Capital Adequacy and Risk Management (Pillar 3) 2007

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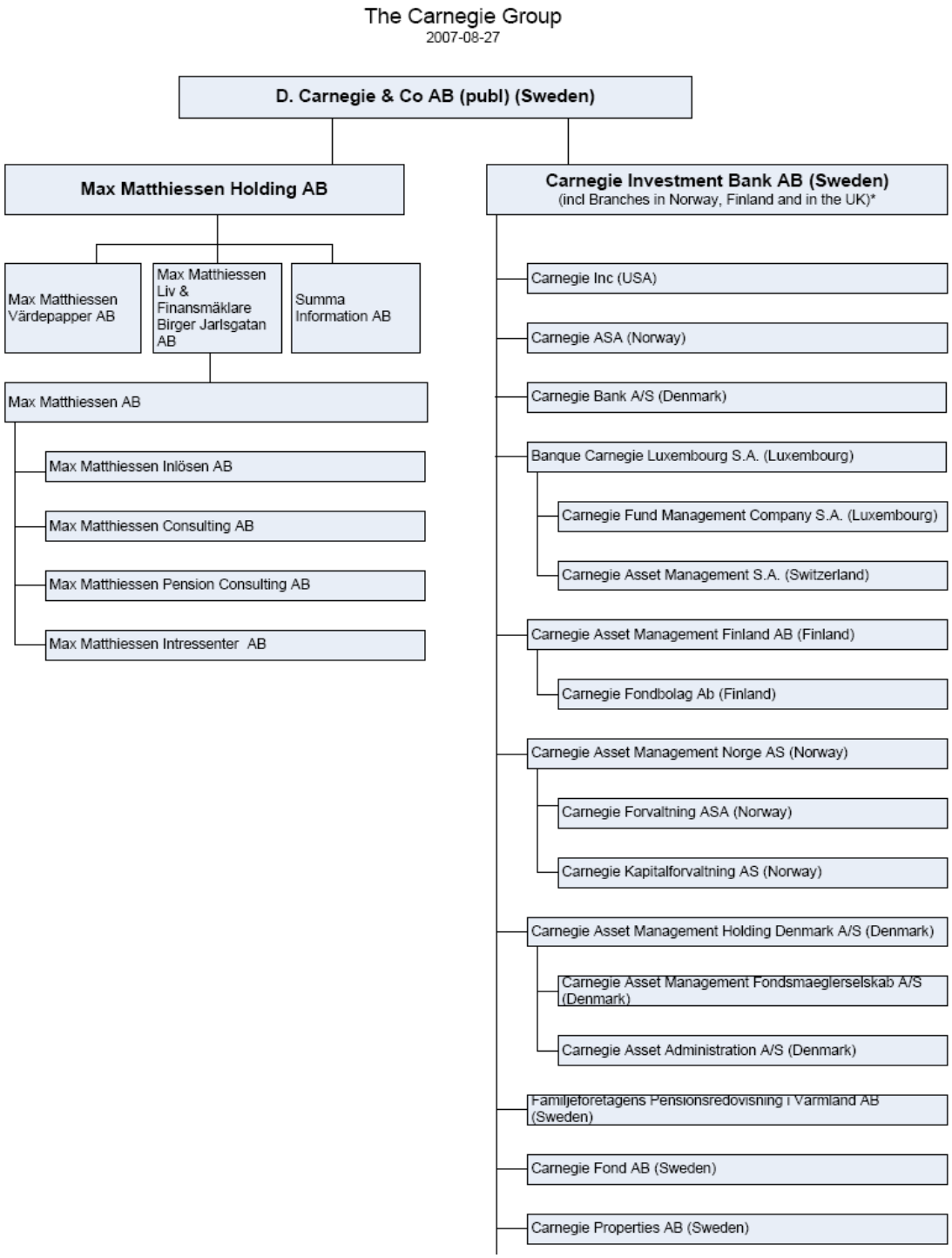
THE CARNEGIE GROUP

The information about capital adequacy and risk management is provided in accordance with the Swedish Financial Supervisory Authority's directives and general recommendations FFFS 2007:5 and apply for the financial group D Carnegie & Co AB (publ) with corporate registration number 556489-9449. The legal structure is shown in the organization chart below. All subsidiaries are wholly owned and consolidated according to the purchase method.

