk Control, with responsibility for control of market, credit, liquidity, operational and security risk.

The Group also has an internal audit function which is charged with evaluating and verifying that risk management and the internal control operate in a satisfactory manner. This responsibility also includes ensuring that the independent control functions operate in a satisfactory manner. Internal Audit is independent from the commercially operated activities and reports directly to the Board.

Within Carnegie, internal control is based on these principles, which correspond with the regulations and guidance of the supervisory authority.



CARNEGIE'S CONTROL FUNCTIONS



Risk control – second line of defence

This control function is divided into three areas of responsibility: Market Risk Management, Credit Risk Management and Operational Risk Management. The Group Market Risk Manager is responsible for market and liquidity risks, the Group Credit Risk Manager is responsible for credit risks and the Group Operational Risk Manager is responsible for operational risks within the Group. Their areas of responsibility primarily comprise continuous checks to ensure that risk exposure is within approved limits and that the line organisation is checking the operations in the intended manner. In addition, they are responsible for coordinating and advising on risk control issues and for training employees. The Group Risk Management functions report to the Chief Risk Officer, who in turn reports to the CEO and Board of Carnegie Investment Bank AB.

The various subsidiaries employ local Risk Managers who are independent from the business operations and report directly to the Board of Directors of the particular company and to the Group Risk Managers. Local Risk Managers work in the same manner as Group Risk Managers with respect to continuous control and reporting of both market and operational risks in local operations.

Risk control organisation



Compliance – second line of defence

Compliance refers to compliance with external and internal regulations. The Compliance function has an important preventive responsibility with respect to regulatory compliance, in that it ensures that changes in laws and regulations are implemented in the operations and that they are respected. This also includes ensuring that employees are trained so that all personnel have the necessary knowledge of the implications of various regulations.

Internal Audit – third line of defence

Carnegie's Internal Audit focuses its activities on operational risks and thereby the related internal control environment, while the external audit focuses on reviews of financial risk and financial accounts, including internal control pertaining to financial reporting. Internal Audit verifies and evaluates internal control carried out in both the operating activities in the line organisation and the Group's various risk control functions. Internal Audit also acts in an advisory capacity in relation to the business with respect to operational risks. Internal Audit is independent from the business operations and reports directly to the Board of Carnegie Investment Bank AB (the Board).

Internal Audit pursues a risk-based audit methodology that is applied in a continuous process through the Carnegie Group's central business processes. The continuous auditing process is conducted in a cycle comprising four phases: Planning and Risk Assessment, Fieldwork, Reporting and Recommendations and Monitoring. A central starting point is the annual assessment of operational risks in all legal units and business areas, which results in an Audit Plan. The Audit Plan and priorities for the emphasis of the internal audit are reviewed in detail by the Board's Audit Committee and are established annually by the Board.

The outcome of each review is summarised at the same time as recommendations are established for improvements in an Audit Report that is submitted to the Board and management of the



local company and to the Audit Committee. For each recommendation, a comment is included from the management of the reviewed unit, where a responsible person designated by the management is stipulated and a clear implementation plan with a deadline is established. The Board receives a quarterly comprehensive report that summarises the audit reports prepared during the period and the status of recommendations that have not been implemented.

In addition to internal resources, Internal Audit also uses external resources for various specific assignments. The Internal Audit function is governed by the Group Policy for the Internal Audit Function.

Security issues

The security function is managed by the Head of Group Security, who reports to the Board. At the local level, security functions are handled by specially appointed personnel within IT and Administration who report to the Head of Group Security.

Credit risks

Credit risk is defined as the risk of loss for Carnegie in relation to a counterparty as a result of the counterparty failing to fulfil its obligations. This risk results from exposure in conjunction with the granting of credit, investing, securities trading and issuing of guarantees, for example.

Carnegie only accepts low credit risk and lends nearly exclusively against collateral in the form of liquid securities. The granting of credit is based on the counterparty's financial position and payment capacity, as well as whether the counterparty can be reasonably expected to fulfil its obligations to Carnegie.

