Swedbank

Risk and Capital Adequacy 2007

Contents

Introduction

On February 1st 2007, new capital adequacy rules (Basel 2) came into effect in Sweden. The regulations strengthen the link between risk taking and capital requirements and entail, among other things, stricter requirements on banks concerning risk management and information disclosure. This is Swedbank's first yearly report on risk management and capital adequacy according to the new rules.

This report comprises the Swedbank Financial Companies Group and pertains to conditions as of 31 December 2007. It is available at www.swedbank.com and is published simultaneously with Swedbanks Annual Report for 2007.

Information is provided on the capital base, capital requirements and risk management of the most significant companies and subsidiaries within the Swedbank Group: Swedbank AB, Swedbank Mortgage and Hansabank. Hereinafter, full company names will be given when referring to the relevant legal unit. With reference to Swedbank AB, the term "parent company" may also be used.

New capital adequacy legislation and guidelines issued by the Swedish Financial Supervisory Authority came into force on February 1st 2007. They are based on EU directives that are in line with the Basel 2 accord.

SWEDBANK'S RISK AND CAPITAL POLICY

By establishing the group's risk and capital policy, the Board of Directors sets guidelines for the CEO regarding the group's control, management and assessment of risk, as well as its assessment and management of capital. The policy describes the connection between risk and capital and how risk and capital management shall support the business strategy.

Swedbank´s risk and capital management aim at ensuring a high return on shareholders' equity, while maintaining an adequate capital level in order not to fall short of the legal minimum requirement, as well as securing access to cost-efficient funding even under unfavourable conditions.

Swedbank's low risk profile is characterized by a well diversified Credit Portfolio, limited risks in the financial markets and a low level of operational risk.

New capital adequacy rules – Basel 2

The rules on capital adequacy - the regulatory capital - expresses legislators' opinion of how much capital, called the capital base, a credit institution such as the bank must have in relation to the size of the risks it takes expressed in the form of risk weighted assets. The most important part of the capital base is the shareholders' equity. In addition to equity the institution may issue certain liabilities such as subordinated loans to be included in the capital base as well. The legal minimum requirement stipulates that the capital base must correspond to at least 8 percent of the risk-weighted assets.

The parliament of Sweden has adopted a new law on capital adequacy and large exposures that came into effect on February 1, 2007. Since the new law entails major changes compared to previous law, it is implemented in stages (the transition period) over a three-year period through 2009. The transition rules requires - among other things - that the capital base must at least correspond to 95 percent (2007), 90 percent (2008) and 80 percent (2009) respectively of the capital required for credit and market risks calculated according to the previous capital adequacy directive, Basel 1.

According to the new rules, there are two principal methods to calculate the capital requirement for credit risks: the standardized method and the IRB method. In the IRB method the capital requirement, to a greater degree than before, is linked to the bank's current and future risk profile, its own risk measures and an assessment of risk capital needs. The IRB method applies to banks with sophisticated and well developed risk measurement processes. Before applying the IRB method, the banks are required to seek approval from the Financial Supervisory Authority. For banks that do not meet the required standard, the capital requirement will be based on the standardized method which is very similar to the previous method. In addition to the capital requirement for credit and market risks a capital requirement is also introduced for operational risks.

Another of the most important changes in the new rules is the requirement that the institutions prepare and document its own internal capital adequacy assessment process (Pillar 2). All relevant sources of risk must be taken into account when assessing the total capital needed, i.e. not only those already included when calculating the capital requirement for credit, market and operational risks (Pillar 1). Moreover, the new rules include requirements on the institution to disclose comprehensive information about its risks, risk management and associated capital requirements (Pillar 3).

Further information is available at www.fi.se

Capital base and capital requirement

Swedbank shall maintain an effective capital base that by its size and structure ensures:

- a high return on shareholders' equity
- that the level of capital always meets the legal minimum requirement
- access to cost-efficient funding even under unfavourable conditions

INTRODUCTION

Swedbanks capitalization, i.e. the capital base in relation to risk exposure expressed as risk weighted assets, shall be maintained at an appropriate level to operate and develop the business.

The capital adequacy directive expresses the requirement of lawmakers as to how much capital—the capital base—a credit institution such as a bank must have in relation to the risk the institution faces. The primary component of the capital base is the institution's equity capital, but subordinated debt can also be included.

Under the new capital adequacy directive that came into effect in 2007, the capital requirement shall be linked to the bank's current and future risk profile, internal risk measurement and assessment of the risk capital needed. In addition to capital requirements for credit risk, market risk and operational risk (Pillar 1), all other risks, e.g. concentration risks, earnings volatility risk and strategic risks must be taken into account when assessing the total capital need (Pillar 2). Since these rules impose significant changes compared with the previous regulations, they will be gradually implemented over three years and completed at the end of 2009. One implication of this is that the size of the capital base during the transition period to a large extent will be based on requirements calculated according to the former capital adequacy rules.

The Pillar 1 minimum capital requirement with respect to the transition rules is presented in Capital adequacy – the First Pillar on page 5, whereas the internal capital adequacy assessment process describing Swedbanks total capital need according to Pillar 2 is described in Internal capital adequacy assessment – the Second Pillar, on page 7.

SWEDBANK'S CURRENT RATING

Moody's			Standard & Poors		Fitch	
Short-term	Long-term	BFSR*	Short-term	Long-term	Short-term	Long-term
P-1	Aaa	A	A-1+	AAA	F1+	AAA
P-2	Aa1	B+	A-1	AA+	F1	AA+
P-3	Aa2	B	A-2	AA	F2	AA
No prime	Aa3	C+	A-3	AA-	F3	AA-
	A1	C	B	A+	B	A+
	A2	D+	C	A	C	A
	A3	D	D	A-	D	A-
	Baa1	E+		BBB+		BBB+
	Baa2	E		BBB		BBB
	Baa3			BBB-		BBB-

* Bank Financial Strength Ratings

Swedbank's significant subsidiaries have the following ratings:

Swedbank Mortgage

- S&P short-term rating A1, Moody's short-term P1 and long-term Aa1, FITCH short-term F1+ and long-term AA-.

Hansabank

- Moody's short-term P1 and long-term Aa2, FITCH short-term F1 and long-term A.

FINANCIAL OBJECTIVES

The financial objectives decided by the Board of Directors that are most relevant to the capitalization of the financial companies group are: capital adequacy ratio, tier 1 capital ratio and dividend ratio.

The capital adequacy ratio will at least meet the level that at any given time is considered appropriate to maintain sustainable financial stability and develop operations. The tier 1 capital ratio will average 6.5 percent.

The dividend will amount to around 40 percent of after-tax earnings, excluding one-offs. The size of the annual dividend is based on the last dividend and is determined with reference to expected profit trends, the capital considered necessary to develop operations, and the market's required return.

RATING

Because the ratings agencies' credit assessment of an undertaking is based on its financial stability and assessed risk profile, Swedbanks capitalization also affects its rating. Reaching an adequate rating conduces in achieving a cost-effective funding and facilitates access to both domestic and international capital markets even under stressful market conditions. The higher the rating is, the lower is the cost of funding. Swedbanks current rating is shown in bold face type in the table on the previous page.

CAPITAL ADEQUACY – MINIMUM CAPITAL REGUIREMENT - THE FIRST PILLAR

Under the Swedish Capital Adequacy and Large Exposures Act the capital base must at least be equivalent to the sum of the capital requirements for credit risks, market risks and operational risks. Under the regulatory framework there are two main methods for calculating the minimum capital requirement for credit risks: the standardized approach and the IRB approach. In both methods each exposure in terms of a contract or a counterparty is assigned to a risk class. The difference between the methods is that the standardized approach specifies a limited number of risk weights and risk classes. In the IRB approach on the other hand exposures are assigned to a two dimensional risk scale and the risk weights are obtained using the institution's internally developed rating systems. In March 2007 Swedbank received authorization from the Swedish Financial Supervisory Authority to apply the IRB approach when measuring the capital requirement for credit risk for the major part of the Swedish Credit Portfolio. As of 2007 Swedbank is therefore applying the IRB approach to approximately 77 percent of the group's credit exposures. In 2008 the Swedish Financial Supervisory Authority is expected to assess whether the IRB approach can also be applied to the Baltic part of the Credit Portfolio and to the Credit Portfolio in Swedbank Finance, when measuring the capital requirement for credit risk. The goal is to start applying the IRB approach on these portfolios during 2009.

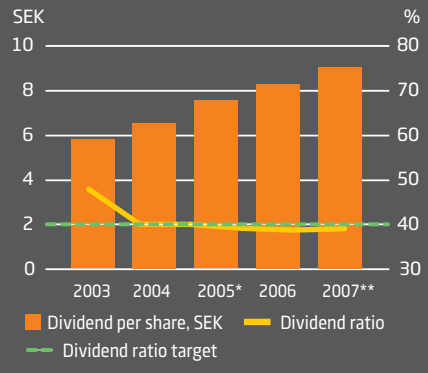
The capital requirement for market risks can be calculated in accordance with two methods, the standardized method and the internal method. Swedbank bases its calculations on internal methods, so called Value-at-Risk assessments, combined with methods and standard values specified by the Swedish Financial Supervisory Authority.

CAPITAL ADEQUACY IN THE SWEDBANK FINANCIAL COMPANIES GROUP AS OF 31 DECEMBER 2007

SEKm	Basel 2 with transitional rules	Basel 2 without transitional rules
Pillar 1		
Capital base	76,456	76,456
Capital requirement	65,789	48,020
Surplus of capital	10 667	28,436
Capital quotient	1.16	1.59
Risk-weighted amount	822 363	600,248
Tier 1 capital ratio, %	6.2	8.5
Capital adequacy ratio, %	9.3	12.7

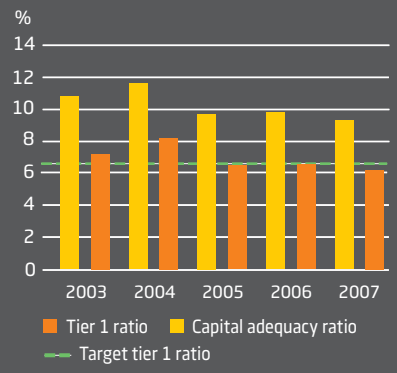
Equivalent tables for capital adequacy in Swedbank AB, Swedbank Mortgage and Hansabank can be found in the appendix, on page 24. The appendix also contains tables giving more detailed information on capital requirements, total and by country, page 25.

Dividend



* Dividend ratio excluding one-offs
** Dividend proposed by the Board of directors

Capital adequacy *



* New capital adequacy rules (Basel 2) as of Q1 2007

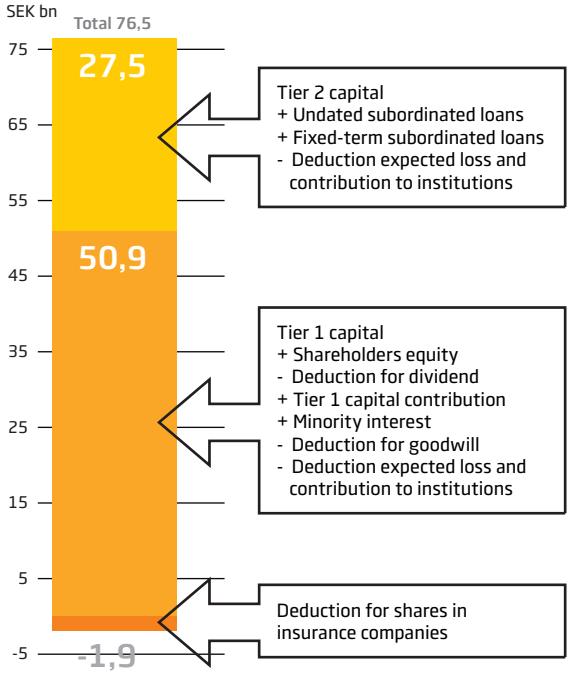
For operational risks, three methods are used to calculate the capital requirement: the basic indicator approach, the standardized approach and the advanced measurement approach. Swedbank employs the second-most advanced method, the standardized approach, to calculate capital requirements for operational risks.

