Annual review
2008

Service leadership
Why should I be a customer of Swedbank?

We are working to be a service leader and make our customers’ lives easier. We offer a complete range of effective, competitively priced banking services for private and corporate customers. By understanding and acting on our customers’ situation and needs, we can offer the best financial solutions to improve their quality of life and competitiveness. The recent economic turmoil has made it even more important in every customer relationship to live up to the values Swedbank stands for. We want to be known for our openness – we are accessible. It should be easy to contact us, whatever the channel, and customers should always be treated in a friendly and personal manner. We are uncomplicated. Financial products can certainly be complex, but our services are designed to be simple to understand, buy and use. We are proactive. As a service leader, Swedbank prides itself on anticipating its customers’ needs, based on an understanding of their opportunities and our communities. Lastly, our business entails a great sense of responsibility. We take responsibility for the services we sell, the relationships we build and the society we live in.
Swedbank shall be the leading financial institution in its home markets.
By leading we mean:
• the highest customer satisfaction
• the best profitability
• the most attractive employer.

This is Swedbank

Swedbank serves over nine million private customers and 66,000 corporate customers and organizations. Core operations consist of traditional products and services for private individuals and small and medium-sized companies. Swedbank’s branch network consists of over 900 branches in 14 countries. These include its four home markets of Sweden, Estonia, Latvia and Lithuania, where most branches are situated, as well as Ukraine. The Group also has a presence in Copenhagen, Helsinki, Kaliningrad, Luxembourg, Marseille, Moscow, New York, Oslo, Shanghai, St. Petersburg and Tokyo.

2008 in brief

The year was dominated by turbulence and dramatic events in the financial markets, which adversely impacted the entire economy. Swedbank was affected by the rapidly changing macro-economic conditions, particularly in the Baltic countries. Nonetheless, Swedbank reported good profitability in all business areas.
• Profit for the year amounted to SEK 10.87bn (11.96k), excluding impairment of goodwill SEK 1.290bn.

Business concept

By understanding and acting on their needs, Swedbank can offer customers the best financial solutions and thereby improve the quality of their lives.
In this way, Swedbank can continuously increase its market value and play a positive role in society.
Why should I invest in Swedbank?

The goal of being, and being recognised as, a service leader is the key to Swedbank’s strategy in creating customer value. Delivering high value to customers is critical to our success and ability to generate value for our shareholders. Swedbank’s business model and strategic priorities are designed to create long-term shareholder value by building strong customer relationships. We create sustainable growth in volume and earnings by being results-oriented, open, innovative and committed. Despite very difficult market conditions throughout 2008, Swedbank maintained good profitability. This was due to an emphasis on traditional services for private and corporate customers, coupled with cost effectiveness and a well-balanced risk profile. The great uncertainty in the financial markets has increased focus on corporate governance issues, particularly risk control. Swedbank’s strength and continued success, however, rest primarily on our continued efforts to put our customers’ needs first.
Interview with Chairman of the Board
Carl Eric Stålberg

How has the financial crisis affected Swedbank?
Swedbank has been affected by the global financial crisis, like the sector as a whole. We received a great deal of attention as the leading bank in Sweden, Estonia, Latvia and Lithuania - our home markets. The intense media exposure last autumn raised doubts about the bank, and our customers were concerned. We saw an outflow from savings deposits, which was re-directed to our mutual fund operations and the National Debt Office, as well as other banks.

What has the bank done to manage the situation?
The bank made major efforts last autumn to intensify the dialogue with customers. Extensive information to our employees was an important part of this. We know that these measures were successful. Despite outflows and reallocations, the bank had higher deposits at the end of 2008 than at the beginning of the year.

What is the outlook going forward?
2008 will go down in modern history as a year of financial crisis. Just as the downturn came suddenly, a rebound can occur much faster than many people expect. The cause of the crisis and which decisions should have been taken by whom and at what point in time will be discussed well into the future, particularly as regards events in the U.S. and the UK early in the crisis.

How important has the government’s intervention been?
The EU and Sweden have demonstrated political strength and leadership in managing the crisis by rapidly introducing guarantee and rescue packages in the banking sector. This paved the way for continued stability.

Do you feel that the financial sector has taken enough responsibility?
Today’s financial sector is global, and in the same way as climate change, global institutions and agreements are needed to create a new, more robust framework for the financial sector.

Swedbank has a substantial exposure to the Baltic region. What is happening there?
The Baltic economies are undergoing a painful correction that will be difficult for many people. For Swedbank, it means we will see higher provisions for loan losses. We are the region’s largest bank and are trying to resolve the problems that arise together with our customers in a responsible manner. We have intensified risk control, and when we are forced to take over collateral we try to recover as much as possible over time.

When can we expect to see a recovery in the Baltic economies?
I am convinced that the convergence of the Baltic economies with western Europe and the Nordic region will be faster than for many countries in central and eastern Europe. Although the outlook is bleak in the short term, we can see positive signs. Imbalances are beginning to correct themselves and inflation, current account deficits and wage increases are decreasing.

Why was Swedbank first out with a rights issue?
Because of concerns that the financial crisis would continue, the Board of Directors announced a rights issue. The successful issue, valued at SEK 12.4bn, was finalized in January 2009 after being fully underwritten by current shareholders.

Why will Swedbank not be paying a dividend?
The Board of Directors has proposed that no dividend be paid to ordinary shares or preference shares for the financial year 2008. This is due to the continued deterioration of macroeconomic conditions in many of the markets in which Swedbank operates. By not paying a dividend, Swedbank will further strengthen its capital and create financial strength in uncertain times.

What is your view regarding the performance of the share during the year?
2008 was a year that tested Swedbank’s shareholders. We, the Board of Directors, feel confident thanks to our strong customer positions and the competence and commitment of Swedbank’s employees. We have now put 2008 behind us and are focusing all our energy on 2009, which will be needed since most people predict that it could be the most difficult year of this recession.
Interview with CEO Jan Lidén

How would you summarize 2008?
2008 saw the start of the most serious international financial crisis in 80 years. It began in the financial sector and then spread to every sector of society. As a result, there was a dramatic slowdown in growth in the countries where Swedbank operates. Swedbank received negative exposure in the media last autumn. At the same time, we continued to post strong financial results.

What were the most important improvements for customers during the year?
We continued to make ourselves more accessible through improvements to all our channels. In these uncertain times, I know that personal contact with the bank is very important to our customers. Now is the time when our employees can truly make a difference for customers, and now is the time when customers need us most.

How has the financial crisis affected Swedbank?
Like other banks, Swedbank has been affected by the fact that the financial markets are not functioning normally. Funding has become more difficult for every bank. Those who do not have direct contact with us and form their impressions based on media reporting have felt that confidence in the bank was negatively affected.

How important was the rights issue for Swedbank?
It was very important, since it has strengthened our capitalization. Swedbank is currently one of the banks in Europe with the best key ratios. This is important for our credibility in the market.

How would you characterize development in Swedbank’s markets?
The whole world is now suffering from a sharp economic slowdown, which is likely to continue well into 2010. The economy will be volatile – with major fluctuations – during this period.

How do economic conditions affect Swedbank’s customers?
Some customers – both private and corporate – will be hard hit by the economic slowdown. We can expect to see higher unemployment and less financial flexibility, among other things. In general, it will unfortunately be hardest on those who are already struggling with tight margins.
Swedbank’s Chief Economist, Cecilia Hermansson, and Ylva Yngveson, Director of the Personal Finances Institute at Swedbank, discuss...