Organization



Risk management – goals, guidelines and organization

Carnegie's business operations mean that the Group is exposed to market, credit, liquidity and Operational Risks. Operations are therefore conducted in a clear organization with delegated responsibilities and efficient processes for each risk area.

Carnegie operates according to the principle that the line organization 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 organization and the control functions fulfil their assignments.

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

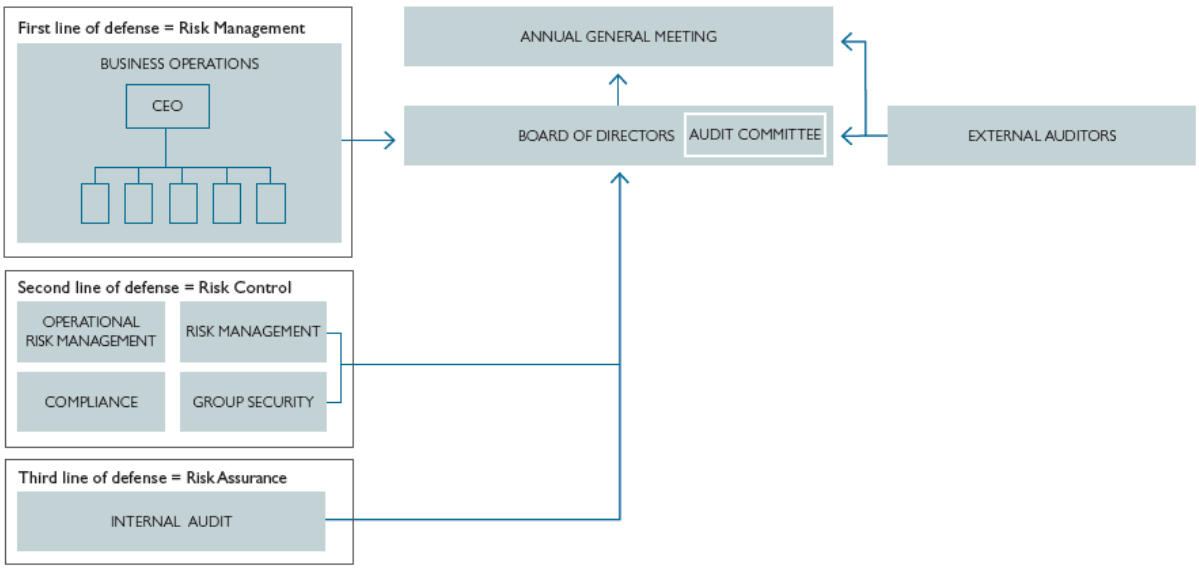
Preventative actions are a central component in the Group's work with risk control. Both business managers and the risk control functions act to instil high awareness of guidelines and routines among Carnegie's employees that include how they must measure, monitor and evaluate Carnegie's risk profile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

Risk control organization

Carnegie's control functions consist of Risk Management, Operational Risk Management, Compliance, Group Security and Internal Audit functions. Internal Audit has a clearly independent role, since it also reviews the other control functions.

Board of Directors

The Board of Directors of D. Carnegie & Co 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 that regulate operations. These documents are updated regularly and at least once a year.



Audit Committee

The Audit Committee is appointed by the Board of Directors and assists the Board in fulfilling its responsibility to examine:

- financial and operative information reported to shareholders and other stakeholders
- the organization for risk control and internal control
- internal and external auditing work.