Carnegie's credit policy describes the approach, organisation and responsibility, as well as the process, required for a credit decision. The Board monitors and controls credit management within the Group at a consolidated level and is responsible in relation to shareholders for ensuring that credit risks are managed in a correct and efficient manner. The Group is divided into credit units in which each body with the related delegated authority is responsible for ensuring that credit processing occurs in accordance with the prevailing rules in the credit unit. The framework of the credit policy includes the opportunity to delegate credit decisions and credit management to local credit units. This policy is based on the judgment that, to some extent, credit decisions require local competence and are therefore best handled in a decentralised manner based on established regulations. The nature of the credit units' operations differs in several respects, and differences also exist in their respective legal environments. Accordingly, the credit unit's decision-making body may establish specific application instructions, on condition that these correspond with Carnegie's fundamental requirements and values on a Group level.

The credit process is initiated when a proposal for a credit decision is submitted by a business or account manager within a credit unit. Following this credit processing, an investigation into credit eligibility is conducted, a credit decision is taken, and implementation may take place in accordance with the credit decision. Regular follow-ups of counterparty exposure are performed by the credit manager within each credit unit and by the credit unit's Board of Directors. At the Group level, regular follow-ups are performed by the CFO and the Group Risk Manager.

Group Credit and Risk Assessment Committee

The Group Credit and Risk Assessment Committee takes decisions regarding credit and other types of counterparty risks within the mandate established by the Board of Directors. The Committee consists of three persons, of whom the Group's CEO is the Chairman. The Group's Credit Manager and its Chief Risk Officer are presenters in credit and risk matters. The Credit



and Risk Committee is guided by instructions from the Board of Directors of Carnegie Investment Bank AB.

Market risks

Market risk is defined as the risk of loss resulting from changes in share prices, interest rates and exchange rates.

Market risk constitutes a natural and significant component in operations. Carnegie employs recognised quantitative models to measure and evaluate market risks and simulate the effects of price fluctuations and volatility changes in the market. Carnegie restricts the ability to take market risks by establishing limits. These limits are designed to limit the maximum loss in the event of substantial market fluctuations.

Market risk is checked daily by the line organisation and monitored by Risk Management. Any transgressions of limits are identified and reported to business managers and management for immediate action. Income in the trading portfolio is calculated daily and reported to management and Risk Managers, who follow up the reports and perform the necessary reasonability assessments and analyses. International expertise is commissioned to independently validate the valuation of the option portfolio.

Liquidity risks

Liquidity risk is defined as the risk of negative effects on income for ensuring that the Group's payment commitments are met on time.

The risk that Carnegie will not be able to meet its payment obligations is considered low. During the autumn, Carnegie worked actively to reduce its balance sheet through lower trading limits and reduced credit. This in turn contributed to improving the company's liquidity situation. On 31 December 2008, the Swedish National Debt Office's loan to Carnegie was written down and converted to a primary capital contribution of SEK 2,283m. In the spring of 2009, Carnegie has applied for and was granted participation in the government guarantee programme and issued a bond of SEK 953m. These factors entail that Carnegie's liquidity situation is highly favourable. Carnegie works continuously to reduce its liquidity risk by, for example, matching maturity periods for borrowing and lending, and by actively managing and restricting counterparty limits for investments in times of financial turbulence.

Operational risks

Operational risk is defined as the risk of losses resulting from inappropriate internal processes, human error, system faults or external events.

Carnegie has conducted internal development over a long period to optimise internal processes, thus reducing the risk of operative incidents. This work includes a methodology for identifying and reporting operational risks. Within the framework of operational risk management, internal development is also in progress with the objective of providing a qualitative assessment of operational risk in accordance with the guidelines set forth in the Basel II capital adequacy regulations. During 2007, a new Group Operational Risk Manager function was established that is specially focused on development and implementation of these measures. Ultimately, the responsibility for managing operational risks rests with business managers in each unit.



