

# Swedbank Debt Investor Presentation

November 2011

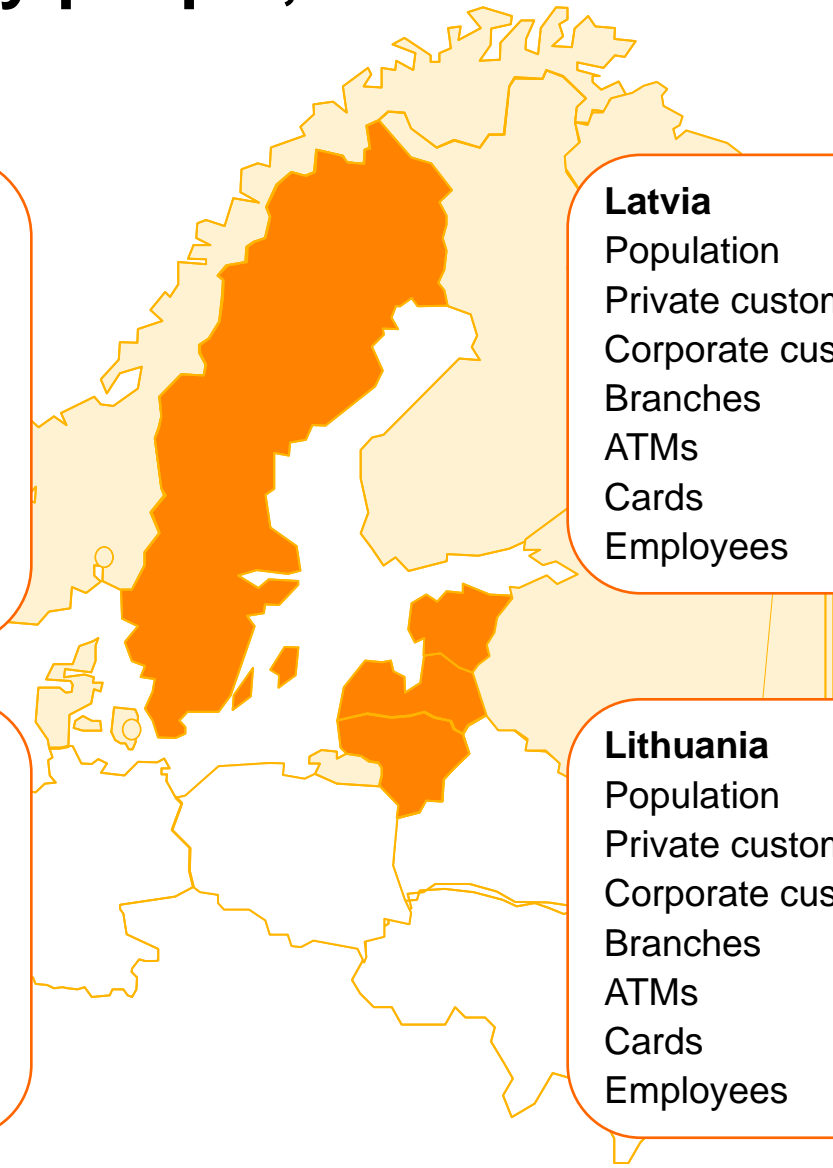


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# 1. This is Swedbank

# The Bank for the many people, households and businesses



## Sweden

Population	9.3m
Private customers	4.1m
Corporate customers	262 000
Organisations	66 000
Branches	319
ATMs	658
Cards	3.8m
Employees	8 329

## Latvia

Population	2.2m
Private customers	1.0m
Corporate customers	70 000
Branches	59
ATMs	376
Cards	0.9m
Employees	1 763

## Estonia

Population	1.3m
Private customers	1.3m
Corporate customers	112 000
Branches	63
ATMs	535
Cards	1.1m
Employees	2 577

## Lithuania

Population	3.3m
Private customers	3.3m
Corporate customers	103 000
Branches	93
ATMs	467
Cards	1.8m
Employees	2 239

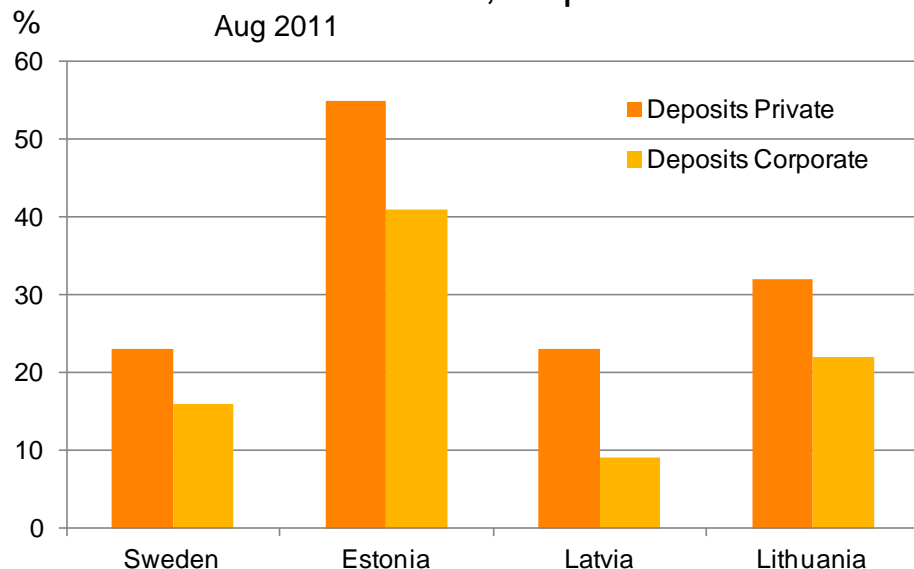
Source: Swedbank Fact book Q3, 2011

# Market leading retail franchise in all home markets

- Largest retail bank and fund manager in Sweden

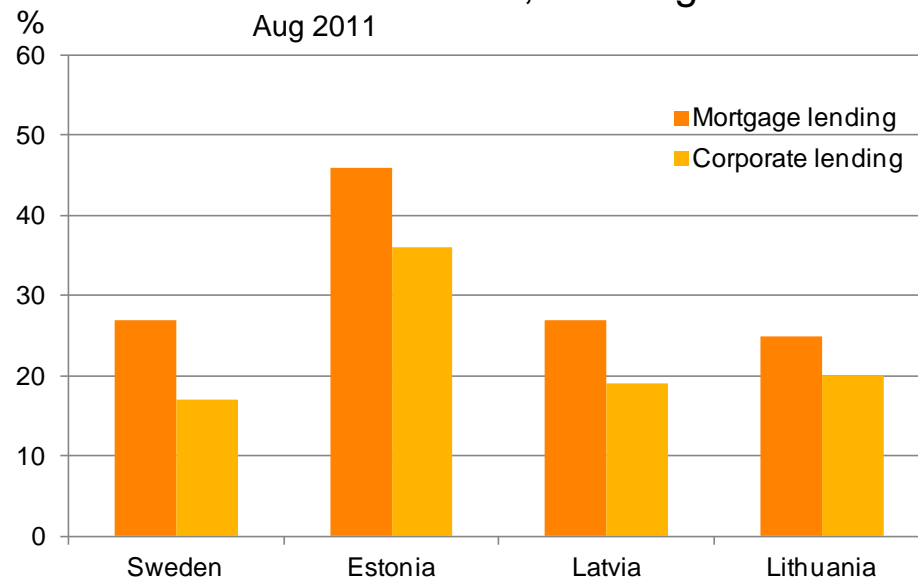
### Market shares, Deposits

Aug 2011



### Market shares, Lending

Aug 2011



Source: Source Sweden: Statistics Sweden (SCB)

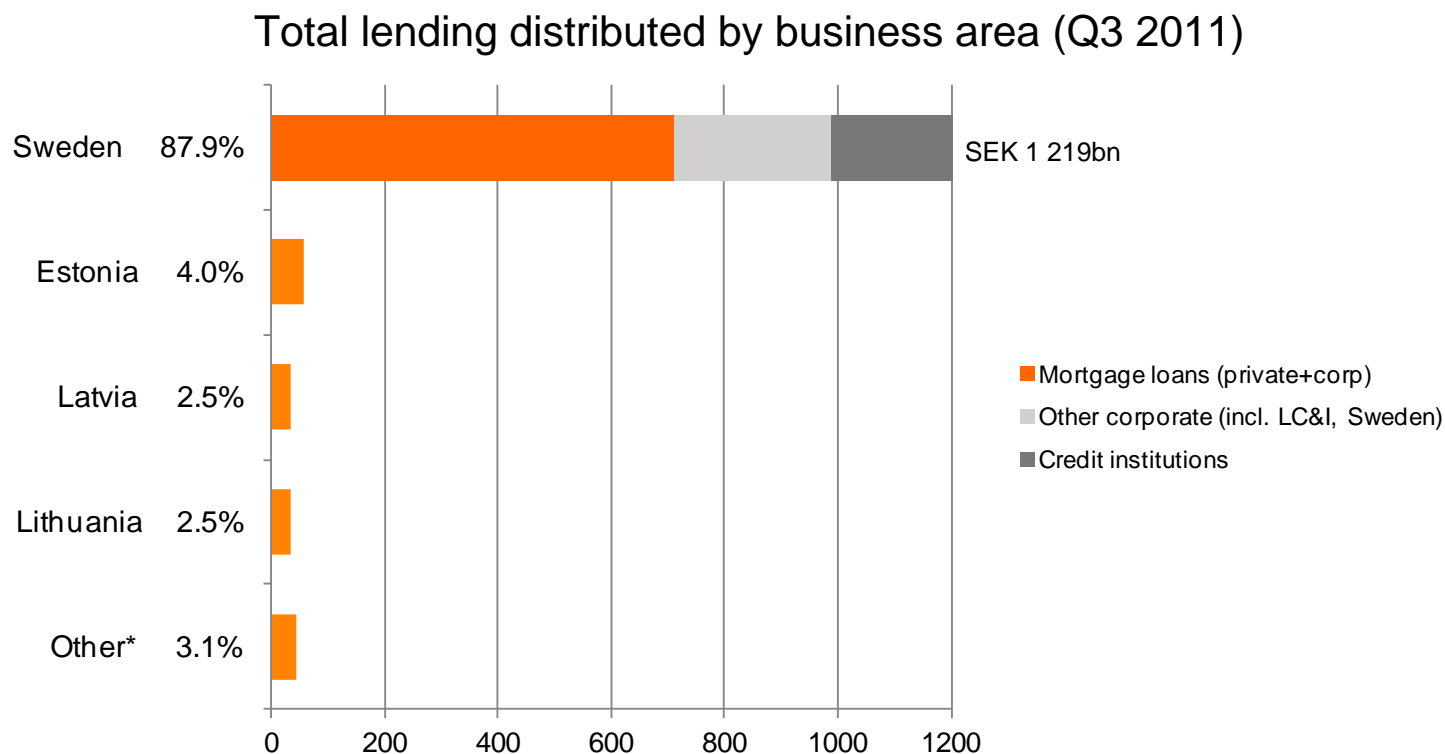
Source Estonia: Estonian Central Bank

Sources Latvia: Association of Commercial Banks of Latvia (ACBL) & The Financial and Capital Market Commission (FCMC)

Source Lithuania: Association of Lithuanian Banks (LBA)