The table on the previous page shows the capital requirement for the Swedbank Financial Companies Group in accordance with the current regulations (that is, taking the transitional rules into account), as well as with full effect of Basel 2. As can be seen from the table, the capitalization is such that the capital base exceeds the capital requirement. This means that the capital base expressed in relation to the capital requirement exceeds the minimum level of 1.0. Capital adequacy expressed in terms of Tier 1 capital ratio and capital adequacy ratio amounted to 6.2 percent and 9.3 percent respectively per 31 December 2007. During the second half of 2007, the Tier 1 capital ratio in the financial companies group was adversely affected by approximately 0.7 percentage points as a consequence of the acquisition of OJSC Swedbank in Ukraine (formerly TAS-Kommerzbank).

CAPITAL BASE

The capital base serves as a buffer against the losses that can arise from risks to which Swedbank is exposed. Swedbank's ability to sustain large losses is also to a large extent dependent on the strength of the income statement but also on more qualitative factors such as risk management capabilities and internal governance and control.

THE CAPITAL BASE IN SWEDBANK FINANCIAL COMPANIES GROUP PER 31 DECEMBER 2007.



In brief, the capital base is the sum of primary capital, or Tier 1 capital, and supplementary capital, or Tier 2 capital, with deductions for the value of shares in insurance companies since they are subject to separate capital requirements. Tier 1 capital mainly comprises shareholders' equity after various adjustments, while Tier 2 capital primarily comprises subordinated debt.

Presented above is an overview of significant items included in the capital base per 31 December 2007. A more detailed account of the capital base for the financial companies group and explanations of the items included is presented in page 26 of the appendix.

Size of the capital base and capital level

The capitalization of the financial companies group is continuously monitored to ensure that it is at the desirable level according to both legal capital requirements and internal capital targets. The capital base is maintained and developed primarily through internal profit generation combined with a sustainable dividend policy. Profitability is supported by the principle that prices are higher for transactions associated with higher risk and thus a higher capital requirement than for transactions for which the risk is lower. Pricing of various products is ultimately determined by market prices, although Swedbank also takes into account the costs incurred in each transaction when setting prices for individual customers and products. The capital cost is an example of a key component in this regard.

To achieve the preferred level of capitalization, the capital base may be adjusted by means of various measures including new share issues, issues of subordinated debt, adjustment of the dividend level, sales of various assets and repurchase of own shares. However, capitalization is not only a matter of the size and structure of the capital base. Capitalization may also be adjusted by altering risk exposure. Swedbank regularly evaluates what measures can be taken, in a cost and time efficient manner, to adjust capitalization—both upwards and downwards—to the preferred level.

The minimum size of the financial companies group's capital base is ultimately governed by the Swedish Capital Adequacy and Large Exposures Act, but other laws and regulations also apply. For example, Swedbank Financial Companies Group complies with the minimum initial capital —SEK 46m — required by the Swedish Banking and Finance Business Act . The same law also provides that direct or indirect ownership of companies other than credit institutions, financial institutions, securities companies, etcetera, is limited to, respectively, 15 and 60 percent of the capital base. Due to the size of Swedbank's capital base, these regulations are also met. Furthermore, rules are also met regarding the limitation of exposures to individual customers or groups of customers in relation to the capital base.

Transfer of capital within the financial companies group

The need for capitalization that meets requirements according to the capital adequacy rules and the internal capital adequacy assessment is not limited to the financial companies group as a whole. Each company in the financial companies group must also be adequately capitalized. One company may be undercapitalized in an otherwise well-capitalized group, while another is overcapitalized, a situation that may require intercompany transfers of capital.

To the extent non-restricted profits are available in companies within the financial companies group, funds can be transferred to the parent company as dividends. Funds can also be transferred as group contributions with regard to most of the companies in the Swedish operations. In addition to the transfer of equity capital, the capital base in an individual company may also be strengthened through internal subordinated loans. Swedbank regularly reviews the capitalization in the financial companies group as a whole, as well as in the individual companies. After this, any adjustments deemed necessary are implemented.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS – THE SECOND PILLAR

The internal capital adequacy assessment process at Swedbank is based on well established processes and systems for steering and supervision including principles for governance, risk management and strategic planning. In addition, regular scenario-based simulations and stress tests form other key components.

The group's risk profile and the Board of Director's risk tolerance serve as a starting point for the internal capital adequacy assessment process. The next step in the process involves the formulation of one or more scenarios. The scenarios are forward looking and characterized by drastic negative changes in macroeconomic variables that, in turn, adversely affect credit losses, net interest income, commissions, etc. The scenario analyses provide a clear overall picture of key risks to which Swedbank is exposed by quantifying their impact on the income statement, balance sheet, capital base and risk-weighted assets (RWA) under the adverse macroeconomic scenario. The group makes use of its collective macroeconomic expertise to construct the adverse scenarios. In turn, the business areas are involved in assessing how the macroeconomic variables affect their business, e.g. margins, volumes and credit losses. In recent years, several different recession scenarios have been applied. The negative scenario for 2007 was based on a recession, beginning in the US and spreading across the world, including Sweden and the Baltic countries.

The analyses also take into account inflexible costs and business cycle effects on the risk-weighted amount (procyclicality). A major advantage of the overall and comprehensive picture that the scenario model provides is that it facilitates proactive risk and capital management. Business cycle effects are considered, since the scenarios cover a relatively long time horizon, at least three years, and are characterized by substantial adverse volatility in economic variables.

In this way, a comprehensive overview of Swedbank's financial stability and strength and corresponding capital required based on the overall risk level and current business strategy, is obtained. The aim is to ensure the efficient use of capital and that Swedbank will meet the legal minimum capital requirement and maintain access to funding in domestic and international capital markets, even under adverse market conditions. The capital needed is defined as the current capital buffer considered necessary to protect Swedbank against future losses with the purpose of meeting the minimum capital requirements during every single year of the chosen scenario. The quantitative result of the scenario analysis is a key prerequisite for the formulation of capitalization targets and capital strategy. The quantitative calculations are augmented by a qualitative assessment and discussion.

The following risks are considered in the scenario analysis:

- Credit risk (including concentration risk)
- Market risk
- Operational risk
- Interest rate risk in the banking book
- Earnings volatility risk
- Insurance risk
- Risks in post-employment benefits
- Strategic risk arising from organic growth and acquisitions

Other kinds of strategic risk and reputation risk are not usually dealt with in the simulations, although the capital buffer implicitly also mitigates these risks. However, these risks are still an essential part of Swedbanks potential risk exposure and are accordingly carefully monitored and managed. Liquidity constraints may arise as a result of an inappropriate balance between risks and capital, and the internal capital adequacy assessment process aims at ensuring that such imbalances do not arise. Consequently, a conservative view on liquidity risk is crucial in the capital process.

An important conclusion of the 2007 internal capital adequacy assessment process was that Swedbank, due to its high and stable earnings and a low risk profile in the balance sheet, would be highly resilient to an extremely unfavourable macroeconomic scenario. The internal capital adequacy assessment process also confirmed that a capital buffer corresponding to the target for the Tier 1 capital ratio is adequate to prevent Swedbanks Tier 1 capital ratio from falling below the minimum capital requirements even in the event of an unlikely but adverse macroeconomic trend.

Risk

Risk is uncertainty in some form and is a natural ingredient in all types of operations. Swedbank has invested substantial effort into developing methods for the most efficient risk management possible, thereby protecting the group against unwanted risk-taking. One cornerstone in this development is the implementation of a general risk process.

Swedbank has a low risk profile characterized by a well-diversified Credit Portfolio and low financial and operational risks.

Risk denotes a potentially negative impact on a company that can arise due to current internal processes or future internal or external events. The concept of risk comprises both the likelihood that an event will occur and the impact it would have on the company.

RISKS AND RISK CONTROL AT SWEDBANK

Each of Swedbank's business units and subsidiaries has full responsibility for the risks that its operations create. This means that those responsible for operations must ensure that the risk process is implemented within each area and that they follow the standards set by Swedbanks Board of Directors as well as the CEO.

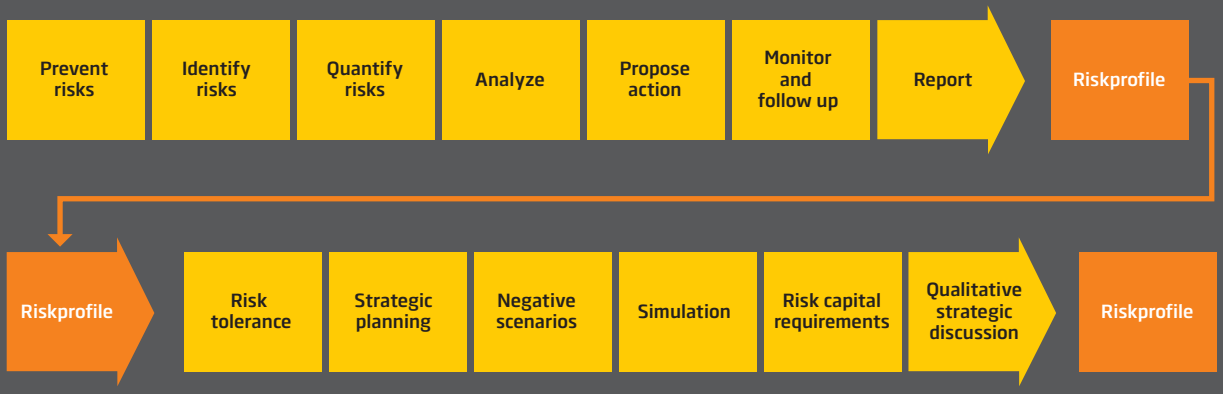
In addition to the control and monitoring conducted by the business units, there is an independent risk control function. In Swedbank it is consolidated in one single organization, Swedbanks Risk Control and it is directly subordinated to the CEO. Swedbanks Risk Control is responsible for developing the risk process and providing methods for risk identification, risk quantification, analysis and reporting of all risks, e.g financial, credit and operational risks.

The Board of Directors has ultimate responsibility for the Group's risk-taking and associated capital assessment. A comprehensive risk and capital policy and special policy documents for the various risk areas describe overall guidelines for risk-taking. The possibilities to take risks in various units are restricted by various limits on individual transactions or on portfolio level.

Each of Swedbanks business units and subsidiaries has resources responsible for identifying and controlling risks. For example, in the area of operational risks—compliance risks—self-assessments are one of the most important identification tools. In 2007, around 200 self-assessments were conducted throughout the business units and relevant support functions.

The system to measure risks is an integral part of risk management. Financial risks are for example quantified by using Value-at-Risk (VaR) complemented by various types of sensitivity measures. Credit risks are quantified through the internal risk classification system in combination with assessments based on local competence. All risks are evaluated on the basis of the likelihood that an event will occur and the financial consequence of such an event.