**what is happening to our money**

... in the aftermath of the financial crisis

**Ylva:** Over the last ten years, wage earners have seen their financial situation improve significantly. In Sweden, a two-child family has about SEK 10,000 more every month to spend in real prices compared with a similar family in 1998.

**Cecilia:** In the last decade, the financial sector has taken on a much greater role in our lives. The economy is complex. It can be especially complex to save, when you consider all the confusing alternatives that are available.

**Ylva:** Interest rates have gone from very low to painfully high – and then the pendulum quickly swung back in the other direction. Now everyone is wondering, of course, how low rates will go. Just like everyone was wondering in the spring of 2008 how high they would get, now we are all wondering how low they can fall and how long they will stay there.

**Cecilia:** In the U.S. and Japan, key interest rates are near zero, while European central banks still have room for further rate cuts.

**Ylva:** Many people are naturally wondering why there is such a big difference between the Riksbank’s repo rate and the interest rate on their loan. The gap increased in connection with the financial crisis because risks have increased and the price of risk, i.e., the bank’s funding costs, has risen.

**Cecilia:** Banks set interest rates based on a risk-free portion, which is expressed as the price of government bonds, a risk portion and, lastly, inflation. Recession and falling inflation would seem to point to low interest rates, but on the other hand increased government borrowing needs to entail higher long-term rates.

**Ylva:** Interest rates, the stockmarket and housing prices – that is what many customers are worried about. Right now they all seem to be going in the same direction: down. The fact that loan fees are dropping is positive, of course, but for many people the diminished value of their assets certainly has a major impact on what they can and will do.

**Cecilia:** The financial crisis is contributing to weaker demand around the world, but at the same time central banks and governments are taking measures to significantly ease the situation. The crystal ball is a little cloudy right now, to put it mildly.
Ten years of high growth and low inflation
– why did the good times end?
Cecilia: American households have taken on huge amounts of debt aided by low interest rates and rising housing prices. The U.S. current account deficit was allowed to grow and was financed in part by China and Japan, which in turn boosted their currency reserves. The imbalances, along with low inflation resulting from slumping import prices and strong competition from emerging economies, pushed bond yields lower. In the end, things spiralled out of control. Commodity prices began to rise. The U.S. dollar fell and this led to more expensive oil and higher inflation. The debt burden became too heavy to bear, house prices fell and the financial crisis became a reality after the collapse of subprime lending.

Ylva: The problem is that we are not putting enough money away in good times. On the contrary, that is when we are borrowing to spend. This is a paradox or contradiction. When times are bad, when we are short of money, that is when we hold back and try to save. Instead, that is when we should be spending as usual, so that the situation does not get any worse than necessary.

Cecilia: If anything, the financial sector’s development, tax laws as well as low interest rates and rising asset prices encouraged people to borrow rather than save.

Ylva: We have a fairly weak savings tradition in Sweden. In Finland, they are more inclined to save their extra earnings, from summer jobs, for example. Swedes do not seem to have the same attitude. No less than 20 percent of adult Swedes do not have one single krona in savings, and 15 percent have between SEK 1 and SEK 10 000. Saving is not a goal in itself; it is a question of creating financial freedom.

Now there is a new threat on the horizon – deflation.
Cecilia: Yes, deflation has grown as a threat due to the financial crisis and falling demand. When money grows in value, debts increase in real terms and people tend to reduce and postpone their purchases, since most things will be cheaper tomorrow. This leads to lower demand and eventually the economy seizes up.

Ylva: Deflation would naturally put borrowers in a totally different situation. Their total debt burden would increase, in contrast to times of inflation when the value of loans automatically shrinks.
Cecilia: The threat of deflation was overblown earlier in the decade. Economic policies had become too expansive after the IT bubble burst. Now the threat is more serious, since the recession is global and debts are going to have to be rescheduled in the aftermath of the financial crisis. At the same time, the central banks’ one-sided focus on consumer prices means a greater risk of financial crises. It is time to seriously reassess our inflation targets and the reasons for them. Reality has changed since these targets were introduced nearly 20 years ago. The targets are based on consumer prices, but they should also take asset prices and credit growth into account.

What is the outlook in the short term?

Cecilia: In our economic report, we estimate that global GDP growth in 2009 will fall to –0.4 percent, the weakest level since the early 1980s. The Swedish economy will shrink by just over 2 percent in 2009. Sweden’s finances are relatively strong, which means that when the economy picks up, we will have an inside track.

Ylva: At the moment, variable interest rates are expected to continue falling. And real incomes will continue to rise – for those who have jobs. Low inflation, tax cuts and other measures to ease pressure will put most wage earners in a relatively good position. However, many have lost their jobs. It can be hard on them, especially families with children, who usually have high expenses and find it harder to move to a new location.

Cecilia: In our main scenario, we anticipate a weak recovery in the global economy in 2010, driven by low inflation, low interest rates and fiscal stimulus measures. We do not expect a more normally driven economic recovery until 2011, but even then not with the high growth rate we had in 2007, driven by an undesirable debt build-up. With so many uncertainties, we see relatively little likelihood, 45 percent, of the main scenario taking place. The likelihood of a worse outcome, similar to Japan’s deflationary problems in the 1990s, is as high as 30 percent. We give the third scenario, where economic stimulus measures have a quicker effect and lead to a faster recovery, a likelihood of 25 percent. That shows how much uncertainty there is.

Ylva: What happens to house prices will probably depend a lot on the job market and housing construction. To date, average house prices in Sweden have remained unchanged and condominium prices have dropped 10 percent in the last year after having increased by nearly 11 and 19 percent respectively in the previous year. Most people can handle a price decline, since they are going to remain in their homes. Some households may have problems if they got a mortgage when house prices were at their peak. In the case of a job loss or divorce, there is a risk that the loan becomes a burden, tying people down financially for many years. For the majority of households, however, I do not believe that things will be that drastic.

Cecilia: The increase in asset prices, particularly housing, facilitated the credit expansion. Now the opposite is true. If all assets drop in value and the entire financial sector shrinks, the scope of lending will decrease as well.

Ylva: Normally, you have to have saved some money in order to borrow. Your down payment has to be at least 10–15 percent when you buy a house and it must be 20 percent when you buy a car. The housing down payment has always been a principle, and now it is probably even more difficult to deviate from this.

Cecilia: Today’s crisis did not begin with businesses. The problem lies with household balance sheets (i.e., the relationship between household assets and liabilities) and government finances, with many countries facing large, growing deficits. Most companies have maintained good profitability and have strong balance sheets. But the effects of the crisis are naturally affecting them as well.

“Low inflation, tax cuts and other measures to ease pressure will put most wage earners in a relatively good position. However, many have lost their jobs.”

Ylva Yngveson
The main scenario implies a tough job market with rising unemployment, low interest rates, falling house prices and higher public deficits. The big question is how to generate sustainable growth without creating new problems. With all the debt-burdened government securities in circulation, there is already a risk of a bond bubble. It is also a question of which instruments to use. Monetary policy takes time to reach full effect. Fiscal policy works fairly quickly, except infrastructure investments, which take a long time to implement and bear fruit. Still, they are important, of course, since they also create jobs.

What can we learn from the financial crisis?