## Sweden – the dominating home market

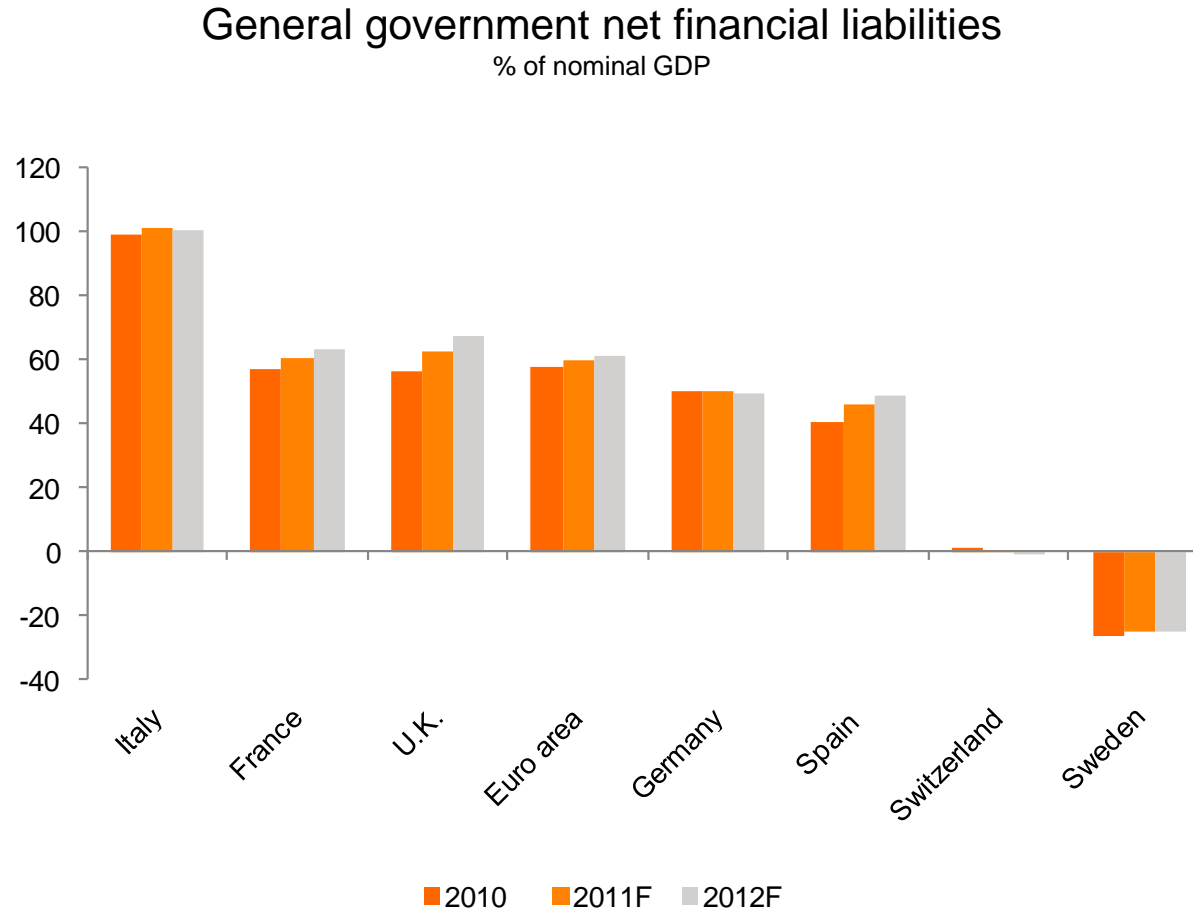
- Total lending amounts to SEK 1,387bn (as per Q3 2011), out of which around 88% is originated in Sweden
- Estonia makes up 44% of total lending in the Baltics



## 2. The Swedish economy

# A balance sheet in favourable condition

- Sweden's financial assets continue to exceed its liabilities



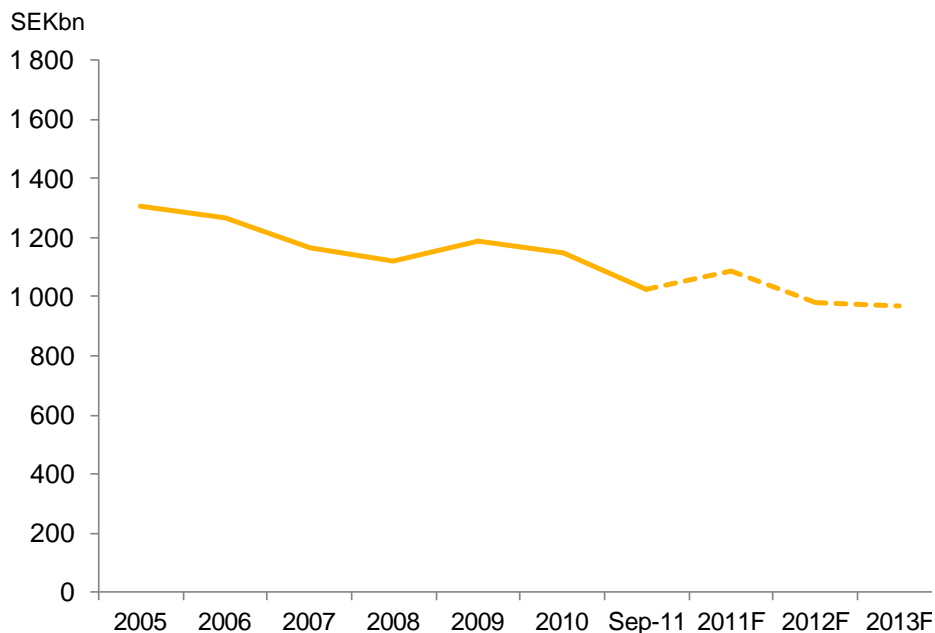
Source: OECD Economic outlook 89 (table 33), June 6, 2011

# Continued strong fiscal position

- Kingdom of Sweden rated Aaa/AAA/AAA
- GDP growth 4.9% in Q2 2011
- Balanced budget FY 2010
- CPI/CPIF 3.2%/1.5% (Sep Y/Y)

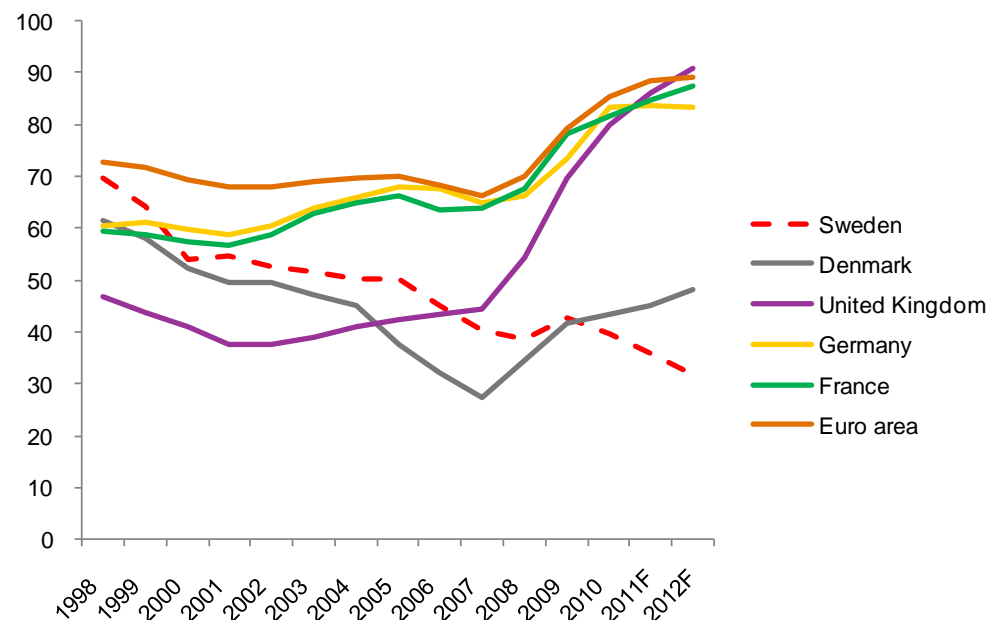
Source: Swedish National Debt Office, Feb 2, 2011 and Statistics Sweden

Swedish government debt



Source: Swedish National Debt Office, Oct 2011

Maastricht definition\* of general government gross public debt as a percentage of nominal GDP

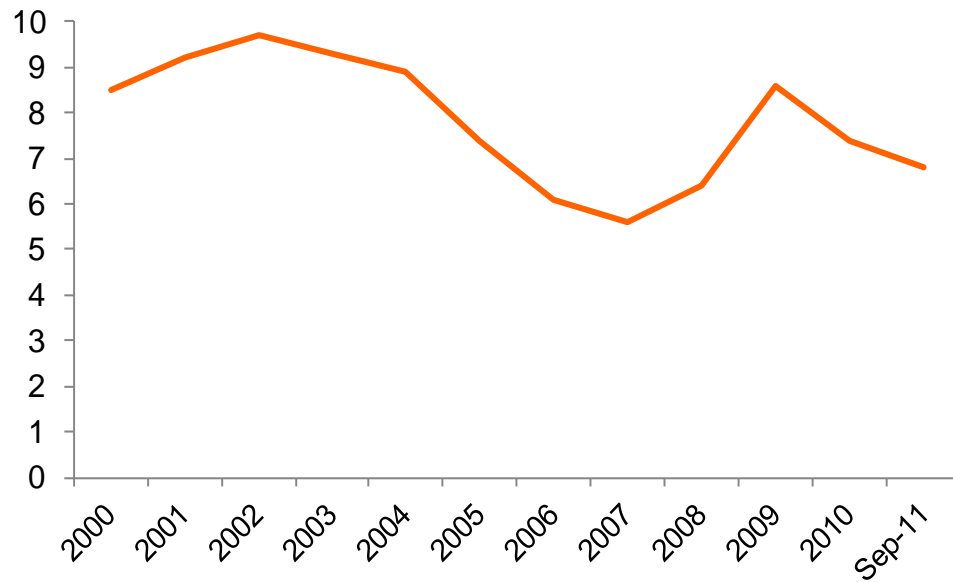


\*General government gross debt according to the convergence criteria set out in the Maastricht Treaty comprises currency, bills and short-term bonds, other short-term loans and other medium- and long-term loans and bonds, defined according to ESA 95.

Source: OECD Economic outlook 89, May 25, 2011

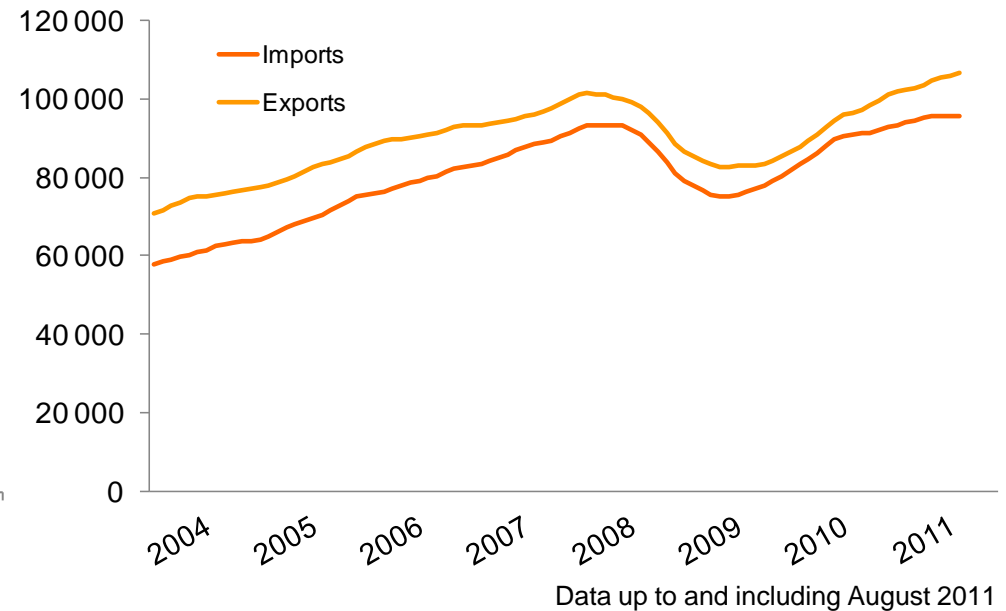
# Positive macro trend sustained

Unemployment rate 2000 – Sep 2011, %



Source: Statistics Sweden, Oct, 2011

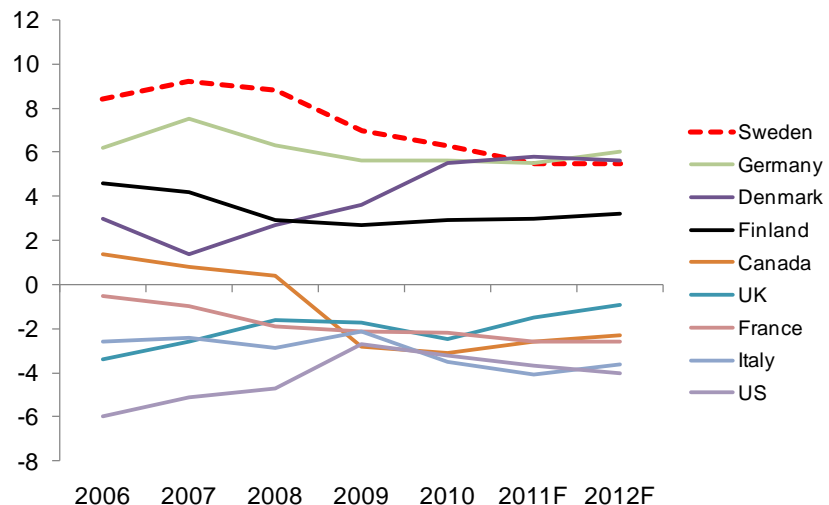
Exports and imports trend per month, SEKm