Risk- and capital process



Each risk-taking unit performs its own analysis of the risks in its operations. In addition, Swedbanks Group Risk Control regularly conducts analyses of how recent events in the market and economy affect the group's risks as well as stress tests that calculate the effect on the group of dramatic potential changes. Changes over time in risk profiles within various Credit Portfolios are analyzed as well.

RISK AND CAPITAL PROCESS

Swedbank continuously identifies the risks inherent in its operations and has designed a generic process for how they are managed. The risk process comprises seven steps: to prevent risks, identify risks, quantify risks, analyze risks, suggest actions, control and follow up, and finally to report risks. The process is generic and encompasses all risk areas; at the same time the concrete activities are adjusted to the nature of each risk area in order to protect Swedbank against unwanted risk-taking.

The risk process also provides a clear description of Swedbanks risk profile, which then serves as the basis for the bank's capital process. The capital process in turn is an evaluation of capital needed based on Swedbanks overall risk level and business strategy. The aim is to ensure efficient use of capital and at the same time ensure that Swedbank, even under difficult market conditions, will meet the minimum capital requirement and maintain access to domestic and international capital markets.

Swedbanks different risk-control units report directly to the business unit's executive management but also to Group Risk Control. Group Risk Control, in turn, reports all risks on a consolidated basis directly to the CEO and the Board of Directors.

Credit risks

Swedbank has defined the desired risk profile for its Credit Portfolio; it should be well diversified with a low risk profile and a high profitability. This ambition shall be reflected both at group level as well as at each business area's lending operations. A low level of risk is achieved through lending to customers with a high debt service ratio, good collateral and diversification within and between sectors and regions. A high profitability is achieved by setting clear targets for the required risk adjusted return.

Credit risk is defined as the risk of a counterparty, or obligor, failing to meet contractual obligations to the lender and the risk that collateral will not cover the claim. The term counterparty risk is often used instead of credit risk when measuring credit exposure in financial instruments and arises as an effect of the possible failure by the counterparty in a financial transaction to meet its obligations. This risk is often expressed as the current market value of the contract adjusted with an add-on for future potential movements in the underlying risk factors.

Credit risk also includes concentration risk, which refers to e.g. large exposures or concentrations in the Credit Portfolio to certain regions or industries.

CREDIT PORTFOLIO

Per 31 December 2007, the total credit exposure amounted to SEK 1,550 bn, of which retail exposures represented 54 percent. Residential mortgages serving as collateral amount to more than 58 percent of the total exposures. Most of these loans are issued by the subsidiary Swedbank Mortgage. A substantial part of the lending growth in recent years stems from lending to residential mortgages in Sweden but also in Estonia, Latvia and Lithuania.

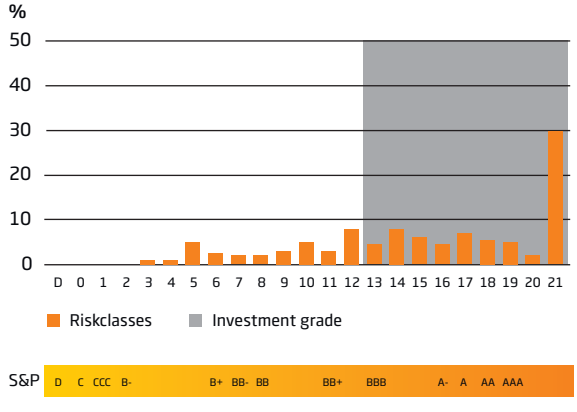
The Credit Portfolio is well diversified by number of customers, industries and by region. Apart from exposures to private individuals and financial institutions, no industry corresponds to a proportion of total exposure exceeding 9 percent. Recent expansion in the Baltic countries and the 2007 acquisition in Ukraine have improved the geographical diversification.

The vast majority of Swedbank's lending to customers has been risk classified according to Swedbank's internal risk classification system. The risk classification aims at forecasting probability of default within a 12-month period. Of the total exposures (net repurchases agreement), 72 percent of exposures can be found in the risk classes 13-21, i.e. "investment grade", where the probability of default is considered to be low. More than a third of the exposures are assigned a risk class of 19 or higher, corresponding to an AAA rating from the major rating institutes.

The concentration risk in the portfolio is low. The corporate portfolio is dominated by exposures to small and medium-sized corporates that are diversified between a large number of industries, of which the largest is real estate management (22 percent of total corporate exposure), in which also real estate companies owned by municipalities is included.

The concentration risk is also low at the counterparty level where the largest single corporate exposure represents 0.7 percent of total lending. The five largest corporate exposures combined amount to 3 percent of lending and the 20 largest combined correspond to only 6 percent of total exposure. The 20 largest exposures are represented by corporates operating in seven different industries.

Riskprofile Swedbank



Note: Gross exposure amount of repurchases agreement included

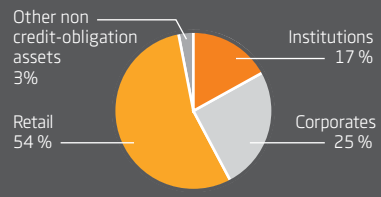
Credit Portfolio

DISTRIBUTION OF EXPOSURE CLASSES

The majority of Swedbank's exposures stem from retail customers with historically low credit loss levels, where 82 percent of the portfolio is low risk (investment grade). Of these exposures, 93 percent are residential mortgage loans.

Financial institutions are also a major customer group, including exposures towards banks and sovereigns, as well as companies and organizations owned by them. Within this segment 98 percent of the exposures are classified as investment grade, i.e. low risk.

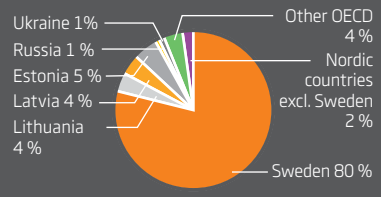
The Swedish Financial Supervisory Authority has granted an exception for the new capital adequacy rules regarding government exposures which is why they are not included in the diagram.



GEOGRAPHIC DISTRIBUTION

The majority of Swedbank's exposures are towards the Swedish market.

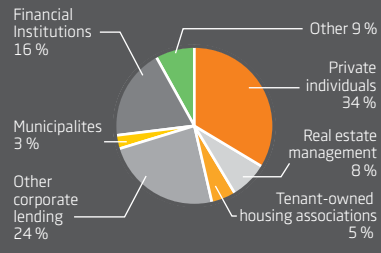
In recent years, there has been a high level of growth in the Credit Portfolio in Estonia, Latvia and Lithuania. This abated during 2007 and amounted to 32 percent. In 2008, lower growth is expected in the Baltic countries. The growth in lending to customer with residential property or single family homes as collateral has been significant and stands for approximately 50 percent of the total growth in these countries.



DISTRIBUTION BY INDUSTRY

Swedbank has a well diversified Credit Portfolio with an emphasis on private individuals and small and medium sized enterprises but also financial institutions to a certain degree (mainly repurchase agreements); these sectors have historically proven to entail low credit risk. Swedbank has extensive expertise and experience of working with these sectors.

The corporate portfolio has a low concentration risk, including a large number of sectors of comparable size.

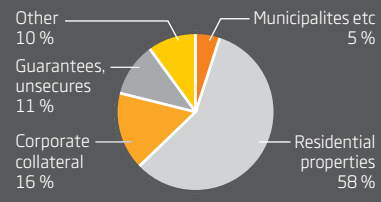


DISTRIBUTION OF COLLATERAL

Of Swedbank's lending to the public , 91 percent is secured. 58 percent of the collateral consists of residential property including single family homes.

Other collateral (slightly less than 10 percent of lending) includes finance company products primarily secured by the financed assets, where loss levels have historically been very low.

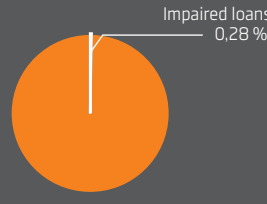
Most unsecured lending is linked to covenants, common in lending to large companies, where collateral is usually replaced by a number of special agreements and undertakings.



IMPAIRED LOANS

The proportion of impaired loans is at a low level (0.28 percent) even though it has increased during 2007 compared to the extremely low levels in 2006.

Swedbank makes active efforts to minimize credit losses. Customers failing to meet their obligations are contacted immediately. For the corporate segment, the bank maintains a specialist unit with the mission of managing cases subject to special needs.



CREDIT PROCESS

Swedbank's credit process is designed to support the strategy of maintaining a diversified Credit Portfolio with a low level of risk and a balance between risk and returns. Lending entailing credit risk is governed by Swedbank's general business strategy, credit policy and more specific regulations concerning credit decisions and mandates adopted by the bank's Board of Directors. A basic principle in Swedbank's lending operations is that each business unit bears full responsibility for its credit transactions and associated credit risks.

A low level of risk is achieved through lending to customers with a high debt service ratio, good collateral and diversification within and between sectors and regions. A high profitability is achieved by setting clear targets for the required risk adjusted return.

Swedbank's thorough understanding of the customer and the customer's market conditions, as well as a continous and professional monitoring of economic trends, provide the basis for the maintenance and development of a low risk profile. Environmental considerations and a risk-focused environmental analysis form integral parts of the assessment intended to provide an understanding of the environmental risks and to positively evaluate the customer's active environmental efforts.

Collateral for granted credits varies depending on the assessed risk and choice of credit product. The valuation of collateral is to be based on a thorough review and analysis of the pledged asset. In accordance with Swedbank's instructions, the assigned value of a particular collateral should be based on a conservative assessment of the market value.

The risk profile of the Credit Portfolio is continuously analyzed in order to identify increased risk levels aiming at a swift and appropriate management of identified exposures at an early stage. The trend of a certain portfolio's risk profile is analyzed and forms a significant part of monthly reporting to senior management and the Board of Directors.

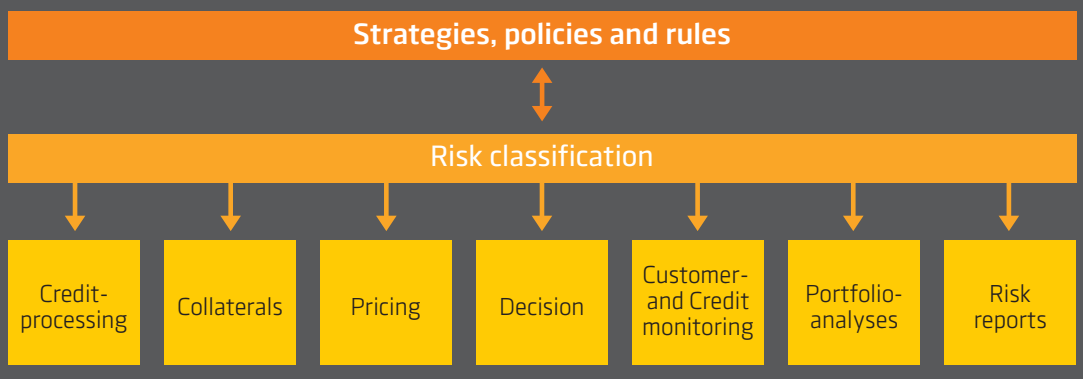
Swedbank's internal rating system

Swedbank's rating system forms a central component in the credit process and comprises working methods and decision-making processes for lending operations, credit monitoring and the assessment of credit risk. The system, which comprises methods and models, also includes instructions and governance documents for processes and IT systems that support the continued development and validation of the rating system.