Cecilia: A lot – that economic policy plays an important role, for example. We need sound regulation and monitoring. Rules that make the market more cyclical are not good. The capital adequacy rules designed to reduce risk in the banking system did not do their job. Instead, they contributed to the crisis by encouraging banks to ‘hide’ their off-balance sheet commitments in special entities. Incentive structures mean a great deal – in every area and on every level. It had practically been forgotten that access to liquidity is critical to a functioning economy. We got a brutal reminder of that.

Ylva: Households have learnt that asset values do not keep rising forever. We have to have realistic expectations of the returns we can expect from various investments, and we have to understand that risk and potential are closely linked. But it is also important to set goals for our investments – clear criteria regarding how we will monitor and exit them. Exiting an equity investment in time is essential in order to avoid unnecessary risk. The bank could probably be even better in its advice. Hopefully, households can learn in the future not to take on too much risk based on their needs and wishes.

Cecilia: Economic psychology – how people think and act when faced with economic issues – is becoming an increasingly important area of research. It is people who create bubbles and create crises of various types. We have to learn more about how macro affects micro, and vice versa. We also have to learn more about the connection between the financial sector and the real economy.

What role do the banks play and what responsibilities do they have?

Cecilia: We can play a part in designing rules that are functional, and we can design better products that are easy to understand. These are important roles and a major responsibility.

Ylva: Naturally, banks have a role to play in providing information in connection with lending and encouraging a sound approach to borrowing. When providing advice on buying a home, it is especially important to look at the big picture, not only whether people have sufficient incomes and enough margins, but also how borrowers can find a good balance between assets and liabilities and how their financial situation in general is affected.

What will happen in the slightly longer term in our economy?

Cecilia: Various structural changes are being accelerated by the financial crisis and recession. At the same time, the upper end of the population pyramid continues to increasingly expand; fewer people are going to have to support increasingly more people. China and India continue to grow. An important issue going forward will be how the U.S. and China strike a balance. China cannot continue to live off the U.S. current account deficit and has to find a new growth model.

Ylva: Younger generations have different values than their parents. Sweden, for example, has a strong automotive tradition and an auto industry that, when you include all its suppliers, produces a lot of jobs. But something appears to have happened here. For young people in metropolitan areas, cars no longer seem as important to their identity. They take taxis and use public transport instead of buying a car or even getting a driver’s licence. Their identities are tied to other things.

Cecilia: Debt-financed growth is also bad for the climate. For this reason as well, we have to try to find a new ‘normal level’, not the old one with the same level of indebtedness. The huge stimulus packages we are now seeing will hopefully help the economy back on its feet, but the resulting large budget deficits will have to be paid back eventually.

Ylva: Yes, sustainability is becoming more of a day-to-day issue and affecting the choices we must make. Households that feel financially secure can do something for both the environment and their own wallets by taking advantage of the new household deductions (“ROT-avdrag”) in Sweden to make their homes more energy efficient. They receive help with the investment today, and will reduce their energy costs in the future. At the same time, we are pushing Sweden’s economic development in a positive direction.
Service leadership

Being accessible is just as much a question of attitude as infrastructure

Swedbank prides itself on openness. It should always be easy to contact us, regardless of the channel, and customers should always be treated in a friendly, personal manner.

Accessibility is the key to service leadership. In recent years, Swedbank’s goal has been to grow and become the biggest retail bank in its home markets: Sweden, Estonia, Latvia and Lithuania. Today we have reached our goal.

Size is in itself a value. It creates economies of scale, which benefit both customers and shareholders. From a shareholder’s perspective, our size puts us in a strong position for profit growth. It also allows us to spread risks.

With 10 million customers and nearly a thousand branches, Swedbank is the largest bank in Sweden and the Baltic countries. Thanks in large part to our size, we can be local, close by and accessible.

For customers, the most important factor is that we can be physically present – and accessible – not only through electronic channels. Swedbank commands a strong local presence through the industry’s largest retail network. Our focus on being a service leader is through personal interactions and a commitment to the individual customer. This would not be possible without our extensive retail network.

In addition to personal service at our branches, we offer other, efficient channels for information, sales and service. Our website was selected as the second best in Sweden in 2008, with the biggest improvement during the year. Swedbank was also one of the first banks to let its customers do their banking by mobile phone. Put simply, we will be wherever our customers are and wherever they want to do their banking.

Openness and accessibility are more than just a question of infrastructure; it is just as much about attitude and personality. Swedbank is working to be a more pleasant bank, warm, positive and accommodating. Swedbank is a bank that meets the needs of many people – 10 million, in fact. Our goal is that every one of them will be treated positively.

Openness, transparency and accessibility also characterize our relationship with shareholders and other stakeholders. Accessibility creates confidence in the bank.

Always close to customers

Sales and customer service are offered at branches, by telephone, Internet and ATMs, making the bank accessible for most people. At year-end, Swedbank had over 900 branches in 14 countries. These include our four home markets, Sweden, Estonia, Latvia, Lithuania, where most branches are situated, as well as Ukraine. Swedbank has 9.4 million private customers and 660,000 businesses and organizations.

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<th>Private customers</th>
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<td>Sweden 4.1 million</td>
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<td>Estonia 1.2 million</td>
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<td>Latvia 0.9 million</td>
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<td>Lithuania 3.1 million</td>
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<td>Ukraine 0.1 million</td>
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Service leadership

No matter how hard it is, we try to make it easy

Making things easy can be hard. This is certainly true in banking. Financial services can be complex, but our customers should not have to be experts to understand our services. All our products and services are designed with customer needs in mind and are easy to access, understand, buy and use.

We always try to simplify our processes and routines, in order to create a cost-effective organization that can focus on customer needs. In our product development, we put great effort into making complex services and solutions as uncomplicated as possible for both our customers and our employees. To provide good service, our employees obviously must understand our products. We also package our services as clearly and efficiently as possible.

For customers, we will always be uncomplicated, and our services will be easy to understand and use.

Difficult choices require simple solutions

Should I choose my own premium pension investments or get the help of a professional? Swedbank gives you a choice. With our PPM service, you can manage your entire PPM account through Swedbank instead of the Premium Pension Authority (PPM). You will find an informative overview of PPM funds and their performance in the Internet Bank. It is easy to switch between funds whenever you want. If you also have other pension savings with us, such as an occupational pension, we will combine the information to give you a good overview.

Those who want to make their own PPM choices but do not have the time can choose PPM Förvaltning. Select one of our four portfolios with a strategy and risk level that suits you. Then let our managers take care of the rest.

Being uncomplicated means simple, fast and efficient interactions through electronic channels, a straightforward, open dialogue with customers and clarity regarding terms and how our services work. We simply have to be easy to deal with as a bank.
Service leadership

Our aim is to always stay a step ahead

As a service leader, Swedbank must stand out by being proactive. This is based on an understanding of each customer’s needs and what is happening in our economy.

The bank tries to create customer value no matter what the situation through effective products and services in combination with professional financial advice. That includes taking the initiative to help each customer to manage and improve their financial situation in the best way possible.

Swedbank’s market analysis ranks among the best in the market and is available to customers in various ways to assist them in making financial decisions.

In 2009, Swedbank strengthened its already considerable product development resources. Various areas of operations have their own product and service development in so-called “product factories”. A Group-wide organization for product and service development is now bringing Swedbank’s competence and resources together in a single platform in order to utilize best practices from various parts of the organization, increase customer value and reduce time to market. The main focus is on creating flexible product platforms that generate economies of scale, at the same time that solutions can be better customized. The product areas that will initially be managed at the Group level are asset management, card issuance and processing, payments and capital market products. In time, this will help Swedbank to secure a position on the financial front line.