Source: Statistics Sweden, Sep, 2011

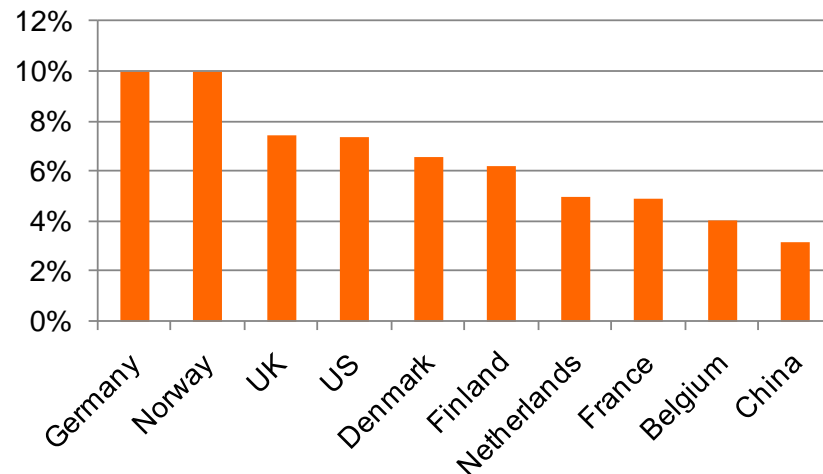
# Continued recovery of foreign trade

Current account balance as % of GDP

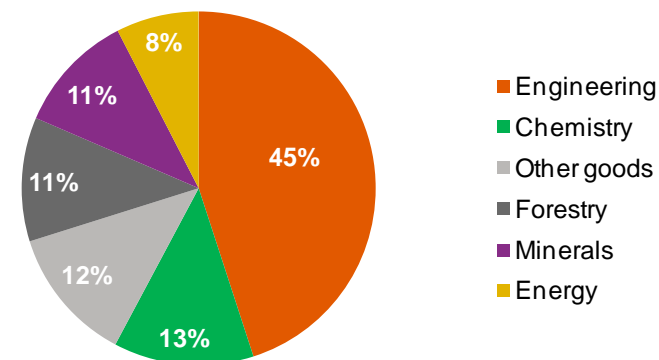


Source: OECD – Economic outlook 89, May 25, 2010

Top 10 export countries 2010

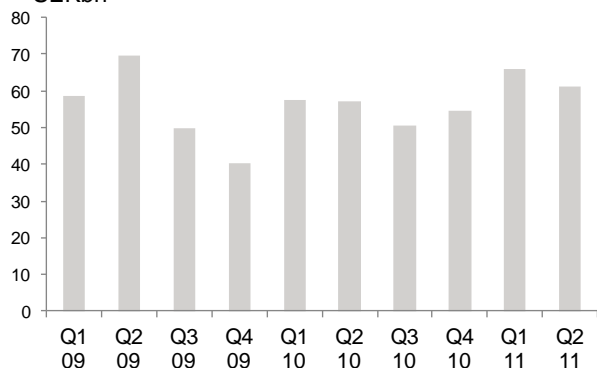


Export – distribution by important commodity groups



Source: Statistics Sweden, Feb 28, 2011

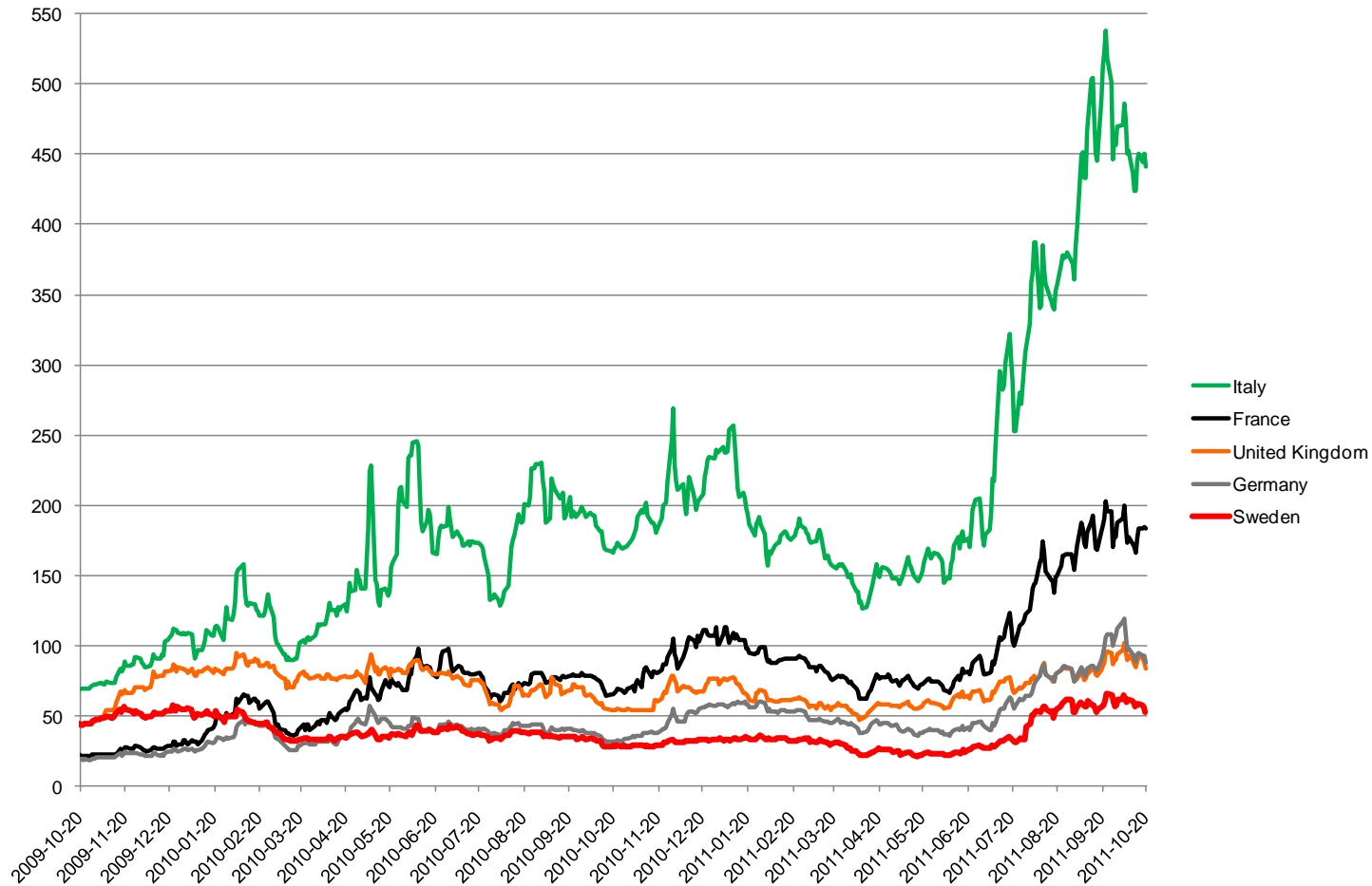
Current account net, Sweden, SEKbn



Source: Statistics Sweden, Aug 31 2011

# Sweden has shown resilience through turbulent times

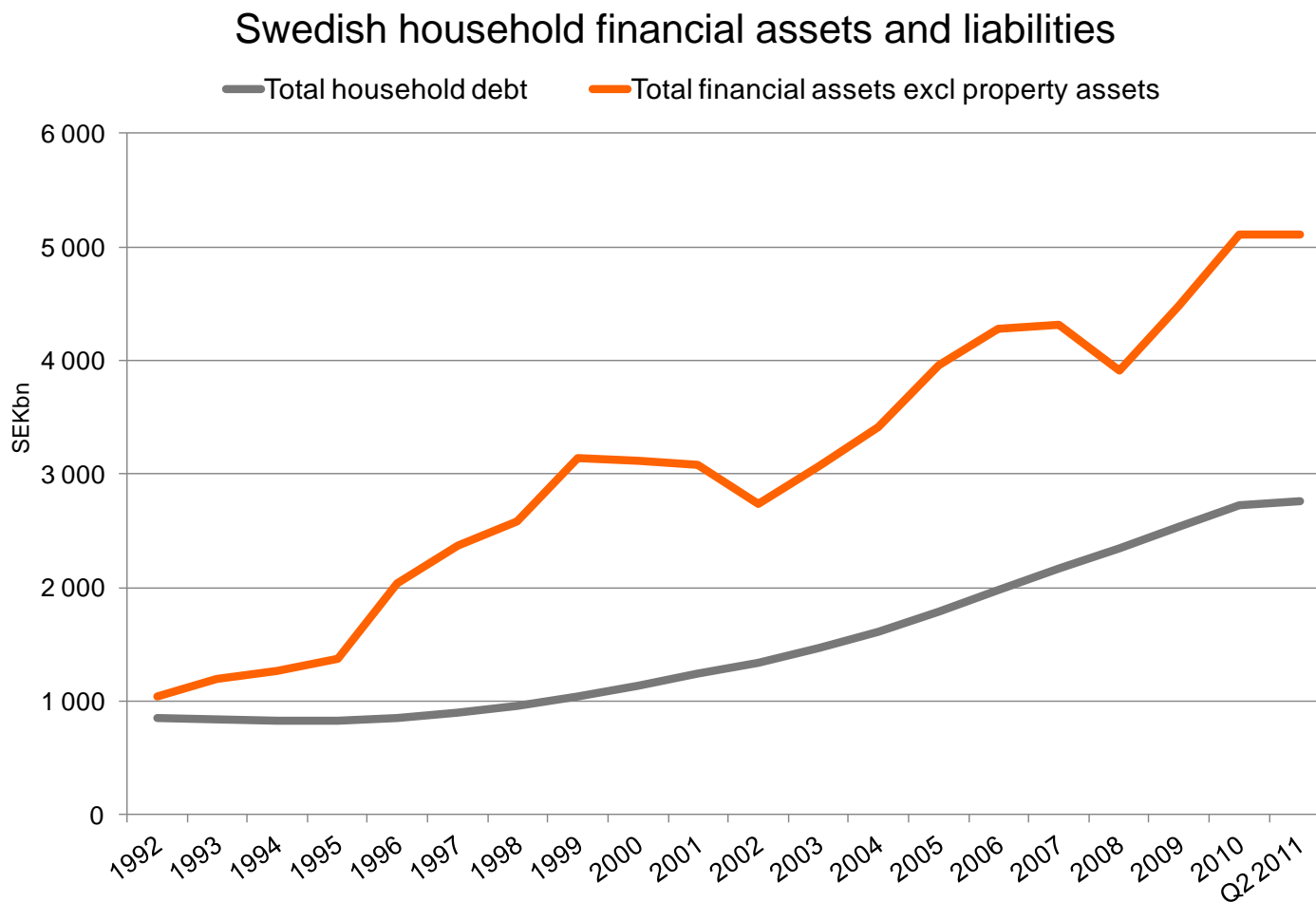
5 year Sovereign CDS



Source: Bloomberg, Oct 20, 2011

### **3. Swedish housing and mortgage market**

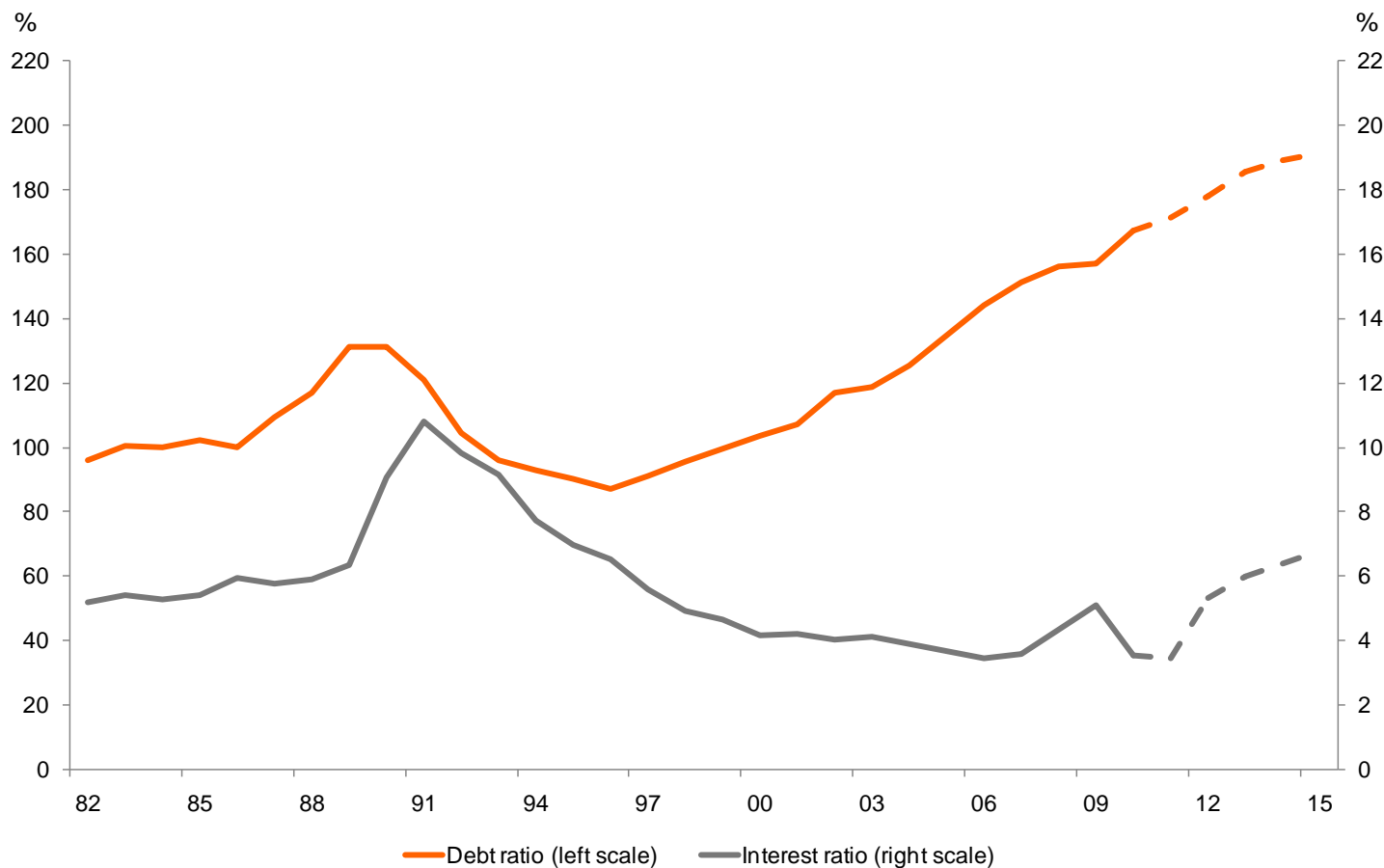