Risk Management and Operational Risk Management functions

This control function is divided into two areas of responsibility, Group Risk Manager and Group Operational Risk Manager. The Group Risk Manager is responsible for credit, market and liquidity risks, while the Group Operational Risk Manager is responsible for the Operational Risks within the Group. Their areas of responsibility primarily comprise ongoing checks to ensure that risk exposure is within approved limits and that the line organization controls operations in the intended manner. This also includes reporting relevant risk information to management and the Board of Directors. In addition, they are responsible for coordinating and advising on risk control issues and for training employees. The Group Risk Management functions report directly to the Boards of Directors of D. Carnegie & Co AB and Carnegie Investment Bank AB.

In the various subsidiaries, there are local Risk Managers who work independently of business operations. They report directly to the Board of Directors of the company in question and to the Group Risk Manager and Group Operational Risk Manager. Local Risk Managers work in the same manner as the Group Risk Manager with respect to ongoing control and reporting of both market and Operational Risks in local operations.

Compliance

Compliance refers to compliance with external and internal regulations. The Compliance function has an important preventative responsibility with respect to regulatory compliance by ensuring that changes in laws and regulations are implemented in 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

Internal Audit reviews and evaluates the processes for risk control, governance and management in the Group. Internal Audit works independently of business operations and reports directly to the Board of Directors of D. Carnegie & Co AB. The audit plan and priorities on which the Internal Audit function focuses are established by the Audit Committee. The reports prepared by Internal Audit are submitted to the units affected by each review and to the Audit Committee. Internal Audit reviews not only ongoing operations in the line organization, but also the Group's various functions for risk control. Internal Audit also acts in an advisory capacity to the business with respect to Operational Risks.

Group Security

The Group Security function is managed by the Head of Group Security, who reports to the Board of Directors. Security functions at the local level 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 its relation to a counterparty as a result of the counterparty failing to fulfil its obligations. This risk arises as a result of exposure in conjunction with issuing of credit, investing, securities trading and issuing of guarantees, for example.

Carnegie only accepts low credit risk and primarily lends against collateral in the form of liquid securities. Issuing 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, organization and responsibility, as well as the process, required for a credit decision. In this respect, the Group is divided into credit units in which each board of directors is responsible for ensuring that credit processing proceeds according to prevailing rules. This policy is based on the judgment that credit decisions require local competence and are therefore best handled in a decentralized manner. The credit units' operations differ in their nature in several respects, and there are also differences in the respective legal environments. The credit unit's Board of Directors may therefore take decisions on specific application instructions, subject to the condition that more general requirements are satisfied.

The credit process is initiated when a proposal for a credit decision is submitted by a business or account manager within a credit unit. A credit decision is then taken, and execution may take place in accordance with the 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, 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 Chief Operating Officer (COO) is the Chairman. The Group's CFO and the Group's Risk Manager 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 as a result of changes in share prices, interest rates and exchange rates.

Market risk constitutes a natural and significant component in operations. Carnegie employs recognized quantitative models for measuring and evaluating market risks and simulating the effects of price movements and volatility fluctuations 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 large market movements.

Market risk is checked daily by the line organization and monitored by Risk Management. Any transgression 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 would not be able to meet its payment obligations is considered low. Carnegie has distributed its financing to a number of banks in different countries. The company has thus reduced the risk that a single institution might reduce its lending to the company. Carnegie also works continuously to reduce the liquidity risk by matching maturity periods for borrowing and lending, for example, and by actively managing and restricting counterparty limits for investments in times of financial unrest.

Operational risks

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

Carnegie has conducted internal development over a long period to optimize internal processes, thus reducing the risk of operative incidents. This work includes a methodology for identifying and reporting Operational Risks. In addition, internal development is in progress within the framework of Operational Risk Management that is intended to provide a qualitative assessment of risk according to 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 2007	31 Dec 2006
Capital base	1 649 773	1 562 693
Capital requirements	-1 037 845	-1 033 997
Surplus of capital	611 928	528 696
Capital ratio	1,59	1,51
Tier 1 ratio	1,12	1,05

During 2007, Carnegie fulfilled the requirements according to Chapter 2, section 1-2 of the Capital Adequacy and Large Exposures Act stipulating that the capital base must at least amount to the capital requirement.