Regardless of the fact that we are now focusing so much attention on product development and innovation, being proactive essentially means understanding and committing to help individual customers given their situation and needs. This is done most effectively through personal interaction.

We will play a driving role in the relationships with our customers, taking the initiative to assist each one to manage and improve their financial situation in the best way possible. Being proactive will distinguish us more and more from other banks.

Good advice must be timely

Doing what is best for the customer is often the same thing as getting involved as early as possible – sometimes earlier than the customer expected. Such a proactive approach is now being used in Estonia, Latvia and Lithuania, where we have strengthened our resources and competence to advise both private and corporate customers.

We simply call up customers if we see that they are running the risk of financial problems. The point is to try to establish a dialogue long before the situation becomes critical. By reviewing every alternative with the customer in advance, Swedbank is able to provide timely advice that leads to beneficial solutions for both parties.
Service leadership

Taking responsibility is in our genes

Swedbank has a long tradition as a positive, responsible force in society. Our heritage from Sweden’s original savings banks and agricultural credit societies has given us a strong feel for the local community. We believe in the importance of being close to customers that only a local branch can provide, even if it happens to be in a bustling city.

Responsibility is in our genes. We also assume responsibility for our products and services and the relationships we build. Long-standing relationships require commitment and responsibility through thick and thin.

Naturally, a key element is responsible lending. We owe this responsibility to both our customers and shareholders. We maintain a conservative position with regard to risk. Although country risks have increased in Estonia, Latvia and Lithuania, our customer credit assessment has been just as prudent as in Sweden. Swedbank has invested over the years in building a highly qualified risk management function and thorough loan evaluation processes.

Taking responsibility for the environment and the local community while maintaining professional ethics is also a way to reduce risk exposure. Ethical dilemmas can be especially damaging to a bank. Swedbank naturally follows the laws and regulations in every country where it operates and has established internal policies and rules that are designed to instil confidence in the bank as a responsible player in the market and society.

We are strongly committed to our communities and sustainable development. You can read more about some of these projects on page 27. Our Swedish operations are environmentally certified according to ISO 14001, and environmental work is integrated into day-to-day operations.

Employees are of critical importance to every company, especially service companies, none more so than Swedbank, which has built its success through service leadership, particularly in personal interaction with customers. To remain successful, the bank must take responsibility for ensuring that employees thrive in their work and are offered opportunities for personal development.

Our view of sustainable development is based on taking responsibility – for our customers, shareholders, employees and the communities we work in. Only those who take responsibility build confidence.

A company that attracts talent

In the 2008 Corporate Barometer, a survey conducted by Universum Communications, Swedbank was rated the most popular financial company to work for by business students for the second consecutive year. In a reputational barometer conducted by Nordic Brand Academy, the bank was the best company in banking and finance. In its annual survey of major Swedish corporations, the insurance company Folksam ranked Swedbank as the most gender-equal.
Despite difficult market conditions in 2008, Swedbank maintained strong profitability. The bank’s return on equity was 15.2 percent and profit amounted to SEK 10,887m.

The bank’s ability, in spite of the downcast market sentiment, to generate stable earnings reflects a focus on services for private individuals (retail banking) and small and medium-sized companies as well as conservative risk management. The business model has also proven stable in a turbulent financial market.

The bank has a results-oriented culture that seeks to maintain a balanced risk profile. We prioritize limiting risks over maximizing profits. For our employees to be successful, they, too, must take risks, but they must be transparent and correctly priced.

Focus on home markets and long-term growth areas
The bank has four home markets – Sweden, Estonia, Latvia and Lithuania – where, through its extensive retail network, it offers customized, easy-to-use financial services at competitive prices. In addition to traditional banking and financial services, Swedbank provides advanced business services, capital market services, asset management and insurance.

In Sweden, its largest market, Swedbank is the retail banking leader in customer deposits, mortgage loans and fund management. Swedbank benefits from economies of scale, which also provide a stable platform for continued profitability.

The bank is a leader in the Baltic countries, where it has significant market shares in consumer lending and deposits and residential mortgage lending. The Baltic operations have developed strongly in recent years in terms of both growth and profitability, despite a slight slowdown. In 2008, emphasis was shifted from growth to operational efficiency due to the economic slowdown, but also because 2008 marked the beginning of a consolidation stage after a number of years of rapid growth.

An important element in Swedbank’s strategy is to cultivate large customer segments and establish long-term relationships and a high market share in all its home markets. Customer relations and efficient distribution of financial services are strategically more important than whether all the services are produced and managed internally. The bank offers its Swedish customers access to certain financial services from outside providers, including mutual funds, insurance and debit and credit cards.

To support operations in its home markets, the bank has expanded to neighbouring markets such as Finland, Norway and Denmark, as well as key financial centres such as the U.S., China, Japan and Luxembourg. Many of these countries are important trading partners for customers in the bank’s home markets.

Well-diversified loan portfolio with low risk
The bank strives to maintain a well-diversified loan portfolio with a low risk profile. Broad-based geographical distribution and the large number of customer relationships in many different segments and industries contribute to a low concentration of risk. All lending is also based on cash flow analyses and against collateral. Business operations are managed locally, as close to customers as possible, which further reduces credit risk.

In Sweden, mortgages are distributed through the wholly-owned subsidiary Swedbank Mortgage and represent about 49 percent of the bank’s total lending to the public. As of 31 December 2008, the average loan-to-value ratio in Swedbank Mortgage’s loan portfolio was approximately 46 percent.

“One Swedbank”
The “One Group Change” programme is designed to strengthen coordination, improve efficiencies and encourage knowledge to be shared between various parts of the Group. This is to create value by increasing sales as well as cost efficiencies.
Swedish Banking, Swedbank’s largest business area, has a leading position in the Swedish market. A wide range of products and services are offered to private individuals, companies, organizations and municipalities. Swedbank is the market leader in a number of segments, including mortgage loans, household savings, mutual funds, cards and payments. The retail network comprises 419 branches. Through co-operation agreements with the savings banks and partly owned banks, customers have access to the bank’s services through an additional 261 branches.

Against the backdrop of the uncertainty in the financial market in 2008, advisory services for private and corporate customers were intensified. The fact that Swedbank in autumn 2008 gained market share in mutual fund savings is attributable in large part to improvements to the advisory process. The mortgage market slowed during the second half of 2008. This was also an area marked by closer customer contacts and increased advisory services.

A number of areas are of particular interest going forward. For private customers, we have several product areas that are fairly noncyclical, such as property insurance, pension solutions and cards. In private banking and investment advice, cyclicalitiy is higher, but they remain priorities.

"Focus on advice, higher process efficiency and improvements to customer offerings."
Baltic Banking includes Swedbank’s operations in Estonia, Latvia and Lithuania, serving around 5.2 million private customers and 234,000 corporate customers. Baltic Banking is a market leader in savings and lending in the consumer segment, as well as cards and pensions. Swedbank is also the market leader in deposits and lending in the corporate sector in Estonia. Baltic Banking has the widest distribution network in the region, with 278 branches and more than 1,300 ATMs. More than 2.7 million customers use Swedbank’s Internet banking solution in the Baltic countries.

Baltic Banking operated under the Hansabank name until autumn 2008 when, as part of the strategy to utilize a single brand, a rebranding to the Swedbank name was started. As of 2009, the operating and management model will change as well. The establishment of a central business development unit for the entire Baltic region is the most important change.