# Healthy household balance sheets



Source: Statistics Sweden "Hushållens ställning och transaktioner" Q2 2011

# Structural interest rate decline key to affordability

Household debt and interest expenses after tax as percentage of disposable income



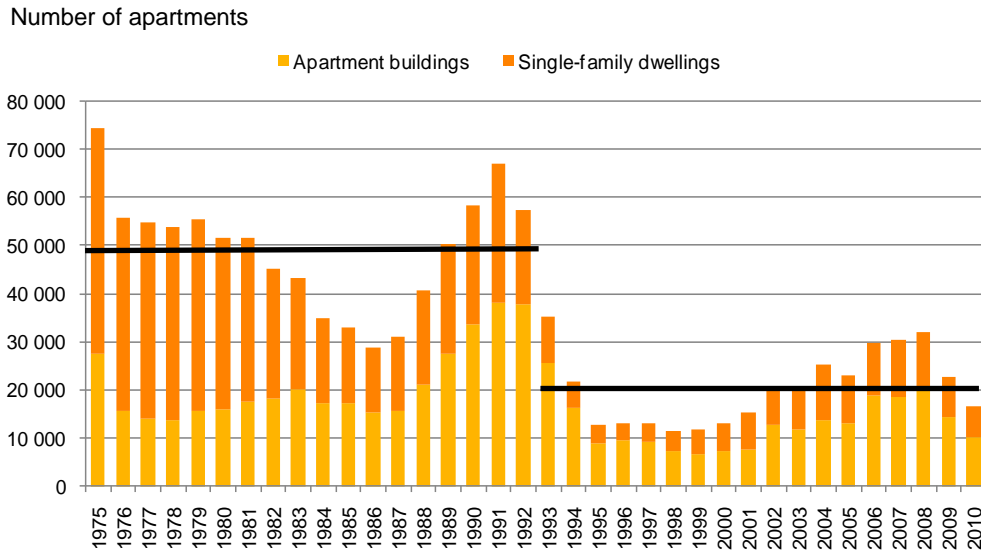
Source: Riksbanken, Financial Stability Report (2:7), May 31, 2011

# Housing investments at a conservative level

- New household formations have between 1995 and 2008 exceeded the actual new dwellings produced by 80,000 units

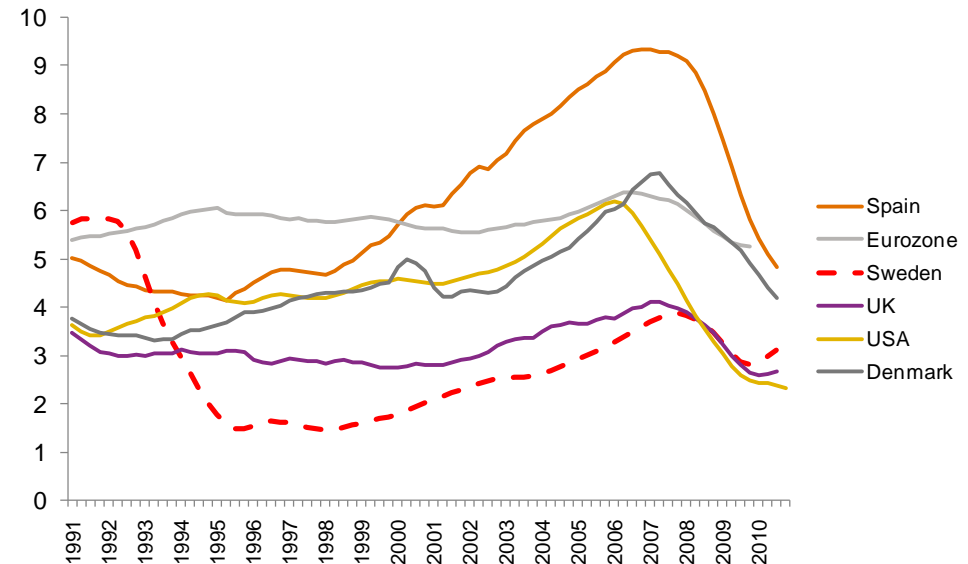
Source: Statistics Sweden, Mar 3, 2011

Housing completions, apartments in Multi-family dwellings and Single-family houses in Sweden