CAPITAL BASE AND CAPITAL REQUIREMENT

Summary

(SEK thousands)	31 Dec. 2008	31 Dec. 2007
Capital base	2 292 953	1 530 892
Capital requirements	-752 118	-989 862
Surplus of capital	1 540 835	541 030
Capital adequacy ratio	3.05	1.55
Tier 1 ratio	3.05	1.55

During 2008, Carnegie fulfilled the requirements in accordance with Chapter 2, section 1-2 of the Capital Adequacy and Large Exposures Act stipulating that the capital base must at least match the capital requirement.

In accordance with Carnegie's internal capital policy, the capital ratio must be at least 1.5 according to Basel II or 12 per cent based on the previous Basel I rules. The policy also states that the goal is to optimise the capital structure with respect to Tier I and Tier II capital. Business requirements for risk capital are determined through Carnegie's internal business planning process.

To determine Carnegie's capital requirement in relation to the risk profile, an internal capital assessment process is conducted using stress tests, sensitivity analyses and scenario analyses, which are deemed to include the most significant risks for being able to determine the capital requirement. A strong negative effect on earnings and/or risk-weighted assets may not result in the capital base falling below the legal capital requirement or the minimum Tier 2 ratio specified by the Board of Directors over an extended period. The internal capital assessment process is performed according to the proportionality principle, with simpler methods for small and simple operations and more advanced methods for large and complex operations.

Capital base

(SEK thousands)	31 Dec. 2008	31 Dec. 2007
Share capital	200 000	200 000
Other capital contributions	2 811 312	54 568
Reserves	104 131	9 579
Profit/loss brought forward	-702 623	2 042 374
Dividends	-	-527 000
Deductions		
Goodwill and intangible assets	-17 978	-17 411
Deferred tax assets	-101 888	-231 219
Total core capital (Tier 1)	2 292 954	1 530 892



Capital requirement

Credit risks

Carnegie applies the standard method for calculating credit risks and the full method for financial collateral.

	31 Dec. 2008		31 Dec. 2007	
	Exposure	Capital req.	Exposure	Capital req.
Governments and central banks	1 085 944		832 722	
Municipalities and comparable authorities	-		-	-
Institutional exposures	5 236 093	59 016	18 068 936	100 591
Corporate exposures	2 362 110	39 384	11 634 153	47 970
Retail exposures	1 393 416	1 919	512 033	2 401
Exposures secured by property	1 351	38	2 434	68
High-risk items	-		-	-
Exposures to funds	-		-	-
Other items	644 207	49 786	870 944	65 856
Settlement risks in the trading book	-	1 638	-	5 742
Total capital requirement for credit risks:	10 723 121	151 781	31 921 222	222 628

Capital requirement from risks in the trading book

(SEK thousands)	31 Dec. 2008	31 Dec. 2007
Equity risk		
Specific risk	7 760	34 290
General risk	4 781	23 477
Total capital requirement for equity risks	12 541	57 767
Interest-rate risk		
Specific risk	628	18 276
General risk	9 531	88 836
Total capital requirement for interest-rate risk	10 159	107 112
Foreign exchange-rate risk		
Total capital requirement for exchange-rate risk	32 398	23 514

Operational risks

Carnegie applies the basic method for calculation of operational risks.

Operating income (SEK thousands)	
2006	4 238 569
2007	3 923 924
2008	2 742 307
Income indicator (average of the last three years' income)	3 634 933
Capital requirement for operational risks	545 240
(15% of income indicator)	



CREDIT RISK

Credit reserves

Reserves for probable credit losses are allocated following assessment of each individual case. Such reserves are posted when it is estimated that collateral, obligations or other guarantees do not cover the claim amount. The principle for what is classed as an actual credit loss is that such a loss is established through bankruptcy proceedings or composition agreements. Value declines attributable to a debtor's insolvency are included in credit reserves.