In 2008, emphasis shifted from growth to operational efficiency partly due to the economic slowdown, but also because 2008 marked the start of a consolidation stage after a number of years of rapid growth. Several projects were initiated to raise efficiency and quality in the credit area and increase operational efficiency.

“The fact that we have shifted our focus from growth to operational efficiency is not only due to the economy.”
International Banking comprises all international business units that are not defined as home markets and separate strategic operating areas. These currently include the banking operations in Ukraine and Russia, the branch offices in Denmark, Finland, Norway, the U.S. and China, the subsidiary in Luxembourg and the representative offices in Japan and Spain. In addition, International Banking is responsible for the Swedbank Group’s overall relationships with banks and financial institutions.

Swedbank’s most important markets in International Banking – Ukraine and Russia – faced great uncertainty in 2008, mainly during the second half of the year. The rate of expansion has therefore been reduced, while focus has intensified on communications and co-operation with customers to mitigate the effects of any difficulties.

The new organizational structure introduced in 2008 will further improve support for international operations. The aim is that Swedbank’s operations in Ukraine and Russia will eventually develop into strategic business areas. For the Nordic branches, the top priority going forward is to co-ordinate customer offerings. The objective is to eventually create a fully integrated banking group with a single brand, a consistent offering and a uniform organization.

“Management and control have the highest priority, while growth objectives have been revised downward, although we see future potential.”
“By actively reviewing our customers’ investments, we can offer ongoing buy and sell recommendations.”

Swedbank Markets comprises capital market products and services and various types of project and corporate finance. Swedbank Markets offers trading in securities and derivatives in the equity, fixed income and foreign exchange markets as well as financing solutions and professional analysis and advice. The research unit issues ongoing research reports on some 150 Nordic companies. In addition to operations in Sweden, the business area includes the subsidiaries First Securities in Norway and Swedbank First Securities LLC in New York. Fixed income trading is conducted by the New York branch and through the Oslo branch in co-operation with First Securities. Project and Corporate Finance also has operations in Tallinn, Riga, Vilnius and through the subsidiary ZAO Swedbank Markets in Moscow and St. Petersburg.

In 2008, a project to create One Swedbank Markets reached the implementation stage. The project will be finalized in the first quarter of 2009. By combining local expertise in Estonia, Latvia, Lithuania, Norway and Sweden, Swedbank Markets can create competitive cross-border solutions for its customers.

In 2008, Swedbank Markets consolidated its leading position in the market for both structured products and equity trading. Changes to create a simpler, more attractive securities offering for customers proved successful. The Internet continued to develop positively as a sales channel.
Asset Management and Insurance comprises the Swedbank Robur Group and its operations in fund management, institutional and discretionary asset management, insurance and individual pension savings, as well as corporate pension solutions. Swedbank Robur is Sweden’s largest fund manager, with a market share of 27 percent of total assets under management. Swedbank Robur managed 128 funds at year-end, of which 29 were ethical and environmental funds.

Further development of the range of products and services, international expansion and co-ordination of asset management operations dominated the work in 2008. Swedbank Robur increased its market shares and strengthened its position as the largest fund manager in the Nordic region. In 2008, Swedbank Robur signed a trailblazing agreement with a Japanese bank that now offers Swedbank Robur’s Russia Fund to Japanese investors.

Due to the maturity of the Nordic mutual fund market, the life insurance and pension area is growing in importance. There, Swedbank Robur is well-positioned for the future through its co-operation with Swedbank and the Savings banks on distribution and advisory services. Expanded efforts in occupational pension solutions are expected in the future. International distribution of asset management products is also an important future area.

“Swedbank Robur has a strong position as the Nordic region’s largest fund manager in terms of assets under management and number of customers.”
Employees, competence, values

“One Swedbank” – a unified, sustainable business culture

Swedbank is a values-driven organization. To succeed in being a sustainable business, our employees must put these values into practice on a daily basis.

Our vision is to be a leader in the markets where we are active by simplifying our customers’ lives and their businesses. We believe in sound business principles and contribute to our communities and a cleaner environment. Together with our customers, we want to build a sustainable business.

We are convinced that the Group’s strong performance and growing international recognition are the result of a performance-oriented culture, clear, transparent communication, a willingness to change and our employees’ strong commitment.

The Group’s values are:

- **Results-oriented** – we want to achieve good results in everything we do
- **Open** – we are transparent and open in our communication
- **Innovative** – we are willing to learn and ready to change
- **Committed** – together we are building a sustainable business.

The One Group Change-programme was established in 2008 to strengthen coordination, enhance efficiency and increase the exchange of competence throughout the Group.

**Policies as tools in day-to-day work**

In 2008, several Group-wide guidelines and policies were established and implemented to ensure that daily operations are in line with our goals and values. Some are totally new and others have been adapted to our home markets outside Sweden.

A Corporate Social Responsibility (CSR) policy was established in 2008 based on the Global Compact’s principles on human rights, labour standards, the environment and anti-corruption. The environmental policy that has been in place in the Swedish operations for several years has now been revised and implemented in other areas to cover the entire Group.

Diversity and gender equality are fundamental to Swedbank, and a new policy adopted in 2008 has taken us a step closer to the more open-minded attitude we want throughout the organization and in our day-to-day interactions with customers, communities and others.

During the year, Swedbank exceeded its earlier gender equality goal of 43 percent women in executive management in Sweden. As a result, Folksam named it the most gender-equal bank on the OMXS30 for the fifth time in its annual equality index.

As Swedbank expands to new markets, we take the bank’s values and ways of working with us when we train our employees to create a more open and sustainable presence. During the year, we also began working on a sponsorship policy that limits and defines the projects the bank will support.

**Financial industry’s favourite employer**

Offering employees continuous training and development opportunities is crucial to Swedbank as well as the employees themselves. It contributes to the bank’s long-term survival and employees’ job satisfaction. We expect this approach was one reason why in 2008 Swedbank was named the most popular company to work for in the Swedish financial industry for the second consecutive year, according to the Corporate Barometer survey, as well as Lithuania’s most popular employer, according to Gallup.

Employees who like their work also contribute to lower absenteeism and higher efficiency. Swedbank works actively to prevent ill-health and offers various occupational health services. An important
aspect is to prevent workplace injuries and the impact of a robberies, for example, on the employees involved. Swedbank has a support group that can quickly be in place when a threatening situation occurs and is available to employees and their families afterward.

In 2008, Swedbank established a policy on health and work environments which includes action plans for workplace discrimination, zero tolerance of harassment and a programme of diversity initiatives within the bank. Swedbank is working actively to ensure that no one, whether employee, customer or anyone who comes into contact with the bank, feels discriminated. This work is monitored by the diversity and gender equality committee appointed in 2008.

Competence and leadership
In its aim to be a service leader, Swedbank continues to invest in competence development with a focus on improving the quality of customer service. To meet its future leadership needs, the Group takes a far-sighted approach to talent management, including encouraging employees to gain international experience. The qualities and prerequisites for a leader are described in the Group’s leadership criteria, which are based on the bank’s shared values. A leader at Swedbank understands the bank’s business, takes initiative and puts the customer first. A leader helps employees to develop and acts in the best interest of the Group.

In 2008 Swedbank was named the most popular company to work for in the Swedish financial industry for the second consecutive year, according to the Corporate Barometer survey, as well as Lithuania’s most popular employer, according to Gallup.
Sustainable development
Without a sustainable society, no sustainable economy

An important part of Swedbank’s heritage is its contributions to a sustainable society. In our view, without long-term environmental and social development, long-term economic development would not be possible.