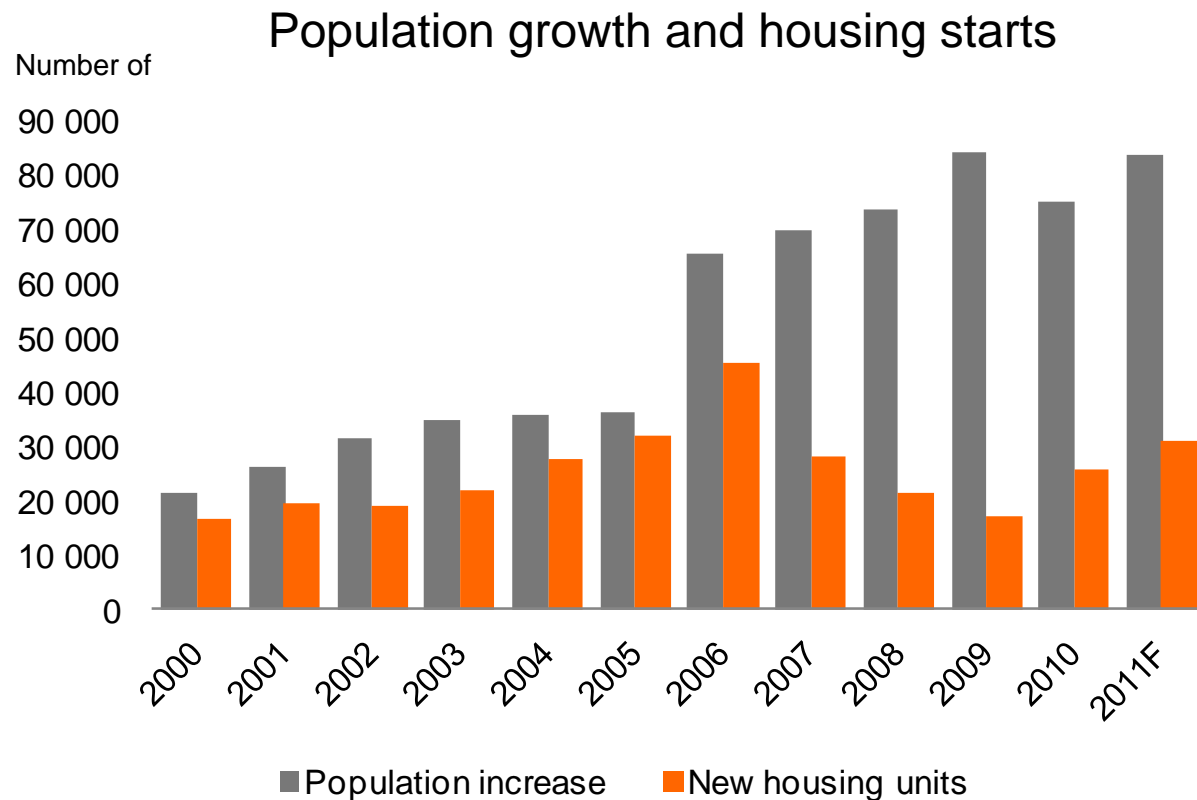
Source: Statistics Sweden, Dec 31, 2010

Housing investments as a percentage of GDP



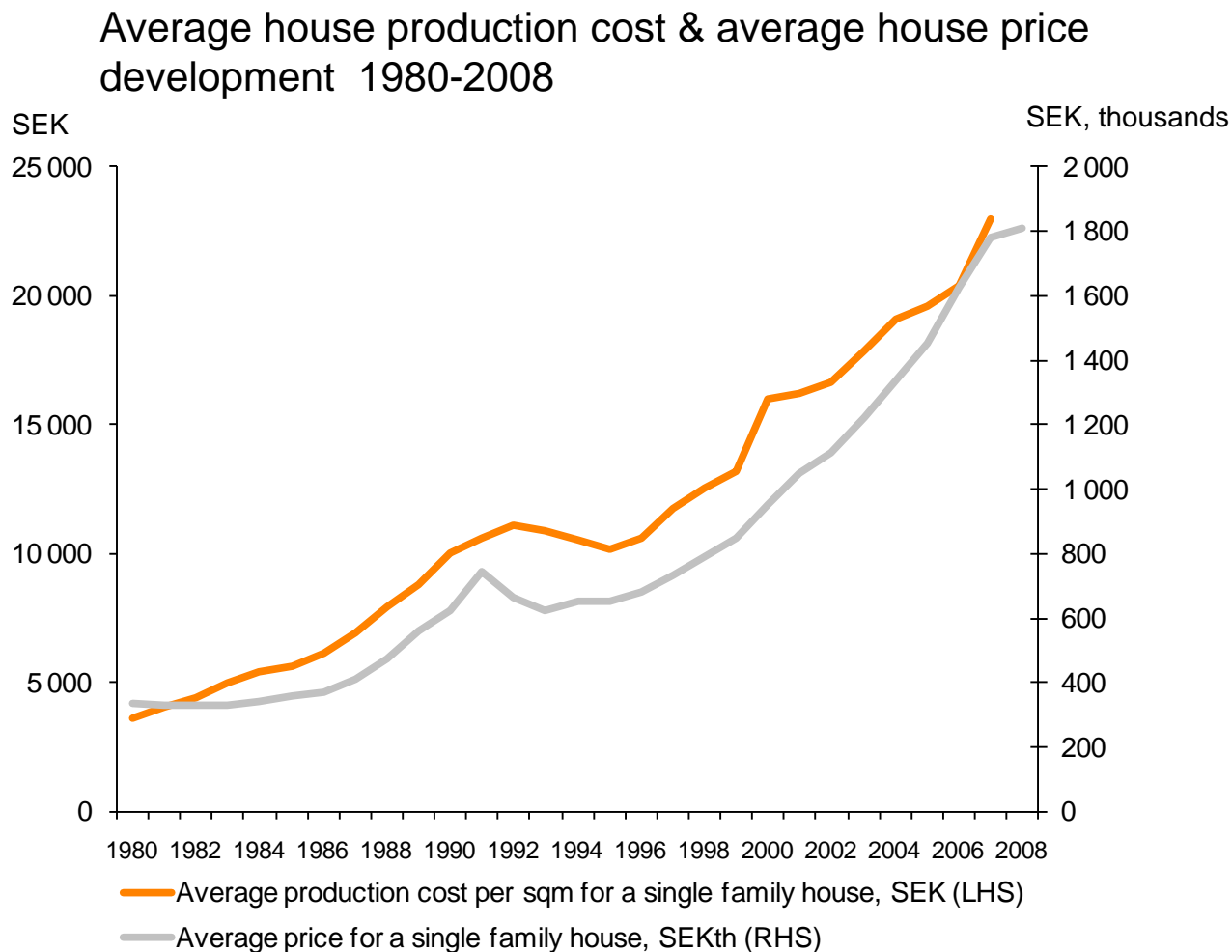
Source: Reuters Ecowin, Mar 7, 2011

# Population growth far exceeds housing unit growth



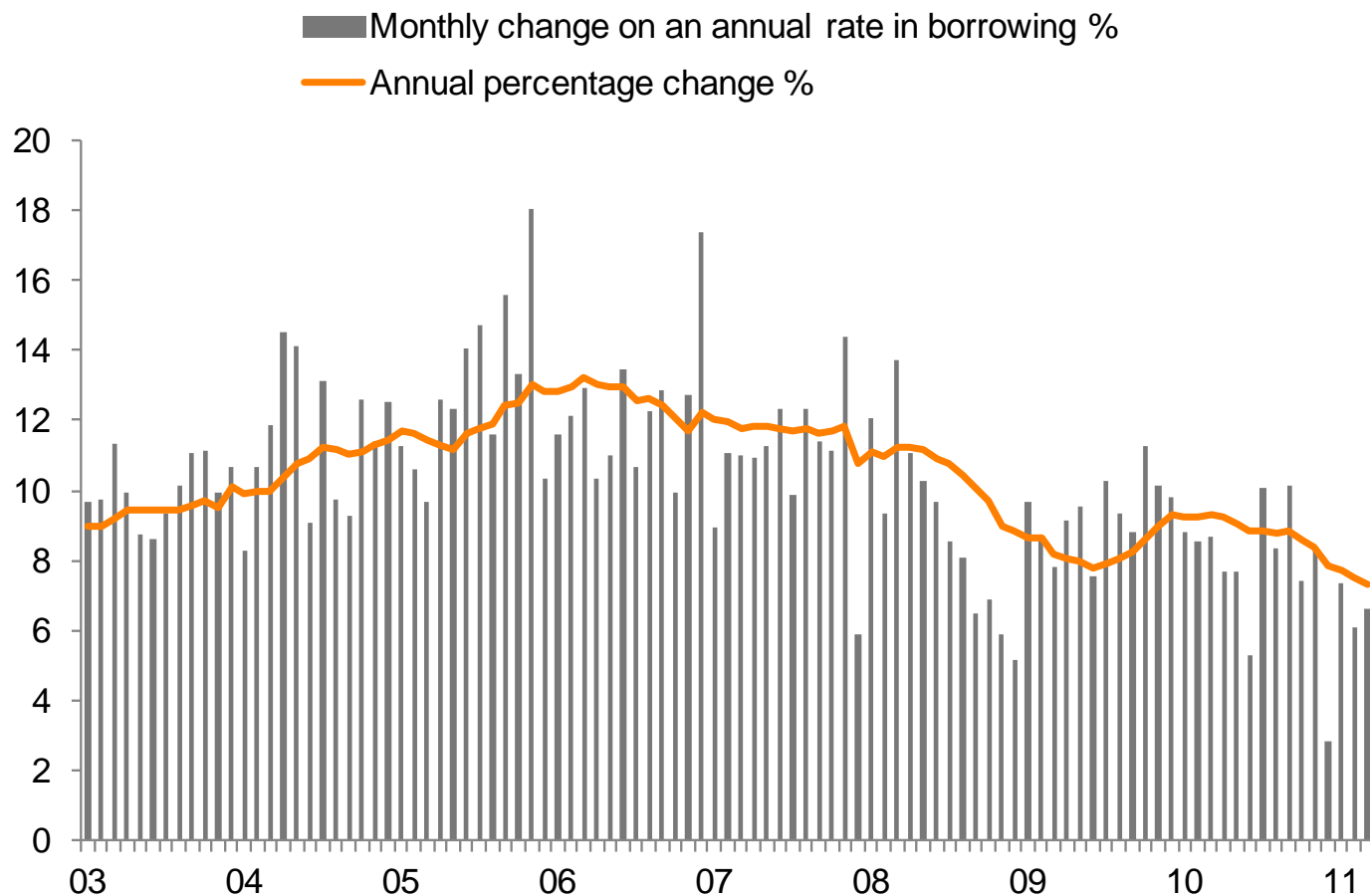
Source: Statistics Sweden October 2011

# House prices are moving in tandem with production costs



Source: "Bostads- och byggnadsstatistisk årsbok 2010", published Feb 15, 2010 by Statistics Sweden; page 128 and 156

# Pace of household borrowing declines



Source: Riksbanken stability report 2011:1

# Price development of single-family houses

- Mortgage LTV- cap of 85% in Sweden
- Higher interest rates
- Small decline development during the last 12 months with some regional variations

## Single-family housing - a selection of counties in Sweden

		Jul-Sep 2011* 12 months		PP/ATV
Whole of Sweden		-2%	-2%	1,56
AB	Stockholm county	-3%	-1%	1,51
O	Västra Götaland county (Gothenbourg)	-3%	-2%	1,55
M	Skåne county (Malmoe)	-2%	-3%	1,53
Z	Jämtlands county	9%	9%	1,92
E	Östergötland county	-2%	-3%	1,52
Y	Västernorrlands county	-2%	-2%	1,69
C	Uppsala county	-3%	1%	1,62
D	Södermanlands county	-2%	-3%	1,48
U	Västmanland county	-1%	-1%	1,46
T	Örebro county	-3%	-2%	1,54
H	Kalmar county	-6%	-9%	1,65

\*compared to Apr-Jun 2011

PP/ATV = Purchase price / Assessed Tax Value



Source: [www.maklarstatistik.se](http://www.maklarstatistik.se), Oct 2011

# Price development of tenant-owned apartments

- Mortgage LTV- cap of 85% in Sweden
- Higher interest rates
- Country-wide slow down during Q3 2011 with some regional variations

## Tenant owner rights – a selection of counties in Sweden

		Jul-Sep 2011*	12 months	SEK per Sq. meter
	Whole of Sweden	-1%	-1%	21 480
AB	Stockholm county	-1%	1%	34 159
O	Västra Götaland county (Gothenbourg)	0%	3%	18 130
M	Skåne county (Malmoe)	1%	-3%	15 463
D	Södermanlands county	-5%	-1%	8 874
C	Uppsala county	9%	6%	23 437
Z	Jämtlands county	-12%	5%	12 978
T	Örebro county	3%	5%	8 009
E	Östergötland county	6%	9%	11 404
Y	Västernorrlands county	-3%	0%	5 662
H	Kalmar county	-19%	-17%	7 863
U	Västmanland county	-7%	-4%	7 981

\*compared to Apr-Jun 2011

Source: [www.maklarstatistik.se](http://www.maklarstatistik.se), Oct 2011



# Swedish mortgage market

- No securitization (on balance sheet)
- No sub-prime market
- No 3<sup>rd</sup> party origination
- No buy-to-let market
- 70% home ownership<sup>1</sup>
- Rental market is regulated
  - First hand contracts difficult to obtain
  - Rents need to be negotiated with the Swedish Union of Tenants
- Transparent credit information (credit information agency, [www.uc.se](http://www.uc.se))
  - Publicly available information regarding income, debt, payment track record etc
- Consumer credit legislation requires affordability calculations including stress test of higher interest rate
- Very limited debt forgiveness possibilities (full recourse)
- Strong social security and generous unemployment benefit system

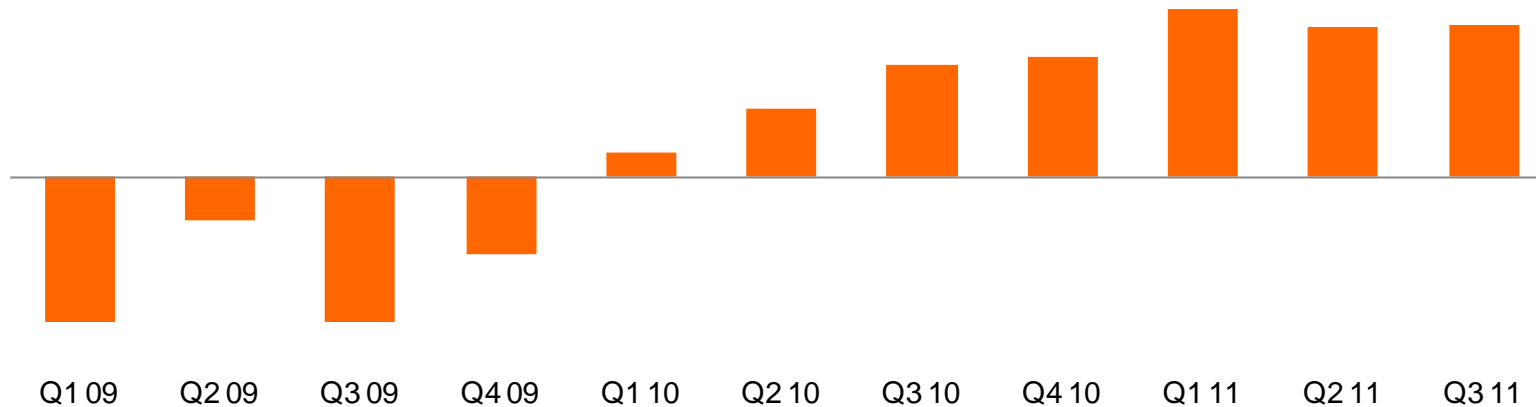
<sup>1</sup> Source: Boverket, , 2009

## 4. Financial performance

## Stable result but increased macro uncertainty

- Net profit of SEK 3 475m
- Core Tier 1 capital ratio of 15.1 per cent
- Return on equity of 14.4 per cent in Q3
- Pause in buy-backs