Both lending to private individuals and corporates is governed by credit processes that include a systematized tool supporting the decision making, of which the rating of the counterparty forms a key component. Hence, Swedbank's internal rating system is primarily a business-support tool. It facilitates a more efficient credit process where counterparts with high risk is automatically recommended for denial or a much more thorough and comprehensive analysis is required in order to grant an approval. Consequently, low-risk transactions can be approved in a more simplified and rapid credit process. The rating system also plays a central role in the monitoring of individual credit exposures. The system regulates the depth and complexity of the monitoring process in different ways whereby, for example, a weaker rating requires a special evaluation, followed by a proposal of adequate measures to be taken if needed.

The rating system is complemented with a pricing tool where refined calculations can be conducted aiming at providing more in-depth information about for example capital cost and expected loss for each transaction or customer. The system also enables calculation of risk-adjusted profitability at the portfolio and business area levels. The internal rating system also provides the basis for the calculation of capital requirements for credit risks in accordance with the new capital adequacy rules.

Framework for Swedbank's credit process



The rating system is strictly governed by policies and instructions issued by the Board of Directors. These principles are complemented by more detailed regulations issued by the CEO, the CCO and the CRO respectively. These regulations contain rules as to how models shall be structured and validated in connection with development and regular quality controls. The efficiency and reliability of the system is maintained by means of annual quantitative and qualitative validations.

For users in the business, the system is divided into various sub-systems used in lending and credit monitoring, one for sovereigns and banks, three for corporations (large, medium and small) and one for retail customers. In addition, there is a portfolio rating system used for the reclassification of existing retail counterparties and contracts. The division into sub-systems is made in order to achieve the highest precision. In turn, each sub-system is divided into a number of sub-sub-systems in order to adapt the assessment of risk to each customer's or counterparty's specific characteristic.

Swedbank's risk classification system serves as a basis for:

- risk assessments, credit decisions, monitoring and management of credit risk
- estimating risk adjusted profitability
- analyzing the risk profile of Swedbank's Credit Portfolios
- developing the credit strategy and subsequent risk management activities
- reporting credit risks to the Board of Directors, the CEO and senior management
- estimating capital requirements and capital allocation

CALCULATION OF CREDIT RISK AND CAPITAL REQUIREMENTS AT SWEDBANK

The internal rating-based approach, the IRB method, is the method for which Swedbank has applied and received approval from the Swedish Financial Supervisory Authority and is consequently the method used to calculate most of the capital requirement for credit risk.

With the goal of achieving adequate precision in the risk calculations leading to a more professional treatment of customers, a number of different models have been developed for the rating of counterparties, customers or contracts. In the calculation of the capital requirement for credit risk, all customers or contracts shall be assigned to an exposure class stipulated by the Swedish Financial Supervisory Authority. Swedbank's rating models for sovereigns and banks correspond to national and institutional exposures. The models for large and medium-sized corporates correspond to corporate exposures, while those for small corporates and private individuals correspond to retail exposures. There is also an exposure class for equity and non-credit obligation assets.

When granting loans, retail exposures are subject to a simplified process with lighter requirements on documentation and depth of preparation, compared to corporate exposures, for which a complete individual credit analysis is always conducted. The sub-group of residential mortgages within retail exposures comprises the exposures for which Swedbank has collateral in single family homes or other properties such as condominiums. For these exposures Swedbank also uses internal estimates of loss given default.

Three concepts are central to the IRB system.

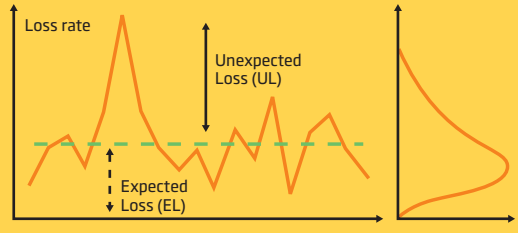
The probability that a customer will default, abbreviated PD, the degree of loss in the event of default, abbreviated LGD (loss given default) and the size of the exposure at default, abbreviated EAD.

The expected loss (EL) is the product of the three risk dimensions:

PD * LGD * EAD = EL

Expected loss shall provide an indication of the mean value of the credit losses that Swedbank may reasonably be expected to incur.

Swedbank must also maintain a capital buffer against unexpected losses (UL) to protect itself against credit loss peaks exceeding the anticipated level. For this reason, the risk-weighted assets (RWA) are calculated. Like expected loss (EL), RWA is a calculated value that takes into account PD, LGD and EAD, but RWA also accounts for the type of counterparty and its size.



Expected losses (EL) and unexpected losses (UL) both need to be taken into account in pricing and the monitoring of profitability. The capital requirement for the credit risk is then calculated on the basis of PD, LGD, EAD and the type and size of the counterparty.

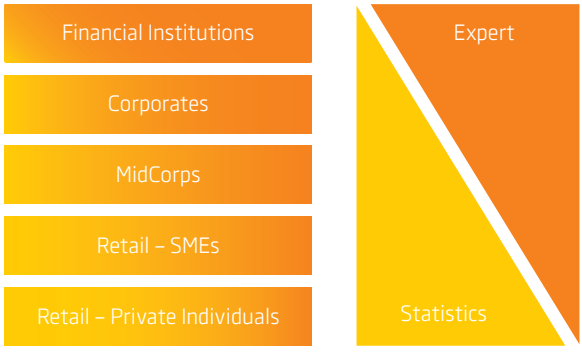
Consequently, three concepts are of key importance in the calculation of capital requirements and expected loss:

Probability of default (PD)

Probability of default (PD) measures the likelihood that a counterparty or contract will default within a 12-month period.

By calculating PD it is possible to rank each counterparty/contract in terms of its risk of default. They are subsequently assigned a risk class. Consequently, for each risk class, a PD value has been quantified and established. This value is calculated on the basis of the average long-term default frequency, including a safety margin for the uncertainty in estimates. In calculating the capital requirement and the risk-weighted assets, the regulations also demand that the value shall reflect the average risk through a business cycle. This means that estimated PDs are not directly comparable with actual annual default frequencies. Among other things, the model is based on internal information about the counterparty's behaviour, financial status and key financials, as well as various qualitative components.

In the development of risk classification systems for various counterparties, the information most relevant for the assessment of PD must be taken into account. For this reason, Swedbank's rating involves a number of methods ranging from individual expert assessments (rating) to objective methods and models based on statistical analysis of large numbers of customers and related customer information (scoring).



Loss Given Default (LGD)

Loss given default (LGD) measures how large a proportion of the exposure amount is lost in the event of default.

LGD is prescribed by the Swedish Financial Supervisory Authority for bank and corporate exposures. For retail exposures (residential mortgages and others), LGD is based on Swedbank's own estimates. These estimates are based on internal loss history data. The extent of loss depends on factors including the counterparty's financial status, the value of the collateral and assumptions of amounts recovered through the sale of any collateral based on example e.g. historical outcomes.

In calculating the capital requirement for credit risk, a safety margin has been applied that takes into account the uncertainty in the estimates, which have also been adjusted for a scenario with a downturn in economic conditions. This means that the LGD estimates used to calculate the capital requirement for credit risk correspond to loss under economic stress and cannot be directly compared to the currently low actual loss levels.

Exposure at default (EAD)

Exposure at default (EAD) measures the utilized exposure at default. For on balance exposures, EAD is the gross value of the exposure without provisions being taken into account. For off-balance sheet exposures, EAD is calculated by using a credit conversion factor (CCF) estimating the future utilization level of unutilized amounts. Consequently, CCF is a gauge of future credit utilization and estimates possible future credit exposures. EAD is thus the sum of the current undertaking and the expected utilization of the remaining limit.

EAD = drawn aomunt + CF * undrawn aomunt

For retail exposures outside the balance sheet, CCF is based on Swedbank's own estimates. CCF is prescribed by the Swedish Financial Supervisory Authority for institutions and corporate exposures.

Since the estimates in each risk dimension are adjusted to the business cycle and include safety margins, PD, LGD and EL estimates will normally be more conservative than the actual loss. This calculation method aims at creating more stable capital requirements over the business cycles.

Counterparty risks in trade with financial instruments

Counterparty risks in financial instruments are monitored more frequently than other credit exposures since the exposure is a function of the prevailing market rates, e.g. equity prices or FX-rates. Consequently the credit exposure will change rapidly in volatile market environments. Each counterparty's exposures and limits is therefore monitored daily.

Swedbank's counterparty risks arise through trading in derivative contracts (Over the Counter), repurchase transactions and securities loans.

Netting

Swedbank is actively minimizing its credit risks through the establishment of netting agreements – when applicable – with its counterparties. Through such agreements, exposures towards a particular counterparty can be offset against exposures that counterparty has towards Swedbank. This means that the net exposure for that specific counterparty is decreased (compared to gross), thus also lowering the capital adequacy requirement. In a potential default situation, the net amount is consequently at risk.

Decisions regarding netting, credit limits, settlement limits, any collateral and the duration of underlying transactions are made by Swedbank's decision making bodies in accordance with established procedures.

Swedbank has chosen not to apply an internal method for the netting of counterparty risks and instead follows the rules and guidelines established by the Swedish Financial Supervisory Authority.

Credit derivatives

Swedbank conducts credit derivative transactions only in connection with counterparty risks. Credit institutions rated Aaa-Aa3 comprise the foremost category of credit derivative counterparties. Of Swedbank's credit exposures, less than 0.04 percent is covered by acquired credit risk protection.

Swedbank currently has no trading operations in credit derivatives.

Operational risks

Operational risks within the Group should be maintained on a low level. Risk-taking shall be limited within the framework of what is economically justified. Operational risks that can damage the Group's reputation and brands should be minimized and given special consideration. For these reasons, Swedbank has prepared an internal set of regulations for the management of operational risks. These regulations contribute to improving Swedbank's preparedness in the face of adverse events that, by their nature, are difficult to predict and could result in financial losses.

Definition of operational risk

Swedbank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, human error, incorrect systems or external events.

OPERATIONAL RISK MANAGEMENT

Swedbank has internal rules for operational risk management. The central components of these rules consist of the Board of Directors' risk and capital policy, its operational risk policy and the CEO's instructions for operational risk management. Since operational risk is a broad and far-reaching field, operational risk and its management are also addressed in other instructions and policies, such as the group's security policy.

Among other things, the rules include:

- Swedbank's risk tolerance
- Description of organization and responsibilities
- Reporting requirements
- Operational risk management methods and techniques.

Swedbank's risk tolerance

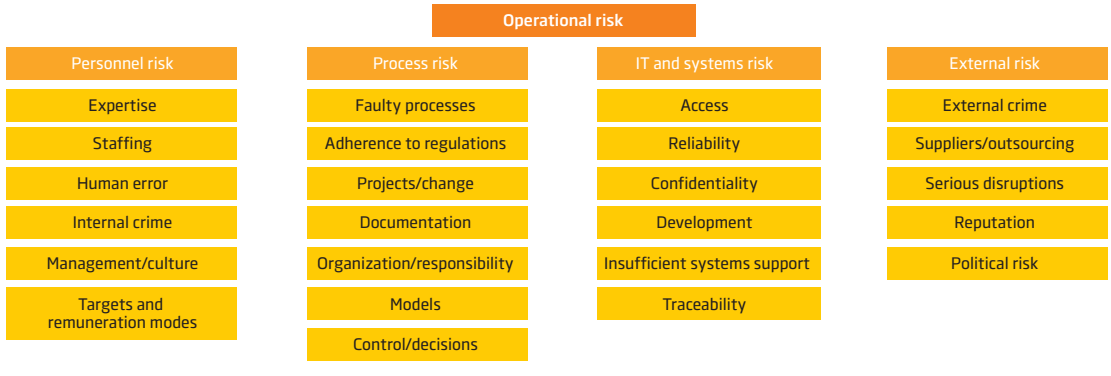
The operational risk policy states that the level of operational risks should remain low. Risk-taking should be limited within the framework of what is economically justified. Operational risks that can damage the Group's reputation and brands should be limited and given special consideration. Measures are to be implemented to reduce all risks not considered acceptable.