For Swedbank, the environment is important for both ideological and commercial reasons. We see a clear connection between concern for the environment and profitability, so it is natural that environmental considerations are an integral part of our operations.

As a bank, we can impact the environment by our own internal activities and indirectly through our customers and suppliers. Maintaining a dialogue with suppliers and conducting periodic analyses from environmental and quality perspectives are an important part of the purchasing process and environmental work.

Working with sustainability is, in many respects, a question of managing risks and costs. In connection with lending, we have to make sure any environmental risks can be turned into environmental improvements, so that we benefit the customer, our business, the environment and, ultimately, society as a whole. We want to turn risks into business opportunities. There is clear evidence that companies that are leaders in sustainability are also in a better position to be leaders financially.

Developing green products and services
Our customers want products and services that benefit society and the environment. By offering them green savings alternatives, investment opportunities and loans, we can work together to reduce environmental impacts and build a sustainable business. Our Swedish operations have developed and offered environmentally related products and services for many years, and several similar initiatives are now being taken in Baltic Banking operations. Among the products currently offered in both markets are socially responsible and environmentally related investments as well as loans with favourable terms to buy green cars or for green housing.

One area where the bank has a large indirect impact is through environmental analyses, which are an integral part of corporate loan applications. An analysis can also show whether it is commercially and environmentally warranted to grant a loan for investments to reduce a company’s environmental impact, even if the initial assessment shows there could be a negative impact.

Swedbank is also cooperating with the World Wildlife Fund through the WWF card. In 2008, WWF card usage generated SEK 6.4m for the organization. By focusing on electronic channels and on reducing cash handling, we can bring about a reduction in cash transports.

Measuring success
Environmental goals have been established for the entire Group for 2009. At the same time, efforts are under way to create uniform models to measure the environmental impact in Swedish, Baltic and International Banking. The goal in Sweden — that our employees feel it is important to consider the environmental aspect — was reached in 2008. Similar surveys have been taken in Estonia and in Lithuania. In Lithuania, for example, 94 percent of employees felt that environmental aspects are important and 20 percent responded that they consider the environment in their daily work.

2009 will be the first year that environmental goals are in place for Baltic and International Banking. In Swedish Banking, the process of establishing and monitoring goals has existed for many years. Environmental goals and results in 2008 for Swedish Banking, including subsidiaries in Sweden are as follows:

- 60% of our customers feel that Swedbank is Sweden’s most socially responsible bank.
  - Result 2008: Private customers 56% and corporate customers 61%.
- 60% of our customers feel that Swedbank is Sweden’s most environmentally responsible bank.
  - Result 2008: Private customers 52% and corporate customers 67%.
- 85% percent of the bank’s employees feel it is important to consider the environment in their interactions with customers and suppliers.
  - Result 2008: 85% (2007: 84%, 2006: 77%)
- We will reduce the amount of paper we buy by 10%.
  - Result: 1%
- We will reduce our carbon footprint (from corporate travel) by 10%.
  - Result: ~19%
Working with internal activities

Banking has little direct impact on the environment. Still, it is important to work conscientiously and actively in areas where we can make an impact. One area is travel. By reducing business trips and encouraging employees to use alternative meeting solutions such as telephone and video conferences, we reduce our direct environmental impact. Paper consumption, use of electricity from renewable sources, electronic customer statements and responsible waste management were also important priorities in 2008 in the Swedish operations as well as in Estonia, Latvia and Lithuania.

In the spring of 2008, a climate group was formed on the initiative of Swedbank’s Board of Directors. The group meets periodically to discuss the impact of climate change on the bank’s business and markets and to formulate the bank’s strategies on this issue. The climate group reports directly to the Board.

Swedbank in the society

Today Swedbank is a major player in sponsorships and events in all our home markets. This has always been an important part of the bank’s strategy to be a strong local player, to stay close to our customers and to be committed to our local communities. Among the examples is our work with the Swedish organization Friends, which helps to prevent bullying and visits 12–15 schools every day. Our donation of approximately SEK 3m per year enables Friends to do this. In Sweden, we also have a project called Expeditionsverige.se with photographer Mattias Klum that is inspiring us all to discover the environment and nature. Our contribution is SEK 2m per year, and here we co-operate with both the savings banks and the savings bank foundations. In the Baltic countries, we are working with several projects, including with Save the Children on anti-bullying and the Swedbank Art Award, which is drawing attention to modern art.

Transparent reporting

Corporate responsibility is closely associated with the bank’s community relations, long-term profitability and survival. We therefore want to be clearer in how we present the work we are doing to create a sustainable business. Measures were reintroduced in 2008 to report using the UN’s Global Reporting Initiative (GRI), which will be presented on the bank’s website beginning in the first half of 2009.

Environmental impact through products and services

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<tr>
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</thead>
<tbody>
<tr>
<td>Environmental analysis in connection with credit issuance</td>
<td>287 400 corporate customers*</td>
<td>275 000 corporate customers*</td>
<td>262 000 corporate customers*</td>
</tr>
<tr>
<td>Environmental and socially responsible funds</td>
<td>SEK 50bn</td>
<td>SEK 60bn**</td>
<td>SEK 13.5bn</td>
</tr>
<tr>
<td>Energy loans</td>
<td>818 loans volume SEK 60.7m</td>
<td>729 loans volume SEK 57.7m</td>
<td>474 loans volume SEK 39.5m</td>
</tr>
</tbody>
</table>

* Refers to total number of corporate customers in Swedish operations.
** SEK 10bn of which is managed according to Robur’s stricter sustainability criteria.

Environmental impact through internal activities in Swedish operations*

<table>
<thead>
<tr>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of employees</td>
<td>9 408</td>
<td>9 551</td>
</tr>
<tr>
<td>Purchases of paper, envelopes and forms</td>
<td>1 157 tonnes</td>
<td>1 146 tonnes</td>
</tr>
<tr>
<td>Green electricity</td>
<td>46.6 GWh</td>
<td>47.8 GWh</td>
</tr>
<tr>
<td>Business travel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car</td>
<td>5 420 000 km 954 tonnes CO₂</td>
<td>5 911 155 km 1 040 tonnes CO₂</td>
</tr>
<tr>
<td>Air</td>
<td>15 057 458 km 1 557 tonnes CO₂</td>
<td>13 557 470 km 1 087 tonnes CO₂</td>
</tr>
<tr>
<td>Rail</td>
<td>4 976 640 km 0.029 tonnes CO₂</td>
<td>4 711 320 km 0.027 tonnes CO₂</td>
</tr>
<tr>
<td>Total travel</td>
<td>3 268 tonnes CO₂</td>
<td>3 120 tonnes CO₂</td>
</tr>
<tr>
<td>Security transports</td>
<td>1 300 000 km 302 tonnes CO₂</td>
<td>1 879 660 km 402 tonnes CO₂</td>
</tr>
<tr>
<td>Total transports</td>
<td>3 570 tonnes CO₂</td>
<td>3 522 tonnes CO₂</td>
</tr>
</tbody>
</table>

* After reviewing previously reported data, adjustments have been made in the bank’s environmental statistics, due to which the information in the above table may differ from previous years’ reports.
Financial objectives

Return on equity
Swedbank’s return on equity shall exceed the average for its peer group. The peer group comprises SEB, Handelsbanken, Nordea, Danske Bank and DnB NOR. In 2008, Swedbank’s ROE was 17.1 percent excluding impairment of goodwill of SEK 1 403m and 15.2 percent (18.9) including impairment of goodwill. The average for the peer group was 11.2 percent (19.2).