Profit for the period



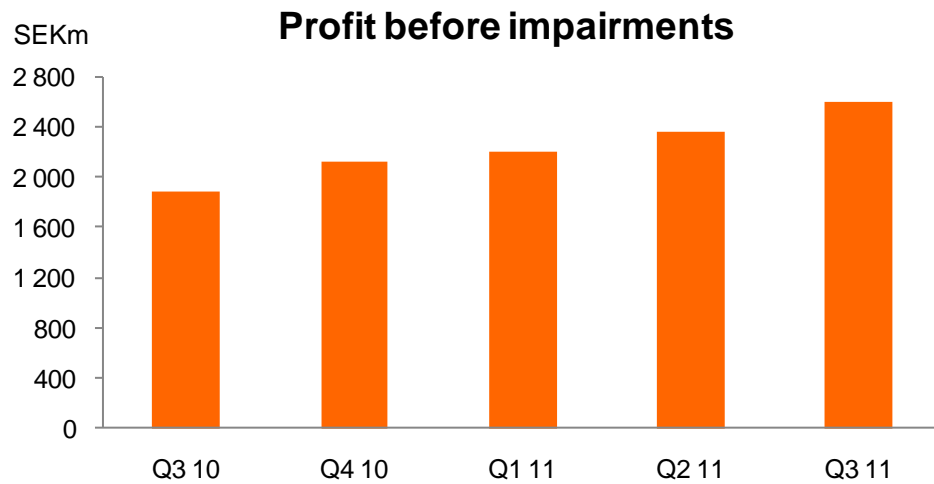
## Well prepared to meet increased uncertainty

- Increased macro uncertainty – lower growth
- Income pressure likely
  - Interest rates
  - Lower activity
- Intensified cost focus
- Strong position capital and liquidity

## Increased cost of doing banking

- Lower leverage
  - Governments, banks, businesses and households
- Reshaping of savings market
- Long-term regulatory changes
  - Demarcation line tax payers/shareholders
  - Cost of senior funding
  - Ring fencing of certain banking activities
  - Increased cost for cross border banking
- Increased cost of doing banking will affect all stakeholders

# Solid performance

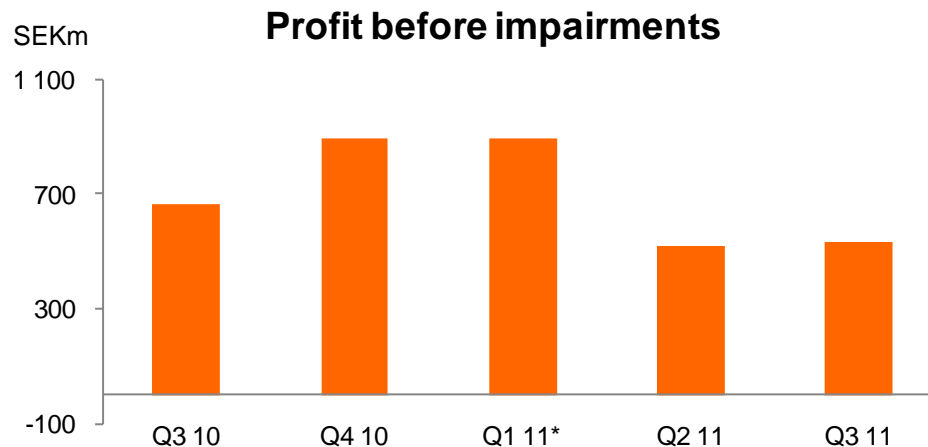


- Improved NII
- Stable asset quality
- Good cost control
- High interest rate sensitivity
- Transaction to relation (T2R)

SEKm	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Net interest income	2 499	2 752	2 925	3 026	3 143
Net commission income	1 019	1 132	1 073	1 051	1 089
Total income	3 981	4 349	4 395	4 593	4 683
Total expenses	2 100	2 223	2 193	2 237	2 082
<b>Profit bef impairments</b>	<b>1 881</b>	<b>2 126</b>	<b>2 202</b>	<b>2 356</b>	<b>2 601</b>
Total impairments	-3	136	5	5	106
C/I ratio	0.53	0.51	0.50	0.49	0.44

# Turbulent market conditions

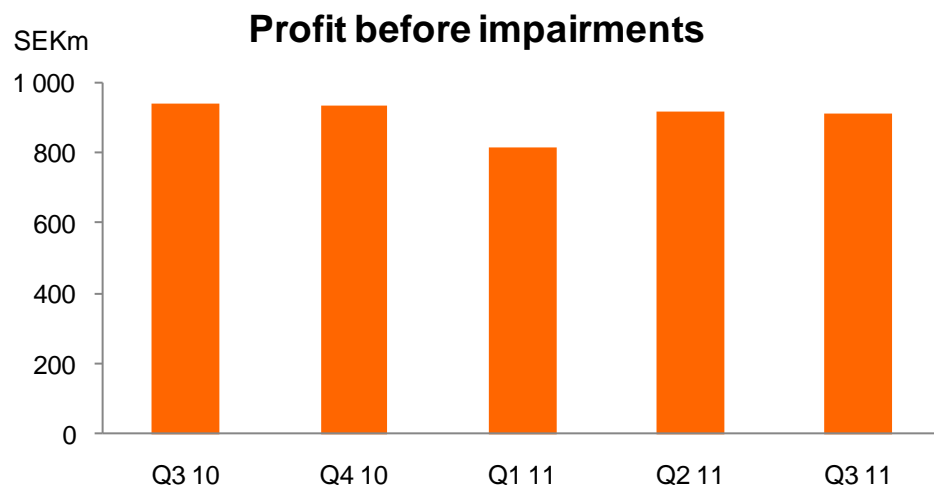
SEKm	Q1 11*	Q2 11	Q3 11
Net interest income	850	884	778
of which LC & FI**	450	485	557
of which Capital markets	370	378	184
Commission income	505	412	399
of which LC & FI**	289	202	225
of which Capital markets	215	211	174
Total income LC&I	1 755	1 344	1 311
of which LC & FI**	781	731	827
of which Capital markets	943	589	415
Total expenses, excl variable pay	776	778	772
Variable staff costs	83	50	6
<b>Profit bef impairments</b>	<b>896</b>	<b>516</b>	<b>533</b>
of which LC & FI**	514	473	594
of which Capital markets	364	31	-127
Credit impairments	-105	-19	-66
C/I ratio	0.49	0.62	0.59



- Poor capital markets income
- Strong customer related income
- Continued re-pricing
- Increased volumes

\* Excluding Lehman one-off, \*\*Large corporates and Financial institutions

# Stable development



- Slowing deleveraging
- Continued recoveries
- Increased activity
- High interest rate sensitivity

SEKm	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
Net interest income	919	1 168	997	1 017	994
Net commission income	386	383	317	365	392
Total income	1 561	1 632	1 472	1 568	1 606
Total expenses	624	697	658	653	649
<b>Profit bef impairments</b>	<b>937</b>	<b>935</b>	<b>814</b>	<b>915</b>	<b>957</b>
C/I ratio	0.40	0.43	0.45	0.42	0.40

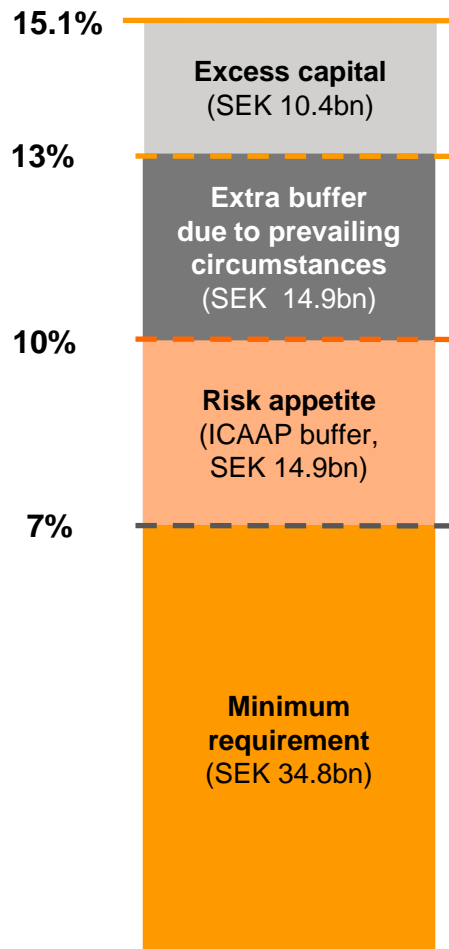
# Solid core development

SEKm	9M 10	9M 11	Q2 11	Q3 11
Net interest income	11 802	14 124	4 740	4 857
Net commission income	6 987	6 837	2 244	2 292
Net gains and losses	2 043	1 025	511	259
Other income	2 254	3 011	860	782
Total income	23 086	24 997	8 355	8 190
Total expenses	13 052	13 060	4 345	4 331
<b>Profit before impairments</b>	<b>10 034</b>	<b>11 937</b>	<b>4 010</b>	<b>3 859</b>
Total impairments	3 524	-1 733	- 309	- 454
<b>Profit for the period</b>	<b>4 694</b>	<b>10 779</b>	<b>3 452</b>	<b>3 475</b>
Return on equity, %	6.9	15.0	14.4	14.4
Cost-income ratio	0.57	0.52	0.52	0.53
Core Tier 1 capital ratio, %*	13.4	15.1	14.8	15.1
Risk-weighted assets, SEKbn*	560	497	509	497
Deposits and borrowings from the public	524	555	529	555

- Lower asset management and corporate finance fees
- Negative funding related valuation effects in Treasury
- Good cost control
  - One-off cost of SEK 100m in Ukraine
  - Cost increase in Ektornet
- Deposit growth

\* Basel 2

# Uncertain regulatory demand – Swedbank well positioned



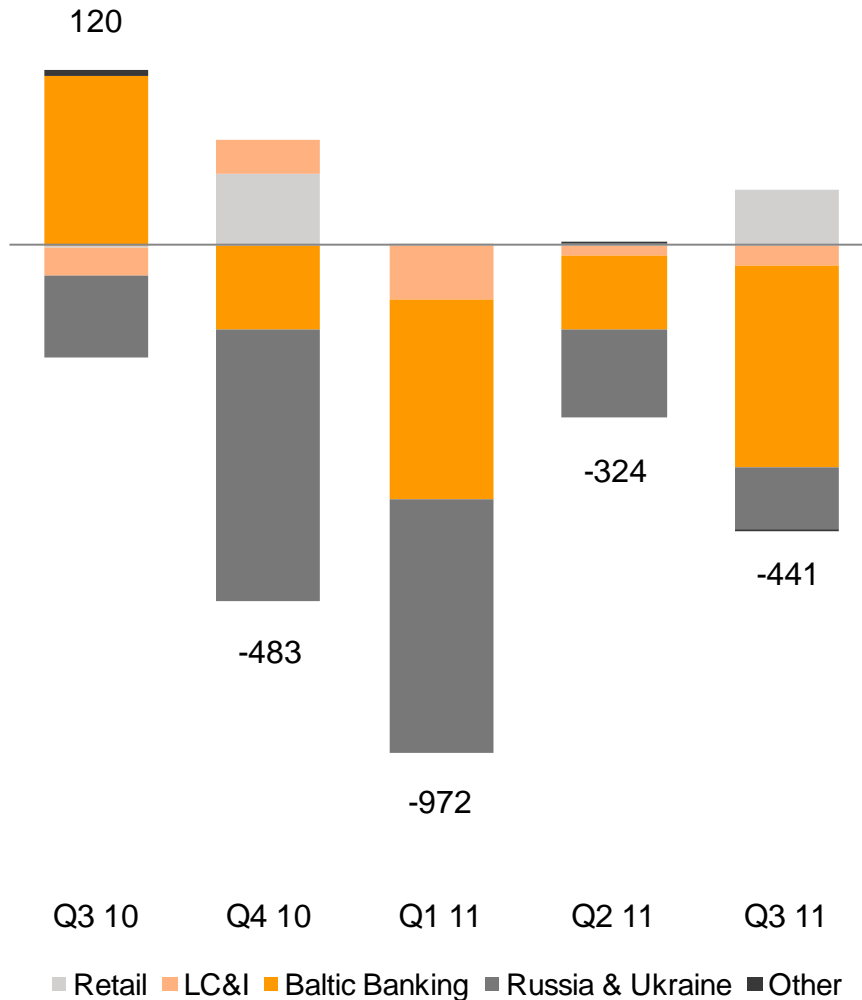
- Still large regulatory uncertainty regarding minimum CT1 ratio and different buffers
- Basel 3
  - CT1 ratio impact 100bp
  - LCR 212%
  - NSFR 92%