Net credit reserves and provisions for doubtful receivables

	31 Dec. 2008	31 Dec. 2007
Provision for doubtful receivables on the opening date	-123 476	-30 868
Effect on income of individually valued credits recognised in profit and loss (minus is increased provision)	-	-
Reversals of prior reserves	8	655
Reserves for the year	-1 956 415	-96 283
Reversals of reserves no longer required	0	1 055
Total net credit reserves	-1 956 407	-94 573
Exchange-rate differences	27 284	1 178
Total items affecting income	-1 929 123	-93 395
Previously reported doubtful receivables		
Now eliminated as confirmed	24 647	787
Provisions for doubtful receivables on the closing date	-2 027 952	-123 476

Provisions for doubtful receivables on the closing date, as well as the year's impairments of credit losses, reserves and reversals of impairments are all attributable to lending to the public.



Exposures

Average exposure amounts during the period allocated to most important geographical areas:

(SEK thousands)	Sweden	Denmark	Norway	Luxembourg	Finland	Other	Total
Governments and central banks	311 923	899 030	7 977	66 722	9 880	3	1 295 535
Municipalities and comparable authorities	-	-	-	-	-	-	0
Institutional exposures	9 065 733	441 799	471 989	2 705 775	342 117	186 400	13 213 813
Corporate exposures	4 301 258	1 631 148	1 111 260	548 551	-	82 336	7 674 552
Retail exposures	350 159	6 391	149 497	999 453	18 758	-	1 524 258
Exposures secured by property	-	-	-	-	1 814	-	1 814
High-risk items	-	-	-	-	-	-	0
Exposures to funds	-	-	-	-	-	-	0
Other items	181 258	177 586	206 210	12 166	47 528	23 768	648 516
Total	14 210 331	3 155 953	1 946 934	4 332 666	420 097	292 506	24 358 487

Carnegie's credit exposure is diversified and primarily guaranteed by listed liquid securities. Apart from Carnegie's exposure to institutions, most counterparties are private individuals or small, privately owned companies. There is no concentration to a specific industry or geographic area in the credit portfolio. The correlations among clients' insolvency are low, apart from what follows from business-cycle risks.

Exposure amounts per year-end allocated by remaining maturity (SEK thousands)

(SEK thousands)	< 3 months	3-12 months	1 - 5 years	> 5 years	Total
Governments and central banks	1 085 944	-	-	-	1 085 944
Municipalities and comparable authorities	-	-	-	-	-
Institutional exposures	5 236 093	-	-	-	5 236 093
Corporate exposures	1 850 437	510 884	789	-	2 362 110
Retail exposures	1 393 416	-	-	-	1 393 416
Exposures secured by property	1 351	-	-	-	1 351
High-risk items	-	-	-	-	-
Exposures to funds	-	-	-	-	-
Other items	644 207	-	-	-	644 207
Total	10 211 448	510 884	789	-	10 723 121

Credit risk mitigation

Netting of exposure within and off the balance sheet takes place only against counterparties for which the contractual relationship includes an eligible agreement on net accounting. To be approved, the agreements must meet the criteria for eligible netting agreements in Chapter 26, sections 2-11 in the Swedish Financial Supervisory Authority's regulations and general guidelines (FFFS 2007:1) on capital adequacy and large exposures.

For all eligible collateral, Carnegie assigns a collateral value, which is the value assigned to collateral in calculating net exposure for a counterparty in a given legal context. This is intended to represent the minimum assessed value that Carnegie can recover if the collateral is utilised.



The collateral value as a percentage of the assessed current value (without consideration taken to the price effect when exercising the guarantee) is the collateral haircut. The assessed current value must be based on relevant market prices, if available. Otherwise, it is established by the credit manager and based on cautious financial assumptions. The collateral haircut must be set with consideration taken to tradability and volatility of the security, current contract volume, contract type, counterparty and other specific circumstances in a given legal relation with a counterparty. Normal collateral haircuts are based on volumes that can be quickly sold with negligible price effect. The normal collateral haircut determines the normal collateral value. Specific collateral haircuts determine specific collateral values and are a consequence of a decision on deviation from the normal collateral value.

Carnegie maintains a guarantee list which is a continuously updated list of the guarantees and guarantee values that Carnegie grants. The guarantee list is continuously updated by the credit manager and has a scope that is matched to the requirements of ongoing trading. Any additions required in the credit list are requested from the credit manager.