Earnings per share
Swedbank shall maintain sustainable growth in earnings per share exceeding the average for its peer group. Average growth from 2003 to 2008 was 14.3 percent excluding impairment of goodwill of SEK 1 403m and 11.6 percent including impairment of goodwill. The average for the peer group was 2.3 percent.

Operational efficiency
The C/I ratio shall remain below 0.50 in the long term. C/I measures operational efficiency as the ratio between costs and income. In 2008, the C/I ratio was 0.50 excluding impairment of goodwill of SEK 1 403m and 0.53 percent (0.51) including impairment of goodwill.

Capital adequacy
In July 2008, Swedbank’s Board of Directors decided on a new tier 1 objective that takes into account the full effect of the new capital adequacy regulation. The tier 1 capital ratio shall now be within the range of 8.5–9.0 percent. This represents an increase from the previous objective of around 6.5 percent based on the transitional rules in the capital adequacy regulation. At year-end 2008, the tier 1 capital ratio was 8.4 percent according to the transition rules. According to the new rules, the tier 1 capital ratio was 11.1 percent including total subscribed capital.

Dividend
The dividend, excluding one-off items, shall amount to around 40 percent of after-tax earnings. The size of the dividend is based on the latest dividend and is determined with reference to expected profit trends, the capital considered necessary to develop operations and the market’s required return. The Board of Directors’ proposed that no dividend will be paid to preference shares or ordinary shares (SEK 9.00 per ordinary share) for the financial year 2008.

* Excluding impairment of goodwill of SEK1 403m.  ** Including total subscribed capital.
Continued solid profitability and a strong financial position for the future

Despite difficult market conditions, Swedbank maintained good profitability in 2008. The rights issue in the fourth quarter further strengthens Swedbank’s financial position.

Higher income
Swedbank’s income increased by 11 percent in 2008 to SEK 36,463m. Excluding capital gains, income rose by 7 percent.

Net interest income increased by 13 percent to SEK 21,702m mainly due to higher business volumes. The lending portfolio accounted for SEK 1,419m of the increase, while savings operations accounted for SEK 906m and other operations for SEK 220m.

Net commission income fell by 11 percent to SEK 8,830m. Income from stockmarket-related operations fell by SEK 1,096m and corporate finance decreased by SEK 286m. Income from payment commissions increased by SEK 400m.

Net gains and losses on financial items at fair value increased by 39 percent to SEK 2,351m, after a lower net profit in the Baltic operations was significantly offset by positive changes in market value in Swedbank Mortgage and exchange rate gains in the Ukrainian operations.

Insurance operations developed positively during the year. Net insurance decreased, however, by 18 percent to SEK 452m compared with 2007, when withdrawals from technical reserves affected net insurance positively.

Higher expenses
Swedbank’s expenses increased by 8 percent to SEK 18,085m. SEK 493m of the increase is due to the acquired Ukrainian banking operations and SEK 101m to amortization of the Hansabank trademark, which is no longer used by Baltic Banking.

Staff costs increased by 3 percent to SEK 10,092m. Non-profit-based compensation increased by SEK 1,008m, mainly outside Sweden, while profit-based staff costs decreased by SEK 708m, mainly due to Baltic Banking and First Securities.

Other general administrative expenses rose by 15 percent to SEK 7,993m mainly due to expansion and changes outside Sweden as well as higher costs for security transports and security in Sweden.

Loan losses
Loan losses amounted to SEK 3,156m, corresponding to a loan loss ratio of 0.28 percent. Loan losses increased by SEK 523m in Swedish Banking, by SEK 1,350m in Baltic Banking, by SEK 308m in International Banking and by SEK 290m in Swedbank Markets.

BUSINESS VOLUMES AND PROFIT BY BUSINESS AREA

Swedish Banking
Profit for the year increased by 4 percent to SEK 6,425m. The return on allocated equity was 21.8 percent. Excluding one-off items, income in Swedish Banking increased by 3 percent to SEK 18,267m. Net interest income increased by SEK 139m to SEK 11,840m due to further volume increases in both deposits and lending. Net commission income decreased by 9 percent to SEK...

Key figures

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
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<tbody>
<tr>
<td>Return on equity, %</td>
<td>17.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Tier 1 capital ratio (new rules), %</td>
<td>11.1</td>
<td>8.5</td>
</tr>
<tr>
<td>Core tier 1 capital ratio (new rules), %</td>
<td>9.7</td>
<td>7.3</td>
</tr>
<tr>
<td>C/I ratio*</td>
<td>0.50</td>
<td>0.51</td>
</tr>
<tr>
<td>Loan loss ratio, %</td>
<td>0.28</td>
<td>0.07</td>
</tr>
<tr>
<td>Share of impaired loans, %</td>
<td>0.52</td>
<td>0.13</td>
</tr>
<tr>
<td>Profit for the year attributable to shareholders of Swedbank AB, SEKm*</td>
<td>12,290</td>
<td>11,996</td>
</tr>
<tr>
<td>Risk-weighted assets (new rules), SEKbn</td>
<td>897</td>
<td>600</td>
</tr>
</tbody>
</table>

* Excluding impairment of goodwill, SEK 1,403m, 2008.
** Including total paid-in capital, 2008.
Swedbank Markets
Profit for the year decreased by 30 percent to SEK 629m. The return on allocated equity was 17.6 percent. Income fell by 7 percent to SEK 3 045m. First Securities’ income decreased by SEK 243m. Expenses decreased by SEK 8m to SEK 1 854m. Non-staff-related costs increased by SEK 73m. Loan losses increased from SEK 0 to SEK 290m, of which SEK 169m relates to write-offs of trading assets in connection with Lehman Brothers’ bankruptcy, while SEK 121m relates to First Securities, primarily overleveraged securities accounts.

Asset Management and Insurance
Profit for the year decreased by 25 percent to SEK 3 649m mainly due to higher loan losses. The return on allocated equity was 24.4 percent. Income in Baltic Banking rose by 7 percent to SEK 9 413m. Net interest income increased by 14 percent to SEK 6 448m. Increased deposit and lending volumes affected net interest income positively, while a lower lending margin had the opposite effect. Net commission income increased by SEK 71m to SEK 1 925m mainly due to higher payment and card commissions. At the same time, equity-related income decreased. Expenses increased by 1 percent to SEK 3 597m. The loan loss level increased from 0.35 to 0.98 percent, and the share of impaired loans increased from 0.47 to 2.31 percent. Lending increased by SEK 41bn to SEK 218bn. However, SEK 30bn of the increase is due to exchange rate effects from the translation to Swedish kronor.

Strong financial position
In autumn 2008, the Board of Directors decided to proactively strengthen Swedbank’s capitalization through a rights issue, despite the bank being in a sound financial position and having adequate capitalization without the capital injection. The decision to further strengthen the balance sheet was made against the backdrop of the unusually high volatility in the capital markets and uncertain macroeconomic prospects. After transaction costs, the issue provided Swedbank with proceeds of SEK 11 975m. The tier 1 capital ratio including total subscribed capital according to the new rules was 11.1 percent as per 31 December 2008. According to the transitional rules, the tier 1 capital ratio amounted to 8.4 percent, compared with 6.2 percent in 2007.