Organization and distribution of responsibility for operational risks

Each head of operations is responsible for identifying, measuring, checking and reporting operational risks within his/her area of operations. The head of operations is responsible for fostering a sound and informed risk culture within the unit and for ensuring that employees understand Swedbank's risk tolerance and operational risk rules.

The Group's larger units, or areas with special needs, must have a local operational risk manager. The local operational risk manager is responsible for co-ordinating the management of

Swedbank's classification structure for operational risks



operational risks within the unit, as well as for independently checking and reporting on the unit's operational risks to the unit's management and to Group Risk Control.

Group Risk Control is responsible for ensuring that Swedbank has an effective risk process. More specifically, Group Risk Control is responsible for developing and maintaining corporate strategies, methods, and techniques for operational risk management. Group Risk Control prepares additional risk management guidelines and instructions as guidance for the local risk control coordinator and operations in general.

Reporting

Group Risk Control is also responsible for designing and implementing uniform group wide operational risk reporting to the Board of Directors and the CEO. The risk organization carries out quarterly risk analyses of all large business units and reports to each local management as well as to the CEO and the Board of Directors.

Methods and techniques for operational risk management

Based on the Board of Directors' established definition of operational risk, a standardized risk structure has been created whereby personnel risk, process risk, IT and systems risk, and external risk have been divided into areas that are defined and exemplified by actual risks. The risk structure forms the basis for the Group-wide techniques, consisting of self-assessments, loss and incident reporting, and risk indicators. This makes Group-wide risk analysis possible and ensures a uniform management of the risks.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

Swedbank applies the standardized approach to calculate the capital requirement for operational risk. Swedbank's capital requirement for operational risk was SEK 2,669m in 2007. (See Appendix page 33 for an outline of how the capital requirement for operational risks is calculated according to the standardized approach.)

Financial risks

Swedbank offers customers various kinds of qualified financial services and products in several markets. Financial risks arise as a natural consequence of these operations. This means that Swedbank's earnings and cash flows can be affected by fluctuations in exchange rates, interest rates, equity prices and the liquidity situation. Consequently, managing (that is, identifying, measuring, analyzing and monitoring) these risks is an important part of Swedbank's operations. Swedbank maintains a low risk profile with respect to financial risks.

Financial risks are divided into two main classes: market risk and liquidity risk.

Market risk refers to the risk that changes in interest rates, exchange rates and equity prices will lead to a decline in the value of the bank's net assets and liabilities, including derivatives.

Liquidity risk refers to the risk that the bank cannot fulfil its payment commitments on any given due date, without significantly raising the cost to fund payments.

Swedbank strives to maintain a low risk profile with respect to financial risks. The primary objective of Swedbank's activity in various financial markets is the desire to provide long-term satisfaction for customer needs and to facilitate the bank's own financing; its secondary objective is to create additional income by taking positions. Risk-taking is always weighed against expected return.

Market and liquidity risks arise in Swedbank's trading operations (in conjunction with trading on financial markets) as well as structurally in its other operations. Financial Risk Management is divided into these two main areas.

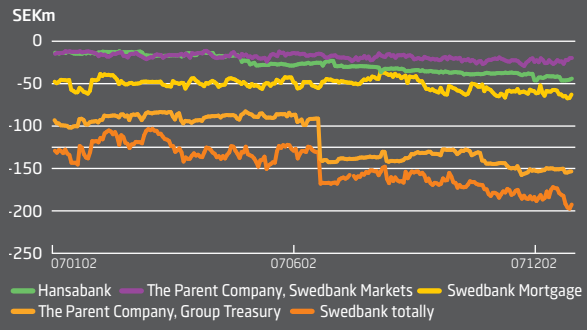
MARKET RISKS

The predominant market risks within Swedbank are structural and are managed centrally by Group Treasury, which has a clear assignment to minimize possible negative impact on Swedbank's net income and equity. Examples of structural risks include interest rate risks, which arise when the interest fixing periods in Swedbank's lending operations do not precisely correspond with the interest fixing periods in its financing, and currency risks, which arise in the funding of acquired shares in foreign subsidiaries. In the past, Swedbank's largest individual market risk has generally been interest risk. However, Swedbank's international expansion in recent years has meant that the structural currency risks have grown and are now the bank's largest individual market risk, followed by interest rate risk.

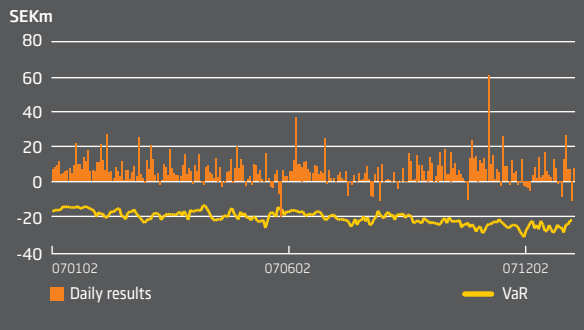
Market risks in Swedbank's trading operations are limited, as illustrated by the fact that its share of the total risk-weighted amount in the calculation of capital adequacy is only about 2 percent.

The diagram below to the left shows Swedbank's market risks, expressed in Value-at-Risk (VaR) terms and distributed by risk-taking units. The VaR-figures confirm that Swedbank's market risks are largely of a structural nature and are concentrated in Group Treasury and the subsidiary Swedbank Mortgage.

Total market risks in Swedbank in VaR, allocated to risktaking units



Swedbank Markets – daily results and VaR



Swedbank's total VaR during the year was SEK 202m (170) at its highest, SEK 106m (96) at its lowest, with an average of SEK 151m (127). At year-end Swedbank's total VaR was SEK 197m of which SEK 138m was currency risk, SEK 118m was interest rate risk, and SEK 9m equity price risk. Diversification effects within and between the various types of risk, which are deducted, amounted to SEK 68m.

The increase in Swedbank's total VaR in 2007 compared with 2006 is mainly due to changes in structural positions (outside trading operations) including the acquisition of Swedbank Ukraine in July. The presented risks above include positions that are not marked to market and therefore do not have a direct impact on Swedbank's profit.

The earnings level in Swedbank Markets' trading operations remained relatively stable during the year. See figure on page 18 for more details. Losses – all of which were small and only exceeded VaR in one case – were reported on 44 days (18). During the year, VaR reached a high of SEK 31m (26) and a low of SEK 13m (14), with an average of SEK 20m (19). The increase in the number of days on which losses were reported, and of VaR, reflects the more distressed financial markets that arose during the second half of the year. Nevertheless, trading operations succeeded in maintaining a stable level of earnings without any major losses, which is typical for a low-risk trading operation based primarily on customers' demand for financial solutions and investments.

The historical volatilities and correlations on which the VaR calculation is based is sometimes not relevant, e.g. in stressful situations in the financial markets. For individual risks, complementary risk measures are therefore used, based on sensitivity to changes in various market prices, including stress tests.

Swedbank's Value-at-Risk (VaR) model

Swedbank's financial risks are assessed using VaR (model-based risk measurement), and traditional sensitivity measures. VaR involves using a model for movements in interest rates, stock prices and exchange rates to estimate a probability distribution for the value of Swedbank's total portfolio, under the hypothetical assumption that the portfolio will remain unchanged over a specific horizon.

In Swedbank's VaR model the probability distribution is estimated daily with a Monte Carlo simulation, where the scenarios are based on historical market price changes over the last year. The horizon is one trading day. VaR is then calculated using the probability distribution as a basis. VaR indicates a portfolio's potential loss that is so high that the probability that it will be exceeded is small. Swedbank uses a 99 percent VaR, which means that there is only 1 percent probability that the potential loss will exceed the VaR amount over the selected horizon.

Swedbank's VaR model is continuously evaluated through "hypothetical backtesting", a systematic method of assessing whether the probability distribution of the possible portfolio results that the model generated was accurate. The calculated result is then compared with VaR. By carrying out this calculation for a large number of days it is possible to assess the reliability of the model. Hypothetical backtesting is carried out daily at Swedbank as a whole and for individual risk-taking units. The backtesting results are analyzed, commented on and reported to the CEO on a monthly basis. All breaches of VaR are reported to the Swedish Financial Supervisory Authority. The conclusion of the backtesting done to date is that the model offers good reliability.

Currency risk

Currency risk refers to the risk that the value of assets, liabilities and derivatives may fluctuate due to changes in exchange rates.

At year-end 27 percent (22) of Swedbank's assets and 42 percent (39) of its liabilities were denominated in foreign currencies. Approximately 55 percent of Swedbank's assets and 20 percent of its liabilities in foreign currencies are in Hansabank. An additional 30 percent of Swedbank's liabilities in foreign currency are attributable to loans raised by the subsidiary Swedbank Mortgage in foreign currency. Swedbank Mortgage´s funding in foreign currency is swapped in its entirety to SEK. The parent company's liabilities in foreign currency were slightly larger than its assets in foreign currency at year-end. The majority of the currency risk in the additional liabilities was eliminated through forward exchange agreements and cross currency interest rate swaps.

A large part of Hansabank's lending is denominated in euro, while deposits are mainly denominated in the local currency (the Estonian kroon, the Latvian lat and the Lithuanian litas). In addition, a large part of Hansabank's liquidity reserves are placed in euro-denominated securities. At the end of the year, this led to an asset position in euro and an approximately equally large liability position in the local currencies. Since, the currencies in the respective Baltic countries are pegged against the euro, a change in the exchange rate between these currencies and the euro would occur only in an extreme situation. The value of the Estonian currency is based on a currency board with the euro, and the exchange rate against the euro has been fixed according to Estonian law, while awaiting the planned entry to the euro zone. Similar arrangements exist in Latvia and Lithuania. At year-end Hansabank in Estonia also held strategic positions in Latvian lats, Lithuanian litas and Russian roubles due to investments in subsidiaries in Latvia, Lithuania and Russia.

To reduce currency risk, the group's strategic holdings in foreign operations and subsidiaries are generally funded in each entity's national currency or in a currency that is linked to the country's currency. For example, the parent company's holding in Hansabank is denominated in Estonian kroon but funded in euro. The exception is the holding in Swedbank Ukraine, which is denominated in the Ukrainian currency hryvnia and funded with Swedish kronor.

Swedbank's exposure to currency risk that could have an immediate effect on profit (i.e. excluding exposures related to holdings in foreign subsidiaries, goodwill and other intangible assets) is limited. A change in exchange rates between the Swedish krona and foreign currencies of +/-5 percent would have a direct effect on the group's reported profit of SEK 0 (SEK -16m) at year-end.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument may fluctuate due to changes in interest rates.

Swedbank's interest rate risks arise when interest fixing periods on assets and liabilities, including derivatives, do not coincide. Swedbank's fixed-rate assets consist primarily of loans. The interest rate risk in these assets is largely eliminated either because they are funded with fixed-term funding or because Swedbank has arranged swap contracts where it pays a fixed interest rate. In principle, all of Swedbank's fixed interest rate loans have credit agreements that do not permit early repayment without compensating the bank for any losses that may arise due to changes in the interest rates since the loan was paid out, known as an early repayment charge.

