

Continued solid profitability and a strong financial position for the future

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

Higher income

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

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

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

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

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

The share of the profit or loss in associates increased by 21 percent to SEK 512m mainly due to higher profit in EnterCard.

Other income increased by 114 percent to SEK 2 616m through capital gains from the sale of branches to two savings banks in western and southern Sweden (SEK 440m), SPS Reinsurance (SEK 95m), the partly owned Estonian card company Pankade Kaardikeskus (SEK 66m), and NCS Holding AB (SEK 680m).

Higher expenses

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

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

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

Loan losses

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

BUSINESS VOLUMES AND PROFIT BY BUSINESS AREA

Swedish Banking

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

Key figures

	2008	2007
Return on equity, %*	17.1	18.9
Tier 1 capital ratio (new rules), %**	11.1	8.5
Core tier 1 capital ratio (new rules), %**	9.7	7.3
C/I ratio*	0.50	0.51
Loan loss ratio, %	0.28	0.07
Share of impaired loans, %	0.52	0.13
Profit for the year attributable to shareholders of Swedbank AB, SEKm*	12 290	11 996
Risk-weighted assets (new rules), SEKbn	697	600

* Excluding impairment of goodwill, SEK1 403m, 2008.

** Including total paid-in capital, 2008.

4 078m mainly due to lower income from mutual fund and insurance operations. **Expenses** increased by 1 percent to SEK 9 081m. **The loan loss level** increased from 0.01 percent to 0.06 percent, and **the share of impaired loans** increased from 0.06 to 0.14 percent. **Lending** increased by 8 percent to SEK 933bn. Consumer lending increased by 10 percent to SEK 520bn, while corporate lending rose by 5 percent to SEK 413bn. Because of the slide in stock prices, customers' savings and investment volumes decreased by 7 percent to SEK 550bn.

Baltic Banking

Profit for the year decreased by 16 percent to SEK 3 649m mainly due to higher loan losses. **The return on allocated equity** was 24.4 percent. **Income** in Baltic Banking rose by 7 percent to SEK 9 413m. **Net interest income** increased by 14 percent to SEK 6 448m. Increased deposit and lending volumes affected net interest income positively, while a lower lending margin had the opposite effect. **Net commission income** increased by SEK 71m to SEK 1 925m mainly due to higher payment and card commissions. At the same time, equity-related income decreased. **Expenses** increased by 1 percent to SEK 3 597m. **The loan loss level** increased from 0.35 to 0.98 percent, and the share of impaired loans increased from 0.47 to 2.31 percent. **Lending** increased by SEK 41bn to SEK 218bn. However, SEK 30bn of the increase is due to exchange rate effects from the translation to Swedish kronor.

International Banking

Profit for the year before goodwill impairment increased by 54 percent to SEK 578m. **The return on allocated equity** before goodwill impairment was 6.5 percent. SEK 1 403m of the goodwill related to the Ukrainian acquisition was written down due to changes in macroeconomic conditions in Ukraine. **Lending** increased by SEK 32bn to SEK 73bn. The increase was the largest in the Nordic branches. Exchange rate effects account for SEK 5bn of the increase. **The loan loss level** increased from 1.04 to 1.14 percent.

Swedbank Markets

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

Asset Management and Insurance

Profit for the year decreased by 25 percent to SEK 733m due to lower assets under management. **Income** decreased by 18 percent to SEK 1 798m mainly due to lower fund volumes. Swedbank Robur reported a net inflow to its funds, however, at the same time that the Swedish mutual fund market as a whole saw a net outflow. **Expenses** fell by 5 percent to SEK 841m due to lower mailing and consulting costs.

Strong financial position

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

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