The Board of Directors proposes that the Annual General Meeting approve no dividend for preference shares and ordinary shares (SEK 9.00 per ordinary share).
## Income statement

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
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<tbody>
<tr>
<td><strong>SEKm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>79 563</td>
<td>67 087</td>
</tr>
<tr>
<td><strong>Interest expenses</strong></td>
<td>-57 861</td>
<td>-47 930</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>21 702</strong></td>
<td><strong>19 157</strong></td>
</tr>
<tr>
<td><strong>Dividends received</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commission income</strong></td>
<td>12 241</td>
<td>12 939</td>
</tr>
<tr>
<td><strong>Commission expenses</strong></td>
<td>-3 411</td>
<td>-3 059</td>
</tr>
<tr>
<td><strong>Net commissions</strong></td>
<td><strong>8 830</strong></td>
<td><strong>9 880</strong></td>
</tr>
<tr>
<td><strong>Net gains and losses on financial items at fair value</strong></td>
<td>2 351</td>
<td>1 691</td>
</tr>
<tr>
<td><strong>Insurance premiums</strong></td>
<td>1 563</td>
<td>1 711</td>
</tr>
<tr>
<td><strong>Insurance provisions</strong></td>
<td>-1 111</td>
<td>-1 163</td>
</tr>
<tr>
<td><strong>Net insurance</strong></td>
<td><strong>452</strong></td>
<td><strong>548</strong></td>
</tr>
<tr>
<td><strong>Share of profit or loss of associates</strong></td>
<td>512</td>
<td>424</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>2 616</td>
<td>1 224</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>36 463</strong></td>
<td><strong>32 924</strong></td>
</tr>
<tr>
<td><strong>Staff costs</strong></td>
<td>10 092</td>
<td>9 792</td>
</tr>
<tr>
<td><strong>Other general administrative expenses</strong></td>
<td>6 994</td>
<td>6 222</td>
</tr>
<tr>
<td><strong>Total general administrative expenses</strong></td>
<td><strong>17 086</strong></td>
<td><strong>16 014</strong></td>
</tr>
<tr>
<td><strong>Depreciation/amortisation and impairment of tangible and intangible fixed assets</strong></td>
<td>999</td>
<td>705</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>18 085</strong></td>
<td><strong>16 719</strong></td>
</tr>
<tr>
<td><strong>Profit before loan losses</strong></td>
<td>18 378</td>
<td>16 205</td>
</tr>
<tr>
<td><strong>Impairment of goodwill</strong></td>
<td>1 403</td>
<td></td>
</tr>
<tr>
<td><strong>Loan losses, net</strong></td>
<td><strong>3 156</strong></td>
<td><strong>619</strong></td>
</tr>
<tr>
<td><strong>Impairment of financial fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td><strong>13 819</strong></td>
<td><strong>15 586</strong></td>
</tr>
<tr>
<td><strong>Appropriations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax expense</strong></td>
<td>2 880</td>
<td>3 450</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>10 939</strong></td>
<td><strong>12 136</strong></td>
</tr>
<tr>
<td><strong>Profit for the year attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders of Swedbank AB</strong></td>
<td>10 887</td>
<td>11 996</td>
</tr>
<tr>
<td><strong>Minority interest</strong></td>
<td>52</td>
<td>140</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SEK</strong></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earnings per share</strong></td>
<td>19.44</td>
<td>21.78</td>
</tr>
<tr>
<td><strong>Earnings per share after dilution</strong></td>
<td>19.44</td>
<td>21.78</td>
</tr>
</tbody>
</table>
The increase in net interest income was mainly the result of higher deposit and lending volumes.

The decrease in net commission income was mainly due to lower income from stockmarket-related operations and corporate finance. Income from payment commissions rose.

Swedbank’s expansion outside Sweden contributed to the higher expenses.

Goodwill related to the acquisition of the Ukrainian operations was written down by SEK 1,403m due to diminished macroeconomic prospects in Ukraine.

The recession led to an increase in the loan loss level from 0.07 percent to 0.25 percent.
## Balance sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Group</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with central banks</td>
<td>29 060</td>
<td>21 200</td>
<td></td>
</tr>
<tr>
<td>Treasury bills and other bills eligible for refinancing with central banks, etc.</td>
<td>27 978</td>
<td>37 134</td>
<td></td>
</tr>
<tr>
<td>Loans to credit institutions</td>
<td>128 536</td>
<td>174 014</td>
<td></td>
</tr>
<tr>
<td>Loans to the public</td>
<td><strong>1 287 424</strong></td>
<td><strong>1 135 287</strong></td>
<td></td>
</tr>
<tr>
<td>Bonds and other interest-bearing securities</td>
<td>105 716</td>
<td>78 358</td>
<td></td>
</tr>
<tr>
<td>Fund shares for which customers bear the investment risk</td>
<td>51 638</td>
<td>69 324</td>
<td></td>
</tr>
<tr>
<td>Shares and participating interests</td>
<td>6 557</td>
<td>6 101</td>
<td></td>
</tr>
<tr>
<td>Investments in associates</td>
<td>1 987</td>
<td>2 193</td>
<td></td>
</tr>
<tr>
<td>Investments in Group entities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>128 055</td>
<td>36 984</td>
<td></td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>19 577</td>
<td>20 139</td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>3 274</td>
<td>2 688</td>
<td></td>
</tr>
<tr>
<td>Current tax assets</td>
<td>1 718</td>
<td>686</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>62</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>13 619</td>
<td>14 157</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and accrued income</td>
<td>6 489</td>
<td>9 708</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>1 811 690</strong></td>
<td><strong>1 607 984</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and equity</th>
<th>Group</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts owed to credit institutions</td>
<td>316 730</td>
<td>163 785</td>
<td></td>
</tr>
<tr>
<td>Deposits and borrowings from the public</td>
<td><strong>508 456</strong></td>
<td><strong>458 375</strong></td>
<td></td>
</tr>
<tr>
<td>Debt securities in issue, etc.</td>
<td><strong>593 365</strong></td>
<td><strong>673 116</strong></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities for which customers bear the investment risk</td>
<td>52 074</td>
<td>69 019</td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>116 720</td>
<td>36 267</td>
<td></td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>1 190</td>
<td>536</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>1 769</td>
<td>2 196</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>71 335</td>
<td>75 366</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses and prepaid income</td>
<td>13 062</td>
<td>15 511</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>5 772</td>
<td>4 954</td>
<td></td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>44 755</td>
<td>39 736</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1 725 228</strong></td>
<td><strong>1 539 661</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>Group</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority interest</td>
<td>232</td>
<td>315</td>
<td></td>
</tr>
<tr>
<td>Equity attributable to shareholders of the parent company</td>
<td><strong>86 462</strong></td>
<td><strong>68 323</strong></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>86 462</strong></td>
<td><strong>68 323</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total liabilities and equity</th>
<th>Group</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>1 811 690</strong></td>
<td><strong>1 607 984</strong></td>
<td></td>
</tr>
</tbody>
</table>
Private and corporate lending is Swedbank’s core business. About half of the bank’s loans to the public consists of mortgages in Sweden.

Private and corporate deposits are an important part of Swedbank’s core business. Swedbank has a stable base of deposits in Sweden and the Baltic countries and very high market shares.

Lending that is not financed by deposits, subordinated loans and shareholders’ equity is funded in the capital market. Primarily mortgage loans in Swedbank Mortgage.

Equity constitutes our shareholders’ reported net assets in the company. During the fourth quarter, SEK 12bn in new equity was raised through a rights issue.
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