From an interest rate risk perspective, demand deposits can also be considered, in part, as having fixed interest. There are large volumes of deposits with a floating interest rate that are considered unlikely to be further reduced even if Swedish repo rates are cut. This may affect net interest income negatively, but the parent company has chosen to position itself to reduce these negative effects.

The interest-rate risk is measured in Swedbank for all positions, both those recorded at fair value in the accounting and those recorded at accrued value. The parent company has also decided to assign a part of the demand deposits a duration of between two and three years in its risk measurement.

An increase in market interest rates (including real interest rates) of one percentage point as of 31 December 2007 would have reduced the value of Swedbank's interest-bearing assets and liabilities, including derivatives, by SEK 1,961m (1,623). The decrease in value of positions in SEK would have been SEK 1,549m (1,608), while positions in foreign currency would have decreased in value by SEK 412m (15). The changes in the interest-rate risk is attributable both to the parent company's

CHANGE IN VALUE IF THE MARKET INTEREST RATE RISES BY ONE PERCENTAGE POINT

The table shows the change in value of financial instruments, when market interest rate for all maturities rises by one percentage point.

mkr	< 3 mos.	3-6 mos.	6-12 mos.	1-2 yrs.	2-3 yrs.	3-4 yrs.	4-5 yrs.	5-10yrs.	> 10 yrs.	Total
SEK	-97	-14	19	-1,086	698	-810	10	-249	-20	-1,549
Foreign currency	-31	-100	29	-104	0	-28	-50	-95	-33	-412
Swedbank Total	**-128**	**-114**	**48**	**-1,190**	**698**	**-838**	**-40**	**-344**	**-53**	**-1,961**
Of which financial instruments measured at fair value										
SEK	25	44	410	-481	39	-445	183	-10	-15	-250
Foreign currency	6	35	43	-10	2	-7	-20	-71	-24	-46
Swedbank Total	**31**	**79**	**453**	**-491**	**41**	**-452**	**163**	**-81**	**-39**	**-296**

management of structural interest-rate risks and to changes in position-taking in trading operations.

An interest rate increase of one percentage point would have reduced Swedbank's net profit on financial operations by SEK 296m (207) as of 31 December 2007.

The table on the previous page summarizes how Swedbank's interest risk is divided among various tenors as at 31 December 2007. A table on page 37 in the appendix summarizes interest rate risks in banking book operations by currency for the most important currencies.

Interest rate changes also affect net interest income. The magnitude of the effect depends on the remaining interest fixing period of the group's fixed-rate assets, liabilities and derivatives and the extent to which the bank is able to match the interest rates on floating rate deposits and lending. The sensitivity of net interest income to interest rate changes is calculated regularly within the bank. An interest rate increase as at 31 December 2007 by one percentage point would increase Swedbank's net interest income by about SEK 586m during the upcoming 12 months.* The corresponding figure with an interest rate cut of one percentage point is a decrease in the financial net by SEK 960m.

Equity price risk

Equity price risk refers to the risk that the value of a financial instrument may fluctuate due to changes in equity prices and expectations of future volatility.

Exposure to equity price risk arises in Swedbank due to holdings in equities and equity-related derivatives. Swedbank's equity trading is primarily customer-related. Positions in trading operations exist in Swedbank Markets and in Hansabank, and are normally such that only limited losses can arise from large share price movements. The purpose of these positions is, among other things, to create liquidity for Swedbank's customers.

Within Swedbank, equity price risk is measured and limited with respect to the worst outcome by different combinations of changes in equity prices and implied volatility. A move in equity prices +/- 10-percent would change the value of the positions in the trading operations by no more than SEK -14m (-13) at year-end.

LIQUIDITY RISKS

Liquidity risks arise because the maturity structures of cash flows from assets and liabilities, including derivatives, do not coincide. Swedbank defines liquidity risk as the risk that, in a strained market situation, it will have difficulty meeting its commitments or be forced to borrow money on unfavourable terms.

Swedbank maintains good liquidity based on a conservative risk profile. Swedbank's liquidity management policy aims to avoid excessive liquidity risks. Liquidity risks are reduced through Swedbank's proactive efforts to ensure stable sources of financing, e.g. deposits and borrowings from the public and diversified funding from a large number of capital markets. Swedbank works actively to maintain and further develop the well-diversified funding base it already has.

Another important component of liquidity risk management is the liquidity reserve in the form of liquid securities held by the Swedish and Baltic operations. In addition, Swedbank carries out regular follow-up and analysis of its liquidity situation to avoid large short-term payment obligations.

Swedbank uses liquidity limits on payment commitments for a single day or other predetermined periods of time. Liquidity management is centralized within a limited number of units, which improves efficiency and facilitates follow-up and control of Swedbank's liquidity risks.

Special continuity plans to deal with serious disruptions in the liquidity situation have been established at both group level and locally in the countries where the bank conducts significant operations.

During the latter part of 2007 the sub-prime crisis in the US mortgage market tested Swedbank's liquidity risk management strategy. As a result of the sub-prime crisis, the capacity of financial markets to arrange liquidity and financing between different players has significantly deteriorated. Under these conditions Swedbank's liquidity strategy has worked well and helped to ensure the bank's ability to retain a balanced borrowing situation with limited liquidity risk throughout the period. Swedbank has in accordance with its conservative risk profile maintained a liquidity surplus which has been invested in the interbank market with short maturities. Swedbank has also implemented a number of measures to increase preparedness and decrease risk in the event of continued liquidity problems in the market. Among other things, a more pro-active financing strategy is used and the review and reporting of the bank's liquidity situation has been intensified.

In 2007, the Swedish Financial Supervisory Authority gave Swedbank Mortgage permission to issue covered bonds. Swedbank Mortgage's Swedish and international stock of bonds will be converted into covered bonds during the second quarter of 2008, resulting in a higher credit rating. This means that Swedbank's liquidity risk will further decrease because the funding base can be expanded additionally and the opportunity to maintain liquidity reserves increases.

CAPITAL REQUIREMENT FOR MARKET RISK

According to current regulations, capital adequacy for market risk shall be based on either a standardized model or on an internal VaR model, where the latter requires the approval of the Swedish Financial Supervisory Authority. During 2004, the parent company received such approval for most of the market risks. The reporting of capital adequacy has been conducted in accordance with this since the start of 2005. During 2006, the approval was extended to also cover the Hansabank group.

* The calculation is based on the assumption that market interest rates rise (fall) by one percentage point and thereafter remain at this level for 12 months and that Swedbank's balance sheet remains essentially unchanged during the period.

Appendix

SWEDBANK FINANCIAL COMPANIES GROUP

On December 31, 2007 Swedbank Financial Companies Group comprised the Swedbank Group with the following exceptions. In the consolidated accounts the associated sompanies EnterCard(group), Eskilstuna Rekarne Sparbank AB, Färs och Frosta Sparbank AB, Swedbank Sjuhärad AB, Bergslagens Sparbank AB and Vimmerby Sparbank AB are consolidated in accordance with the equity method. In the financial companies group these companies are consolidated fully in accordance with the purchase method, apart from EnterCard which is consolidated in accordance with the proportional method. The insurance companies that are included in the consolidated accounts, Swedbank Försäkrings AB, Sparia Försäkrings AB, AS Hansa Elukindlustus, AS Hansa Varakindlustus and UAB Hansa gyvybes draudimas, are not included in the financial companies group. Book value of shares in the insurances companies SEK1,922m is deducted from the capital base.

Capital base and capital requirements

Capital adequacy in the Swedbank Financial Companies Group as of 31 December 2007

SEKm	Basel 2 according to transition rules	Basel 2 exclusive of transition rules
Pillar 1		
Capital base	76,456	76,456
Capital requirement	65,789	48,020
Surplus of capital	10,667	28,436
Capital quotient	1.16	1.59
Risk-weighted amount	822,363	600,248
Tier 1 capital ratio, %	6.2	8.5
Capital adequacy ratio, %	9.3	12.7

Capital adequacy in significant companies as of 31 December 2007

SEKm	Swedbank AB* parent company reg. no. 500217-7753	Swedbank Mortgage*	Hansabank**
Capital base	63,810	26,882	20,836
Capital requirement	24,549	24,118	14,769
Surplus of capital	39,261	2,764	6,067
Capital quotient	2.60	1.11	1.41
Risk-weighted amount	306,863	301,474	184,607
Tier 1 capital ratio, %	13.0%	8.2%	8.9%
Capital adequacy ratio, %	20.8%	8.9%	11.3%
Share of total capital requirement for Swedbank	37.3%	37.7%	22.4%

* Basel 2 according to transition rules

** Basel 1

Capital requirement disclosures as of 31 December 2007

SEKm	Swedbank Financial Companies Group
Capital requirement for credit risk according to new rules	**24,737**
Credit risks, IRB	24,737
- Institutional exposures	1,452
- Corporate exposures	17,326
- Retail exposures	
Property mortgages	3,036
Other	2,197
- Non credit-obligation assets exposures	726
Capital requirement for credit risk, older rules	**19,364**
Capital requirement for settlement risk	**7**
Capital requirement for market risk	**1,242**
- Risks in trading book outside VaR	891
- Risks in trading book where VaR models are applied	351
Capital requirement for operational risk	**2,669**
Supplement during transition period	**17,770**
Total capital requirement	**65,789**

Capital requirement/country as of 31 December 2007

SEKm	Sweden	Estonia	Latvia	Lithuania	Russia	Ukraine	Other countries
Capital requirement for credit risk according to new rules							
Credit risks,IRB							
- Institutional exposures	1,452						
- Corporate exposures	17,326						
- Retail exposures							
Property mortgages	3,036						
Other	2,197						
- Non credit-obligation assets exposures	726						
Capital requirement for credit risk, older rules							
Group A							
Group B	30	134	56	62	18	21	14
Group C	0	1,084	343	502	0	83	8
Group D	3,720	4,816	4,151	3,373	637	736	326
Capital requirement for settlement risk							**7**
Capital requirement for market risk							
- Risks in trading book outside VaR	650	42	56	137			8
- Risks in trading book where VaR models are applied	322						
- Currency risk outside VaR				230	0	2	1
Capital requirement for operational risk	**2,669**						
Supplement during transition period	**17,770**						

Capital requirement for credit risks, older rules is reported gross. Intra-group items are not decuted from the values in the table.

Capital base Swedbank Financial Companies Group[1]

		2007-12-31
2	**Primary capital**	
3	Original own funds	20,270
4	Value changes	-460
5	Retained earnings and profit during the current financial year	42,208
6	Minority interest	1,706
7	Tier 1 capital contributions	7,314
8	Adjustments for value changes	460
	Deductions from primary capital (-)	20,578
9	Intangible fixed assets	19,569
	Deferred tax assets	0
10	Tier 1 capital contributions exceeding limitation	
11	Contributions in other institutions	23
12	Deduction expected loss	986
	Total primary capital	**50,920**
13	Supplementary capital	
14	Undated subordinated loans	3,717
15	Tier 1 capital contrubutions exceeding limitation	
16	Fixed-term subordinated loans	24,750
	Deductions from supplementary capital (-)	1,009
17	Subordinated loans exceeding limitation	
18	Contributions in other institutions	23
19	Deduction expected loss	986
	Total supplementary capital	**27,458**
	Total primary and supplementary capital	**78,378**
20	**Additional capital base specific to cover market risks**	
21	Deduction from the capital base (-)	1,922
	Total capital base for solvency purposes	**76,456**

1 Capital base

The capital base is intended to act as a buffer against the risks to which the bank is exposed and comprises the sum of primary capital and supplementary capital less the value of equity and contributions in insurance companies (which have separate capital requirements). Concisely put, the capital base consists of equity capital after various adjustments plus subordinated debt. Subordinated loans may be included in the capital base because they constitute a subordinated debt, which means that if the obligor is declared bankrupt, the holder would be repaid after other creditors, but before shareholders. Subordinated loans can be both fixed term and undated and the amount of each type that may be included in the capital base is restricted by the capital adequacy rules. The ratio of the capital base to risk-weighted assets is the capital adequacy ratio. The ratio of the capital base to the capital requirement is the capital quotient.