Carnegie primarily accepts market-listed financial instruments as collateral. The basis for assessing financial instruments as collateral must be an evaluation of Carnegie's ability to dispose of the collateral, meaning tradability. Significant factors to consider in assessing tradability and thus the guarantee value are the existence of standardised markets for the instrument, the liquidity of such markets, the instrument's volatility and the position's size in the individual case and in total for Carnegie.

In exceptional cases, Carnegie can accept bank guarantees and property as collateral.

Carnegie's credit exposure is diversified and is primarily guaranteed by liquid securities. The correlations among clients' insolvency are low, apart from what follows from business-cycle risks.

Clients normally cover their exposure with a diversified portfolio of securities, but concentration risks can arise if many customers have the same securities as collateral, or a non-diversified portfolio. A measure of the concentration risk in the collaterals is provided by measuring the credit loss that would arise in a simulation where the value of the largest security in terms of value becomes zero. Such simulations are performed at least once a month. In the most recent measurement, two clients had a concentration risk that exceeded SEK 10m. Since these securities can be sold quickly, the concentration risk in the collaterals was deemed low.

Collateralised exposures

(SEK thousands)	31 Dec. 2008	
	Exposure	Collateralised
Governments and central banks	1 085 944	-
Municipalities and other comparable authorities	-	-
Institutional exposures	5 236 093	1 655 112
Corporate exposures	2 362 110	1 592 190
Retail exposures	1 393 416	1 361 436
Exposures secured by property	1 351	-
High-risk items	-	-
Exposures to funds	-	-
Other items	644 207	-
Total	10 723 122	4 608 738



Carnegie uses Standard & Poor's credit valuation for determining credit quality and assesses credit on the credit quality scale in accordance with the standard method published by the Swedish Financial Supervisory Authority. External credit valuation is used for the following exposure classes: governments and central banks and institutional and corporate exposure.

COUNTERPARTY RISK

The credit process

Proposals for credit decisions are prepared by the business or account manager within the unit in which credit exposure will arise and submitted to the relevant decision body within Carnegie according to the approved delegation order.

Before Carnegie accepts a counterparty exposure, a credit rating is performed. A credit rating entails examining whether or not a limit for counterparty exposure can be approved and what conditions must be satisfied prior to implementation of a credit decision.

The credit rating is based on a credit study, which is a study of a counterparty in a credit case. Credit studies consist of an investigation into the borrower's financial situation and repayment capacity, as well as the quality of pledged collateral. The assessment of a counterparty's repayment capacity is based on the counterparty's current financial situation. If possible, an external credit check is obtained in addition to information received directly from the counterparty.

Derivative contracts

Carnegie uses the market valuation method for calculating the exposure amount in derivative contracts.

(SEK thousands)	31 Dec. 2008
Gross positive value of contracts	3 119
Netting benefits	0
Netted exposures	3 119
Securities	0
Net derivative credit exposures	3 119

OPERATIONAL RISK

Carnegie uses the basic method for calculation of operational risks, which means that the capital requirement of operational risks is calculated at 15 per cent of the income indicator, which is an average of the past three years' income.

Operating income (SEK thousands)	
2006	4 238 569
2007	3 923 924
2008	2 742 307
Income indicator (average of the past three years' income)	3 634 933
Capital requirement for operational risks (15% of income indicator)	545 240



INTEREST-RATE RISK AND SHARE-PRICE RISK NOT INCLUDED IN TRADING BOOK

Interest-rate risk in the balance sheet

Interest-rate risk refers to the risk that changes in market interest rates will negatively affect the Group's net interest income.

Most deposits and lending are on demand at floating interest rates, thus entailing a marginal interest-rate risk. Carnegie performs an interest-rate risk calculation of the Group's sensitivity to interest-rate changes in the balance sheet at least once each quarter. The most recent calculation showed that a sudden and lasting shift of yield curves upward by 200 interest points would result in a loss of SEK 3.5m.

Carnegie has no shareholdings that are not included in the trading book.