## Improvement but increased macro uncertainty

- Improved asset quality
  - Decreased impaired loans
  - Continued recoveries
  - Positive rating migration
  - Improved loan-to-value developments in Estonia, Latvia and Lithuania
- Increased macro economic uncertainty
  - World economy slowing
  - House market in Sweden slowing down

# Net recoveries of SEK 441m in Q3

Credit impairments, SEKm

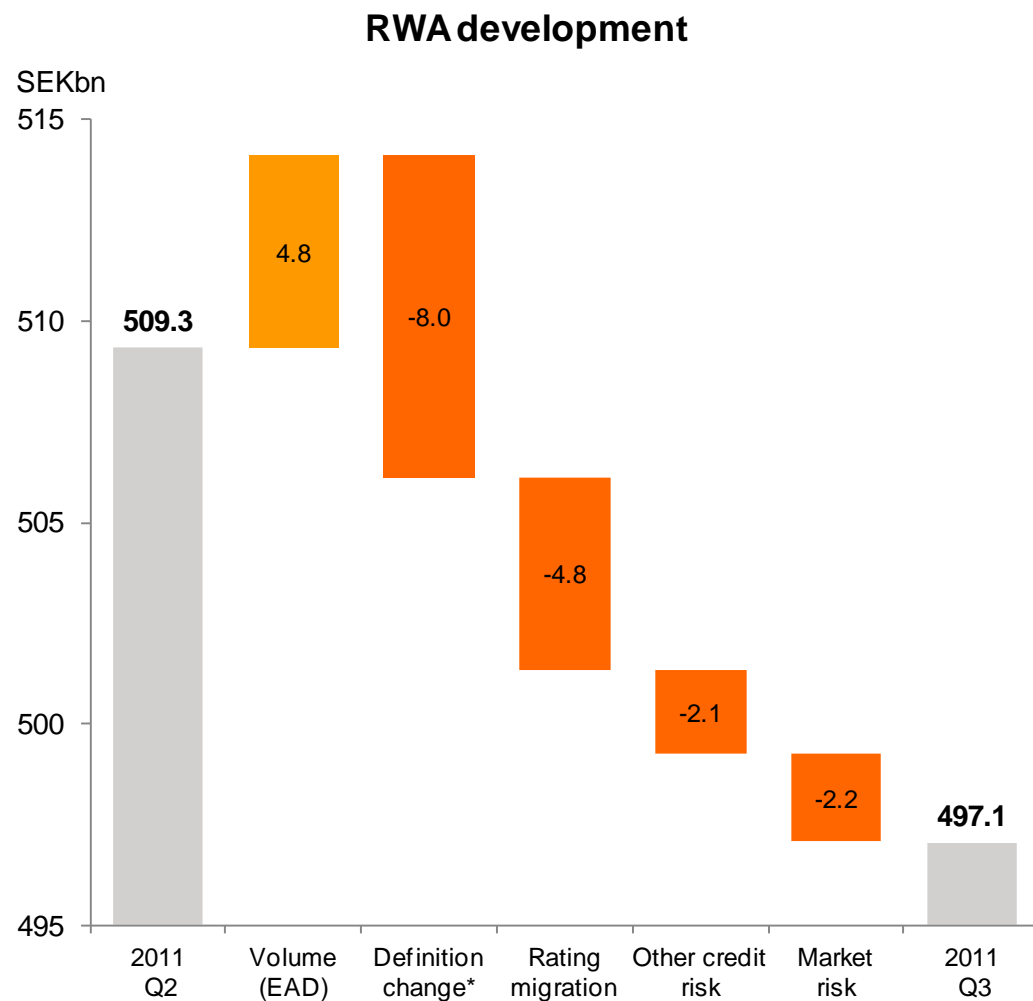


- Continued recoveries in CEE
  - Positive development in the Baltic corporate portfolio
  - Mortgage provisions in Ukraine
- Solid Swedish performance

## Continues actions to ensure proactive risk management

- Review of potentially exposed sectors in Retail and LC&I
  - Proactive work
  - Ensure customers' buffers
- Complementary stress tests shows strong resilience
  - Prudent mortgage lending in Sweden
- Ukrainian and Latvian mortgage books most exposed
  - Limited total impact

# Focus on risk-weighted assets

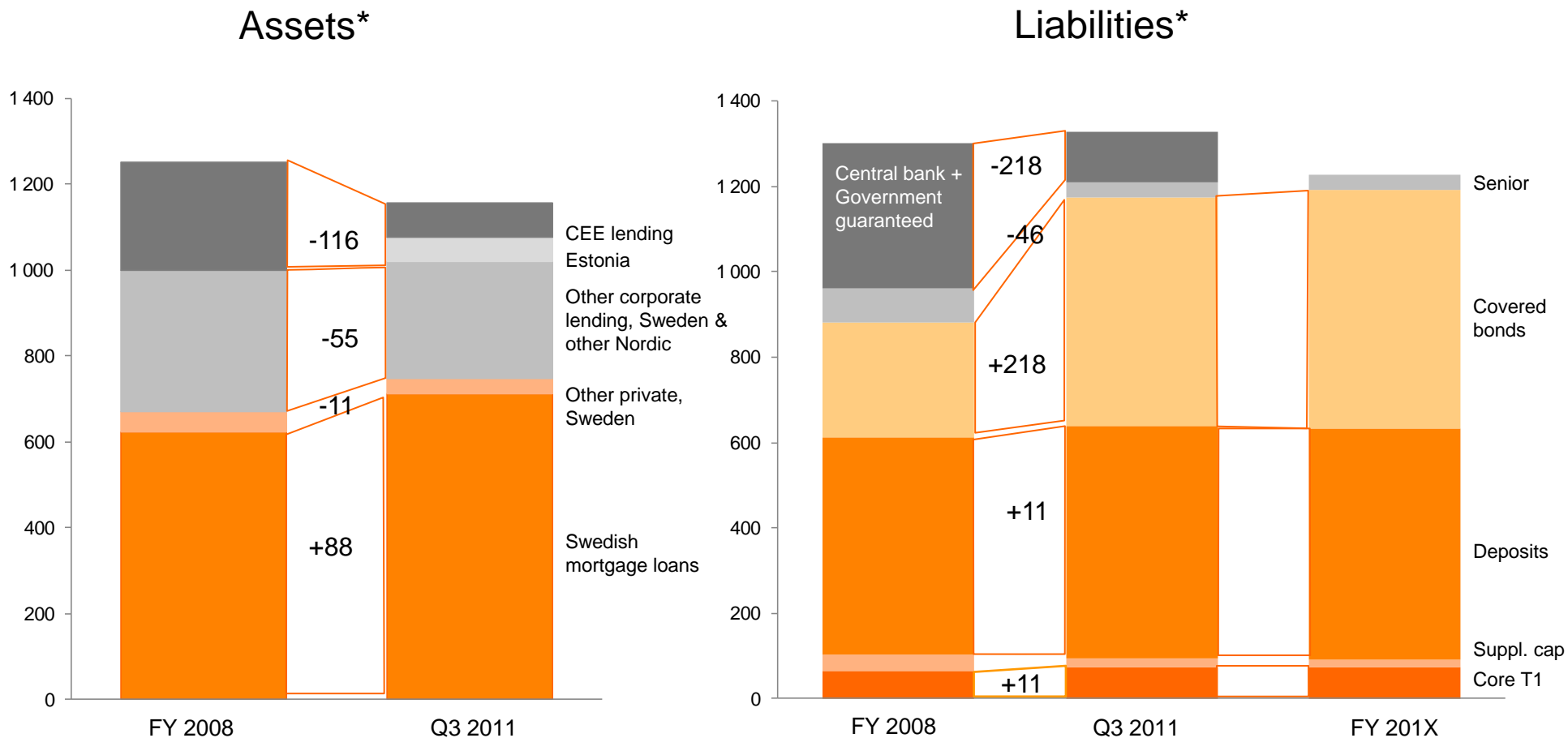


\* Corporate size definition

- Future focus areas
  - Review of small and mid-sized corporates Sweden
  - Advanced IRB
- Potential regulatory development
  - Mortgages

## 5. Liquidity and funding

# Significantly reduced risk level

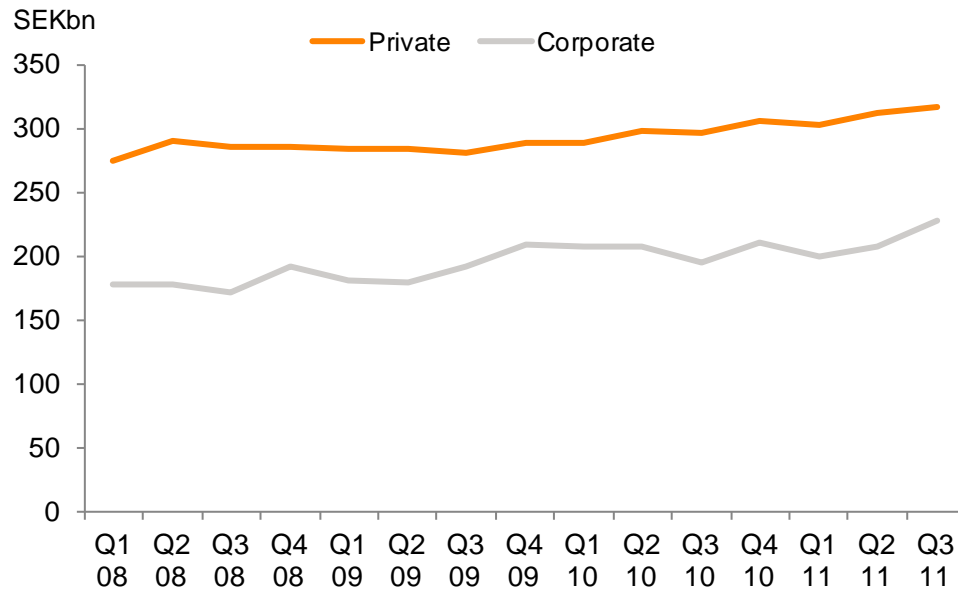


Source: Swedbank, Dec 31, 2008 and Sep 30, 2011 \* Simplified balance sheet assets and liabilities

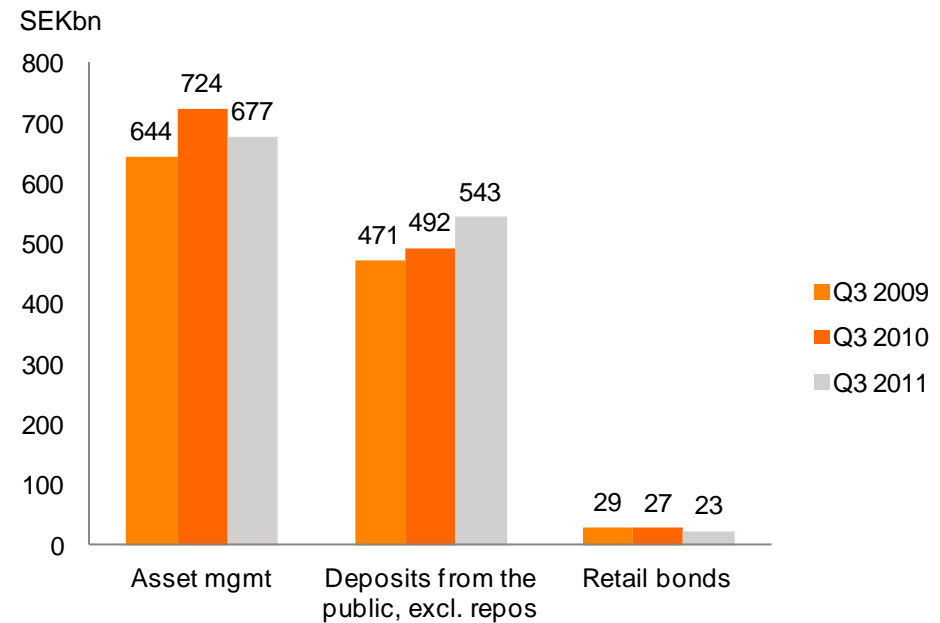
# Positive trend in deposits as overall savings increase