2 Primary capital

Primary capital, or Tier 1 capital, must make up at least half the capital base and consists mainly of equity capital less proposed dividends and deduction for intangible assets. Upon approval from the supervisory authority, Tier 1 capital contributions may be included in Tier 1 capital. The ratio of Tier 1 capital to risk-weighted assets is the Tier 1 capital ratio.

3 Original own funds

This item includes capital contributed by shareholders, which is reported as share capital and statutory reserves. Swedbank's share capital consists of ordinary shares and is eligible for full inclusion. Adjustments are made for repurchased own shares, if any.

4 Value changes

The item includes reported earnings recognized directly against shareholders' equity, such as translation differences arising from the translation of foreign net investments, hedge accounting of foreign net investments and cash flow hedges.

5 Retained earnings and profit during current financial year

Earnings in previous years and in the current year reported via the income statement, including the capital part of untaxed reserves. Profit generated during the year is included in Tier 1 capital as soon as it has been verified by the company's auditor, less a deduction for estimated dividends.

6 Majority/minority interests

The equity interests of majority/minority shareholders in companies that are fully consolidated in the financial companies group.

7 Tier 1 capital contribution

The Tier 1 capital contribution is made up of undated subordinated loans whose terms are such that the Swedish Financial Supervisory Authority has allowed the bank to include them in Tier 1 capital. In principle, an undated subordinated loan applies over an unlimited period, although it may be repaid or repurchased on approval by the Swedish Financial Supervisory Authority. Normally, such approval cannot be given until five years after the loan was issued, although a step-up cannot occur until ten years have passed. The Tier 1 capital contribution is also called "hybrid capital" because the properties of these instruments contain elements of both debt and equity. Interest payments are determined according to the contract, but are allowed only if there are distributable funds. The priority rights of the contribution are subordinated to all other deposits and borrowings including undated subordinated loans that may not be included as Tier 1 capital contributions. The Tier 1 capital

contribution is limited to a ceiling of 15 percent of Tier 1 capital. Any surplus may instead be included in Tier 2 capital in the same way as undated subordinated loans. Since some of the loans are issued in foreign currencies, the size of the Tier 1 capital contribution can vary due to exchange rate fluctuations.

8 Adjustment for value changes

Recognized changes in the value of equity arising from cash flow hedges are not eligible for inclusion in the capital base.

9 Intangible fixed assets

Goodwill and other intangible assets, such as the value of acquired customer relationships. Goodwill attributable to shareholdings in foreign subsidiaries can vary due to exchange rate fluctuations.

10 Tier 1 capital contribution exceeding limitation

The portion of the Tier 1 capital contribution which is ineligible for inclusion in Tier 1 capital under the ceiling rules.

11 Contributions to other institutions

Deduction for certain types of equity shares and contributions to institutions that are not part of the financial companies group, such as shares in BGC Holding. 50 percent is deducted from Tier 1 capital and 50 percent is deducted from Tier 2 capital.

12 Deduction for expected loss

Deduction for the difference between expected losses calculated within the IRB approach and the reported provisions. 50 percent is deducted from Tier 1 capital and 50 percent is deducted from Tier 2 capital. The difference arises when losses calculated in accordance with the new capital adequacy rules exceed the bank's best assessment of loss levels and provision needs. Expected losses are calculated in accordance with the regulations and using data from Swedbank's internal risk rating system, where risks are overestimated rather than underestimated. In addition, extra safety margins, which have been built into the risk rating system due to the Swedish Financial Supervisory Authority's interpretation of the regulations, are applied.

13 Supplementary capital

Supplementary capital, or Tier 2 capital, includes fixed term subordinated loans, in some cases less term reductions if the remaining maturity is less than five years, undated subordinated loans and other capital contributions and provisions permitted for inclusion in Tier 2 capital, as well as deductions to be made in accordance with Ch. 3 of the Capital Adequacy Act. Subordinated loans may be included in the capital base because they constitute a subordinated debt, which means that if the obligor is declared bankrupt, the holder would be repaid after other creditors, but before shareholders. In addition, subordinated loans may be used to cover any losses from ongoing operations to prevent liquidation. In total, Tier 2 capital is eligible for inclusion in the capital base up to an amount equal to Tier 1 capital. Since parts of the subordinated loans have been issued in foreign currency, the size of Tier 2 capital can vary due to exchange rate fluctuations.

14 Undated subordinated loans

Subordinated loans may be included in the capital base because they constitute a subordinated debt, which means that if the obligor is declared bankrupt, the holder would be repaid after other creditors, but before shareholders. In addition, subordinated loans may be used to cover any losses from ongoing operations to prevent liquidation. In principle, an undated subordinated loan applies over an unlimited period, although it may be repaid or repurchased on approval by the Swedish Financial Supervisory Authority. Normally, such approval cannot be given until five years after the loan was issued. Undated subordinated loans convey preferential rights before Tier 1 capital contributions raised by the bank but after fixed term subordinated loans and the bank's other obligations. Undated subordinated loans are eligible for inclusion in the capital base up to a maximum amount equivalent to Tier 1 capital.

15 Tier 1 capital contribution exceeding limitation

The portion of the Tier 1 capital contribution that may not be included in Tier 1 capital under ceiling rules is instead included in Tier 2 capital as an undated subordinated loan.

16 Fixed term subordinated loans

Fixed term subordinated loans carry priority rights before undated subordinated loans raised by the bank but after the bank's other obligations. Fixed term subordinated loans are eligible for inclusion in Tier 2 capital up to a maximum amount equal to 50 percent of Tier 1 capital. Fixed term subordinated loans with time to maturity of less than five years are subject to a term reduction by which 20 percent of the nominal value may be included for every whole year remaining before maturity. Accordingly, a fixed term subordinated loan with less than one year remaining to maturity may not be included in the capital base. Aimed at avoiding this, the loans are usually structured so that they can, if approved by the Swedish Financial Supervisory Authority, be redeemed before the term reduction begins.

17 Subordinated loans exceeding limitations

Deduction designed to ensure that fixed term subordinated loans, as required by ceiling rules, do not exceed the allowed 50 percent of Tier 1 capital and that undated subordinated loans do not exceed 100 percent of Tier 1 capital.

18 Contributions to other institutions

Deductions for certain types of equity shares and contributions to institutions that are not part of the financial companies group such as shares in BGC Holding. 50 percent is deducted from Tier 1 capital and 50 percent is deducted from Tier 2 capital.

19 Deduction for expected loss

Deduction for the difference between expected losses calculated within the IRB approach and the reported provisions. 50 percent is deducted from Tier 1 capital and 50 percent is deducted from Tier 2 capital. The difference arises when losses calculated in accordance with the new capital adequacy rules exceed the bank's best assessment of loss levels and provision needs. Expected losses are calculated in accordance with the regulations and using data from Swedbank's internal risk rating system, where risks are overestimated rather than underestimated. In addition, extra safety margins, which have been built into the risk rating system due to the Swedish Financial Supervisory Authority's interpretation of the regulations, are applied.

20 Additional capital base specific to cover market risks

The additional capital base may correspond to at most 60 percent of the capital requirement for market risks and comprises fixed term subordinated loans subject to special conditions. The initial maturity of these loans shall be at least two years and no term reduction is applied. Swedbank's capital base does not currently include an additional capital base.

21 Deduction from the capital base

Deductions that shall be made from the total capital base include, for example, equity shares and contributions in insurance companies, which shall be subtracted from the sum of Tier 1 and Tier 2 capital.

Exposures

SEKm	Total exposure	Average exposure
New Capital adequacy rules		
Institutions	204,329	256,920
Corporates	299,713	287,261
Retail - residential real estate	584,746	565,552
Retail - other	68,812	62,278
Other non credit-obligation assets	41,671	36,890
Total new capital adequacy rules	**1,199,271**	**1,208,901**
Old capital adequacy rules		
Hansabank	240,482	221,902
Swedbank Finance	31,373	30,424
Swedbank Ukraine	14,409	12,415
Other	64,403	57,611
Total old capital adequacy rules	**350,667**	**322,352**
Total Swedbank	**1,549,938**	**1,531,253**

Exposures, broken down by significant geographical areas

SEKm	Sweden	Estonia	Latvia	Lithuania	Russia	Ukraine	OECD*	whereof Denmark	whereof Norway	whereof Finland	Latin-america	whereof Brazil	Japan	Other East Asia	whereof Korea	whereof China	Other regions
New Capital adequacy rules																	
Institution	154,550				461	174	47,987	3,328	7,973	145	62	48	549	264	1	252	282
Corporate	275,033						24,589	389	11,271	4,868	13	13		78		78	
Retail - residential real estate	583,884					1	784	39	29		3			28	2	3	46
Retail - other	68,501						301	31	131	11	1	1		4			5
Other non credit-obligation asset	41,671																
Total new capital adequacy rules	**1,123,639**				**461**	**175**	**73,661**	**3,787**	**19,404**	**5,024**	**79**	**62**	**549**	**374**	**3**	**333**	**333**
Old capital adequacy rules																	
Hansabank	3,807	78,619	64,542	59,725	10,875	1	22,857	818	3	1			21				35
Swedbank Finance	31,306						67	8	59								
Swedbank Ukraine					1	14,369	35										4
Other	59,940	7					4,389	48	3,946					25	25	2	42
Total old capital adequacy rules	**95,053**	**78,626**	**64,542**	**59,725**	**10,876**	**14,370**	**27,348**	**874**	**4,008**	**1**			**21**	**25**	**25**	**2**	**81**
Total Swedbank	**1,218,692**	**78,626**	**64,542**	**59,725**	**11,337**	**14,545**	**101,009**	**4,661**	**23,412**	**5,025**	**79**	**62**	**570**	**399**	**28**	**335**	**414**

* Excluding Sweden, Japan, Hungary, Mexico, Turkey, Republic of Slovakia, South Korea och Republic of Chech

Exposures, broken down by significant industries

SEKm	Private individuals	Real estate management	Tenant-owned housing associations	Retail	Hotels and restaurants	Construction	Manufacturing	Transportation	Forestry and agriculture	Other service businesses	Other corporate lending	Municipalities	Financial Institutes	Other
New Capital adequacy rules														
Institution											134		203,553	642
Corporate	3,772	82,360	9,971	14,970	2,374	7,992	14,535	4,729	5,131	41,650	53,259		55	58,915
Retail - residential real estate	400,910	7,032	61,782	7,889	1,470	8,460	3,692	2,782	35,982	10,665	12,675			31,407
Retail - other	23,140	4,461	12,205	6,445	1,391	3,080	3,337	1,596	3,475	2,499	3,518			3,665
Other non credit-obligation asset														41,671
Total new capital adequacy rules	**427,822**	**93,853**	**83,958**	**29,304**	**5,235**	**19,532**	**21,564**	**9,107**	**44,588**	**54,814**	**69,586**		**203,608**	**136,300**
Old capital adequacy rules														
Hansabank	75,154	33,716		20,556	2,969	7,562	22,391	11,410	4,286	15,438	3,143	2,910	40,947	
Swedbank Finance	3,965	304		2,317	138	3,496	5,437	4,957	3,549	1,772	3,903	422	66	1,047
Swedbank Ukraine	3,852	175		2,455	96	1,594	1,920	201	172	606	618		2,528	192
Other	8,929	150										50,467	1,059	3,798
Total old capital adequacy rules	91,900	34,345		25,328	3,203	12,652	29,748	16,568	8,007	17,816	7,664	53,799	44,600	5,037
Total Swedbank	519,722	128,198	83,958	54,632	8,438	32,184	51,312	25,675	52,595	72,630	77,250	53,799	248,208	141,337