According to Carnegie's capital policy, the capital ratio must be at least 1.5 according to Basel II or 12 per cent according to the previous Basel I rules. The policy also states that the goal is to optimize the capital structure with respect to Tier I and Tier II capital. Carnegie's profit-sharing system means that profit is divided equally between the shareholders and the employees. According to Carnegie's profit-sharing policy, all capital that is not required in business operations is distributed to the shareholders. When the Board of Directors takes decisions on dividends, consideration is taken to distributable funds, market conditions and other capital requirements and other factors that the Board considers relevant. 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 capital 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.

It is primarily the structure of the profit-sharing system that allows Carnegie to offset declines in business volumes from a capital adequacy perspective. Profit sharing, which is calculated as 50 per cent of the Group's operating profit before profit sharing and after deduction of capital costs, mean that a large portion of compensation to employees is variable and that adjustments of total expenses thus take place somewhat automatically.

Capital base

(SEK thousands)	31 Dec 2007	31 Dec 2006
Share capital	155 088	139 050
Other capital contributions	1 748 066	668 694
Reserves	56 246	7 102
Profit brought forward	1 015 219	1 227 127
Anticipated dividends	-581 580	-812 739
Deductions		
Goodwill and intangible assets	-957 550	-19 048
Deferred tax assets	-272 554	-123 743
Total core capital (tier 1)	**1 162 935**	**1 086 443**
Supplementary capital (tier 2)	486 838	476 250
Total capital base	**1 649 773**	**1 562 693**

Capital requirement

Credit risks

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

Credit exposures and exposure classes (SEK thousands):	31 Dec 2007		31 Dec 2006
	Exposure	Capital req	Capital req
Governments and Central banks	834 681	-	-
Local governments and authorities	-	-	-
Institutions	18 210 576	102 857	-
Corporates	11 634 152	47 970	-
Retail	512 033	2 401	-
Exposures secured by real estate property	2 434	58	-
High risk items	-	-	-
Mutual funds	-	-	-
Other items	955 641	72 632	-
Capital requirements from credit exposures in 2006 according to Basel I	-	-	701 023
Capital requirements for settlement risk	-	5 742	1 960
Total capital requirements for credit risks	**32 149 517**	**231 660**	**702 983**

Capital requirement from risks in the trading book

(SEK thousands)	31 Dec 2007	31 Dec 2006
Equity risk		
Specific risk	34 290	62 467
General risk	23 477	46 079
Total capital requirements for equity risk	**57 767**	**108 546**
Interest rate risk		
Specific risk	18 276	37 395
General risk	88 836	144 431
Total capital requirements for interest rate risk	**107 112**	**181 825**
Foreign exchange rate risk		
Total capital requirements for exchange rate risk	**42 416**	**38 684**

Operational risks

Carnegie applies the basic method for calculation of operational risks.

Operating income (SEK thousands)	
2005	3 413 963
2006	4 225 403
2007	4 339 634
Income indicator. (Average of the last three years' income)	3 993 000
Capital requirements for operational risks. (15 per cent of income indicator)	598 950

CREDIT RISK

Credit reserves

Reserves for probable credit losses are allocated following assessment of each individual case. Reserves for probable credit losses occur when collateral, obligations or other guarantees are not estimated to cover the claim amount. The principle for what is classed as an actual credit loss is that they are established by 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

(SEK thousands)	31 Dec 2007	31 Dec 2006
Provisions for doubtful receivables on the opening date	-30 868	-33 768
Effect on income of individually valued credits Included in the income statement (minus is increased provision)	-	-
Reversals of prior reserves	655	629
Reverses for the year	-96 283	-523
Reversals of reserves no longer required	1 055	385
Total net credit reserves	-94 573	491
Exchange-rate differences	1 178	2 093
Total items affecting income	**-93 395**	**2 584**
Previously reported doubtful receivables now eliminated as confirmed	787	316
Provisions for doubtful reveivables on the closing date	**-123 476**	**-30 868**

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

Exposures

Credit exposure by exposure class and geography:

(SEK thousands)	Sweden	Denmark	Norway	Luxembourg	Finland	Other	Total
Governments and central banks	395 943	337 384	-	92 082	9 272	-	834 681
Local governments and authorities	-	-	-	-	-	-	0
Institutions	12 679 586	1 149 143	1 235 979	2 413 442	349 772	382 654	18 210 576
Corporates	7 157 450	835 354	1 623 866	1 887 417	0	130 066	11 634 152
Retail	475 460	12 913	-	-	23 660	-	512 033
Exposures secured by real estate property	-	-	-	-	2 434	-	2 434
High risk items	-	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-	-
Other items	373 819	451 552	16 276	63 320	28 071	22 602	955 641
Total	**21 082 257**	**2 786 346**	**2 876 122**	**4 456 261**	**413 208**	**535 321**	**32 149 516**

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

Credit exposure by remaining maturity: (SEK thousands)

(SEK thousands)	< 3 months	3 < 12 months	1 - 5 year	> 5 year	Total
Governments and central banks	834 681	-	-	-	**834 681**
Local governments and authorities	-	-	-	-	**-**
Institutions	18 206 052	4 524	0	-	**18 210 576**
Corporates	11 257 050	376 755	347	-	**11 634 152**
Retail	512 033	-	-	-	**512 033**
Exposures secured by real estate property	2 434	-	-	-	**2 434**
High risk items	-	-	-	-	**-**
Mutual funds	-	-	-	-	**-**
Other items	955 641	-	-	-	**955 641**
Total	**31 767 890**	**381 280**	**347**		**32 149 516**

Credit risk mitigation

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

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

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 liquidity 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 haircut 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 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 its tradability. Significant factors to consider in assessing tradability and thus the guarantee value are the existence of standardized 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.

As applying to the guarantee value of shares in D. Carnegie & Co AB, it must be set at zero in accordance with prevailing regulations.

Carnegie can also accept bank guarantees and property as collateral.

Carnegie's credit exposure is diversified and is primarily guaranteed by liquid securities. The correlation with client insolvency is 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 to measure the credit loss that would arise by simulating that 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, there were two clients with a concentration risk that exceeded SEK 10m. Since the securities can be sold quickly, the concentration risk in the collaterals was deemed as low.

Collateralised exposures

	31 Dec 2007	
(SEK thousands)	**Exposure**	**Collateralised**
Governments and Central banks	834 681	-
Local governments and authorities	-	-
Institutions	18 210 576	11 789 104
Corporates	11 634 152	11 072 356
Retail	512 033	472 216
Exposures secured by real estate property	2 434	-
High risk items	-	-
Mutual funds	-	-
Other items	955 641	-
Total	**32 149 516**	**23 333 676**

Carnegie uses Standard & Poor's credit valuation for determining credit quality and follows the placement on the credit quality scale according to the standard method published by the Swedish Financial Supervisory Authority. External credit valuation is used for the exposure classes governments and central banks and institutional and company 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 a limit for counterparty exposure can be approved or not and what conditions must be satisfied prior to execution 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 of 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 2007
Gross positive fair value of contracts	952 712
Netting benefits	-817 536
Netted current credit exposures	135 176
Collateralised benefits	-66 813
Net derivative credit exposures	**68 364**

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)	
2005	3 413 963
2006	4 225 403
2007	4 339 634
Income indicator. (Average of the last three years' income)	3 993 000
Capital requirements for operational risks. (15% of income indicator)	598 950

INTEREST RISK AND SHARE PRICE RISK NOT INCLUDED IN TRADING BOOK

Interest risk in the balance sheet

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

Most deposits and lending are on demand at floating interest rates, thus entailing a marginal interest risk. During the third quarter of 2005, Carnegie raised a debenture loan in two tranches, of which one was at a floating interest rate and one was at a fixed rate totalling SEK 486m at 31 December 2007. Carnegie performs and interest risk calculation of the Group's sensitivity to interest-rate changes in the balance at least once each quarter. The most recent calculation showed that a sudden and permanent shift of yield curves upward by 200 interest points would result in a loss of SEK 20.8m.

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