Exposures, broken down by residual contractual maturities*

SEKm	Payable on demand	< 3 months	3-12 months	1-5 years	5-10 years	> 10 years	Without maturity
New Capital adequacy rules							
Institution	14,310	40,654	37,434	82,897	12,812	6,089	10,133
Corporate	35,328	130,033	38,896	50,596	22,981	10,635	11,244
Retail - residential real estate	7,779	207,357	77,787	240,742	35,603	689	14,789
Retail - other	17,866	40,518	6,543	3,283	457	6	139
Other non credit-obligation asset	5,526						36,145
Total new capital adequacy rules	**80,809**	**418,562**	**160,660**	**377,518**	**71,853**	**17,419**	**72,450**
Old capital adequacy rules							
Hansabank	18,960	41,409	32,984	66,638	29,695	39,719	11,077
Swedbank Finance		30,485	699	189			
Swedbank Ukraine	1,356	2,499	2,107	6,201	1,452	760	34
Other	10,636	24,964	16,022	9,337	2,367	1,069	8
Total old capital adequacy rules	**30,952**	**99,357**	**51,812**	**82,365**	**33,514**	**41,548**	**11,119**
Total Swedbank	**111,761**	**517,919**	**212,472**	**459,883**	**105,367**	**58,967**	**83,569**

* Maturities are distributed on the basis of remaining maturity until the agreed time of maturity or the maturity based on days until change of terms and conditions.

Secured exposures

SEKm	Exposures covered by physical or financial collaterals	Exposures covered by guarantees and credit derivatives*
New Capital adequacy rules		
Institution	127,239	3,157
Corporate	50,075	36,044
Retail - residential real estate		635
Retail - other		1,433
Other non credit-obligation asset		
Total new capital adequacy rules	**177,314**	**41,269**
Old capital adequacy rules		
Hansabank	206,678	8,837
Swedbank Finance		17
Swedbank Ukraine	11	1
Other		
Total old capital adequacy rules	**206,689**	**8,855**
Total Swedbank	**384,003**	**50,124**

*Municipalities and Real estate companyies are the major guarantors

Unutilized undertakings

SEKm	Unutilized advance commitments	Associated exposures
Retail - residential real estate	32,845	4,289
Retail - other	114	10
Total	**32,959**	**4,299**

Impaired and overdue loans, broken down by significant industries

SEKm	Private individuals	Real estate management	Retail	Hotels and restaurants	Construction	Manu-facturing	Transpor-tation	Forestry and agriculture	Other service businesses	Other corporate lending	Financial institutions	Munici-palities	Other
Impaired loans	948	559	234	26	123	414	127	194	109	480	1		
Provisions for anticipated loan losses	818	420	504	52	153	576	135	135	239	763	13		
Provisions for anticipated loan losses during the fiscal period	132	140	27	14	12	68	15	20	18	152			
Principal, loans overdue 5-30 days, that are not impaired	2,970	744	172	29	161	108	287	259	453	462			257
Principal, loans overdue 31-60 days, that are not impaired	3,180	206	107	20	84	81	81	136	94	216		1	372
Principal, loans overdue more than 60 days, that are not impaired	85	5	10		3	7	3	6	7	3			13
Total impaired an overdue loans	**7,182**	**1,514**	**523**	**75**	**371**	**609**	**497**	**596**	**662**	**1,162**	**1**	**1**	**643**

Impaired and overdue loans, broken down by significant geographical areas

SEKm	Sweden	Estonia	Latvia	Lithuania	Russia	Ukraine	OECD*	- whereof Denmark	- whereof Norway
Impaired loans	1,308	626	408	264		565	44		
Provisions for anticipated loan losses	1,714	631	468	464	103	397	30		
Principal, loans overdue 5-30 days, that are not impaired	3,135	1,309	811	532		142	5	1	1
Principal, loans overdue 31-60 days, that are not impaired	1,347	471	380	108		56	1		
Principal, loans overdue more than 60 days, that are not impaired	143								

*Except Sweden, Japan, Hungary, Mexico, Turkey, Republic of Slovakia, South Korea och Republic of Chech

Change in provisions

SEKm	Change in provisions for expected credit losses
Opening balance	**3,308**
Reversal of previous provisions for anticipated loan losses reported in trhe year's accounts as established losses	-257
The year's provisions for anticipated loan losses	483
Recovered provisions no longer necessary for anticipated loan losses	-182
Allocations/withdrawals from collective provisions	-38
Allocations/withdrawals from loan loss reserve	111
Group changes	340
Translation differences	46
Closing balance	**3,810**

Average risk weight

	Risk classes 13-21		Risk classes 5-12		Risk classes 0-4		Total	
SEKm	EAD	Ø RW in %	EAD	Ø RW in %	EAD	Ø RW in %	EAD	Ø RW in %
Institution	199,751	6.97	4,521	90.95	58	207.28	204,329	8.89
Corporate	139,260	42.50	154,643	94.92	4,990	212.42	298,893	72.46
Retail - residential real estate	498,024	2.64	80,886	25.75	5,043	63.07	583,953	6.36
Retail - other	34,938	19.98	31,319	55.95	1,744	99.09	68,001	38.58

Exposure weighted LGD

	Total	
SEKm	EAD	Ø, LGD in %
Retail - residential real estate*	583,953	10
Retail - other	68,001	47.09
Total		

* The applied floor according to FFFS 2007:1, 39 kap §13 is presented for the subgroup "residential real estate" instead of average LGD.

Expected loss and realised outcome*

	PD in %		LGD in %		EL in %	
	Estimated PD	Realised loss***	Estimated LGD	Realised loss****	Expected loss	Realised loss***
SEKm						
Institutions**	1.81%	0.00%	--	--	0.90%	--
Corporate**	2.02%	0.15%	--	--	0.98%	0.00%
Retail - residential real estate	0.39%	0.18%	10.37%	3.73%	0.06%	0.01%
Retail - other	1.14%	0.77%	46.21%	32.07%	0.53%	0.25%

* The results are exposure weighted.
** Swedbank Group apply prescribed LGD-values for exposures to institutions and corporates
*** In Swedbank Group a credit exposure is regarded to be in default if any of the following criteria are fulfilled:
- The counterpart is past due more than 90 days on any material credit obligation to Swedbank Group or
- There has been an assessment indicating that the counterpart is unlikely to pay its credit obligations as agreed, and the Group will have to claim collateral or take other similar action. None counterparty within institutions has defaulted during year 2007.
**** Realised LGD are based on all available data as of 2007-12-31 for defaulted counterparties/accounts. LGD is defined as the portion of exposure amount that is lost in event f default. The outcome will be adjusted as additional information will be available for defaults that still have an ongoing work-out process.

Change in loan losses

	2007	2006	Change	Explanation
SEKm				
Total Swedbank	600	-238	838	Mainly explained by decreased recoveries of collective individual provisions, decreased recoveries and increased provisions for anticipated loan losses.

Counterparty risks – Nominal value for credit derivatives

Derivat	SEKm
Derivative	
Positive fair value of contracts	37,857
Netting gains	28,695
Actual offset credit exposure	**9,162**
Collateral held*	5,174
Net credit exposures for credit derivatives**	**3,988**
Effect of collateral assets with credit detoriation of 1 notch, for both Moody´s och Standard & Poors	34

* Security consists of cash and bonds

** The effect of the group's reduced capital adequacy reequirment for counterparty risks due to signed netting agreements

The standardized approach for calculating capital requirements for operational risk

The standardized approach assigns different multipliers (beta factors) to different business lines depending on the inherent risk of the operation. These beta factors express the capital requirement for the industry in relation to gross income for each business line. The beta factors are determined by the capital adequacy rules. The current beta factors for the business lines are given in the table below.

Business line	Beta (%)
Corporate finance	18
Trading and sales	18
Retail banking	12
Commercial banking	15
Payment and settlement	18
Agency services	15
Asset Management	12
Retail brokerage	12

The capital requirement for each business line is derived by multiplying the business line's beta factor by its gross income. The total capital requirement for a legal entity or financial group of undertakings is obtained by adding the respective capital requirement of all eight business lines.

Capital requirement for risks in trading book
Swedbank Financial Companies Group (SEKm)

	Capital requirement calculated with standard method	Capital requirement calculated by internal model	Total capital requirement
Risks in trading book			
Interest rate risk	**844**	**191**	**1,035**
of which, specific risk	843		
of which, general risk	1		
Share price risk	**47**	**51**	**98**
of which, specific risk	17		
of which, general risk	30		
Exchange rate risk		**109**	**109**
Total	**891**	**351**	**1,242**

Capital requirement for risks in trading book
Swedbank AB (SEKm)

	Capital requirement calculated with standard method	Capital requirement calculated by internal model	Total capital requirement
Risks in trading book			
Interest rate risk	**650**	**228**	**878**
of which, specific risk	650		
of which, general risk			
Share price risk		**62**	**62**
of which, specific risk			
of which, general risk			
Currency rate risk		**32**	**32**
Total	**650**	**322**	**972**

Capital requirement for risks in trading book
Hansabank Group (SEKm)

	Capital requirement calculated with standard method	Capital requirement calculated by internal model	Total capital requirement
Risks in trading book			
Interest rate risk	**194**		**194**
of which, specific risk	192		
of which, general risk	2		
Share price risk	**41**		**41**
of which, specific risk	17		
of which, general risk	23		
Currency rate risk	**230**		**230**
Total	**465**		**465**

Interest rate risk in banking book operations
Swedbank Financial Companies Group (SEKm)

	Change in value	
	1%	-1%
Currency		
SEK	-1,643	1,466
EEK	-71	74
EUR	-57	56
USD	54	-54
LTL	-50	51
LVL	-34	36
GBP	16	-16
DKK	-4	4
Other currencies	-9	11
Total	**-1,799**	**1,627**

Interest rate risk in banking book operations
Swedbank AB (SEKm)

	Change in value	
	1%	-1%
Currency		
SEK	-993	759
EUR	-121	122
USD	74	-76
GBP	16	-16
DKK	-4	4
JPY	-4	5
NOK	-4	4
CHF	-2	2
Other currencies	0	0
Total	**-1,038**	**804**

Interest rate risk in banking book operations
Swedbank Mortgage (SEKm)

	Change in value	
	1%	-1%
Currency		
SEK	-593	648
Total	**-593**	**648**

Interest rate risk in banking book operations
Hansabank Group (SEKm)

	Change in value	
	1%	-1%
Currency		
EEK	-71	74
EUR	65	-66
LTL	-50	51
LVL	-34	36
USD	-20	22
RUR	1	-1
GBP	0	0
CAD	0	0
Other currencies	0	0
Total	**-110**	**116**