- Quarterly deposit growth in all home markets
- Market leader in deposits in all home markets
- Share of private deposits at 58%

Deposits from the public excluding repos

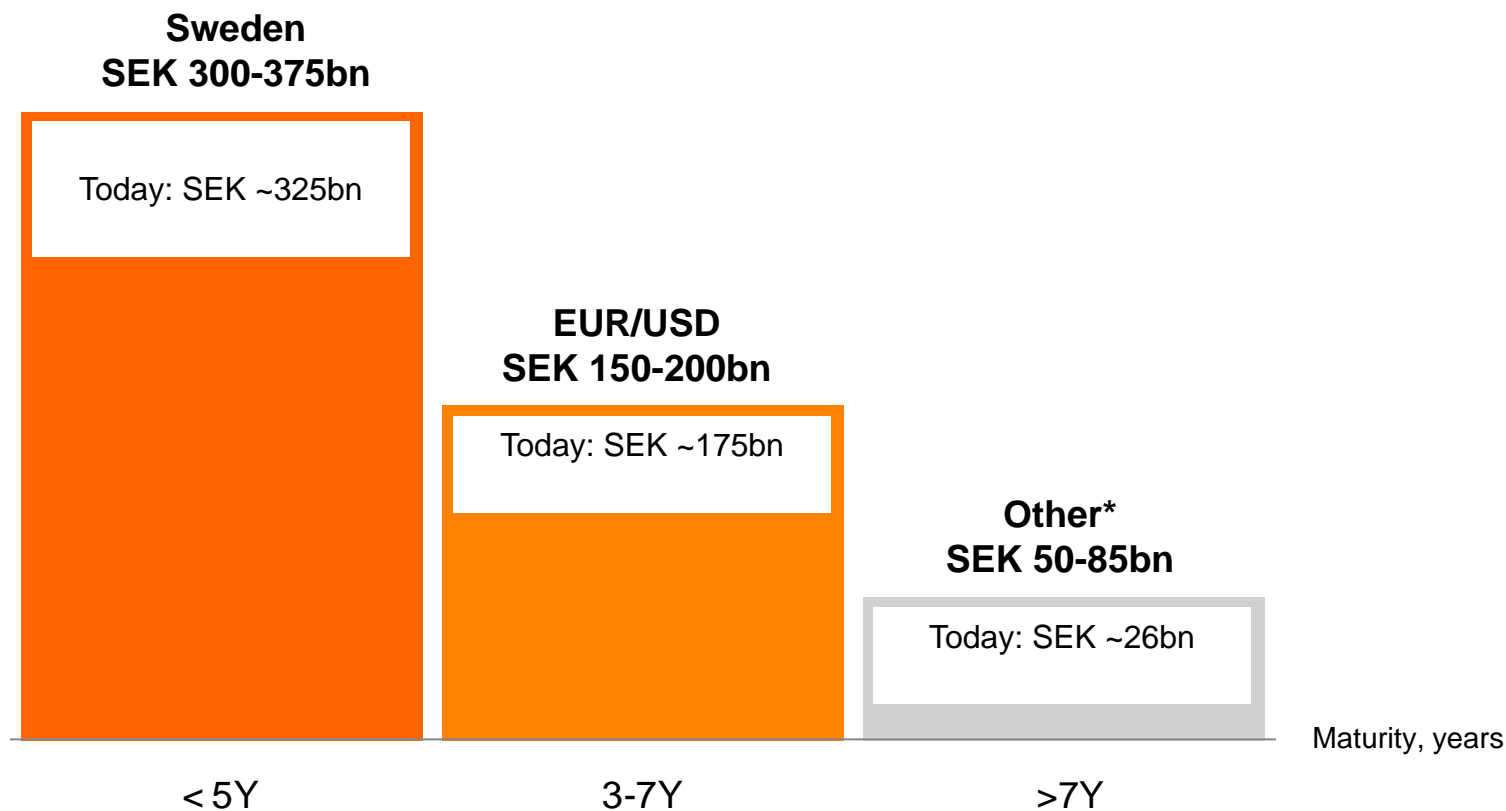


Savings and investments, Swedbank Group, SEKbn



Source: Swedbank Fact book, Sep 30, 2011

# Covered bond strategy



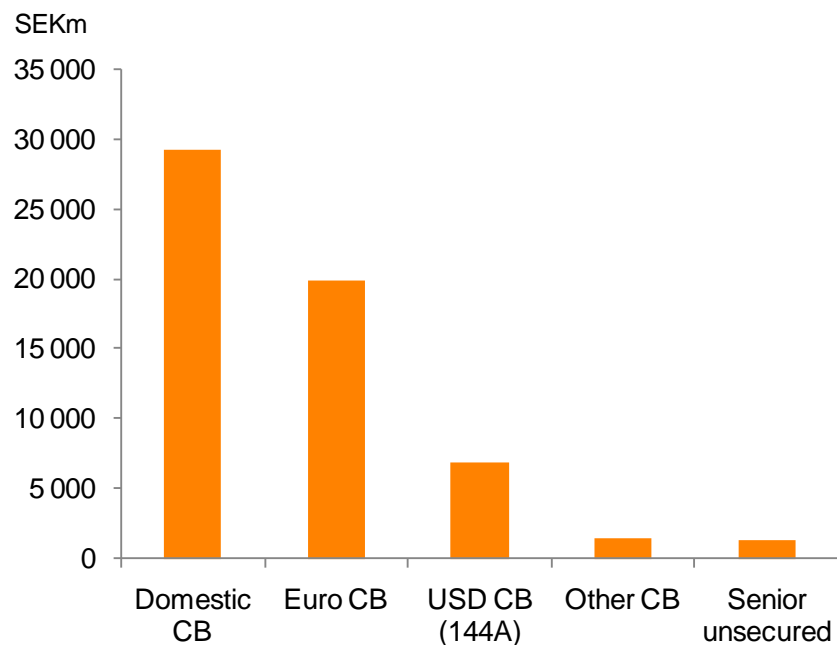
\*e.g. Registered covered bonds

Source: Swedbank, Sep 30, 2011, Nominal amounts

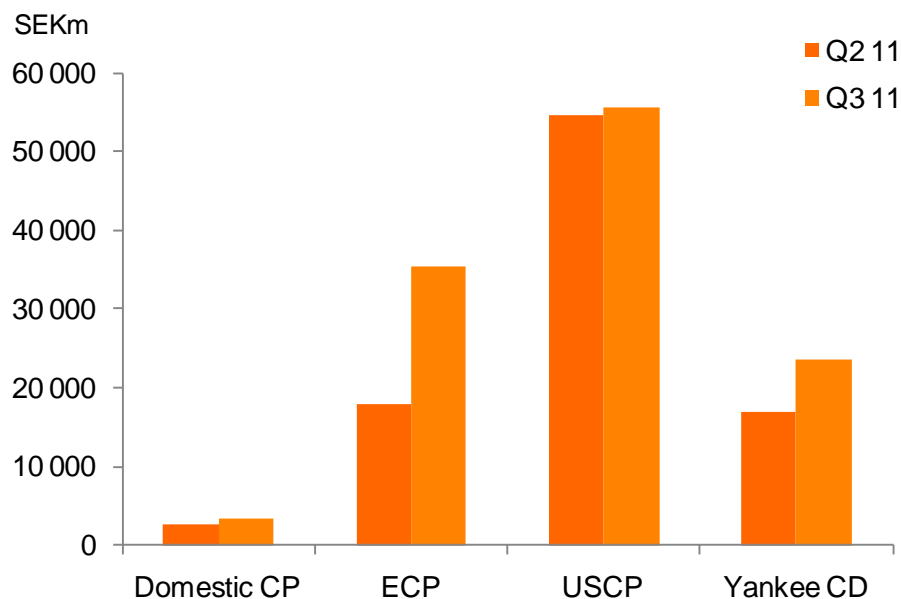
## Funding development during Q3

- SEK 60bn of long-term debt issued in Q3, YTD SEK 210bn – full year maturities SEK 180bn
- Demand for Swedbank short-term paper continued
- USD-funding need covered for more than 12 months

Long-term debt issued in Q3

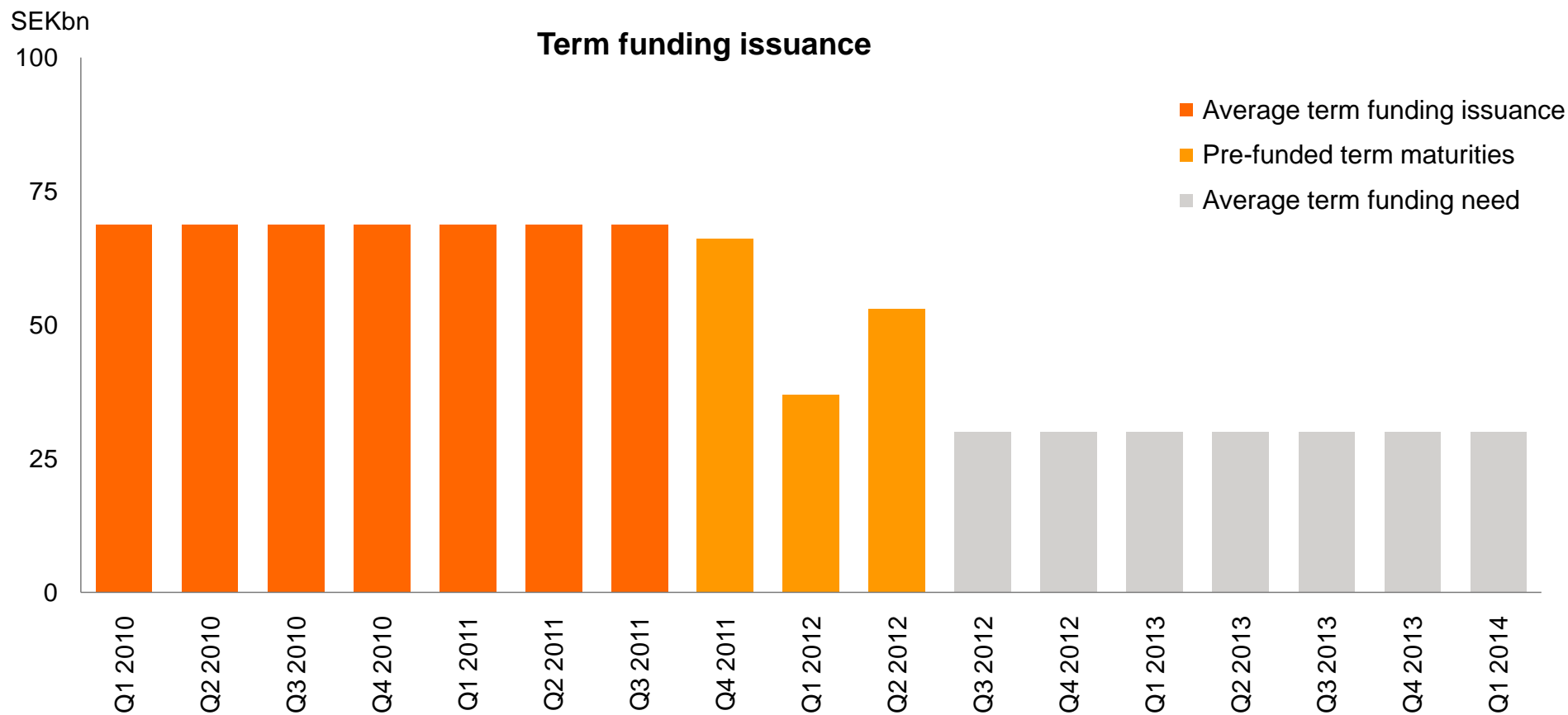


Outstanding short-term debt



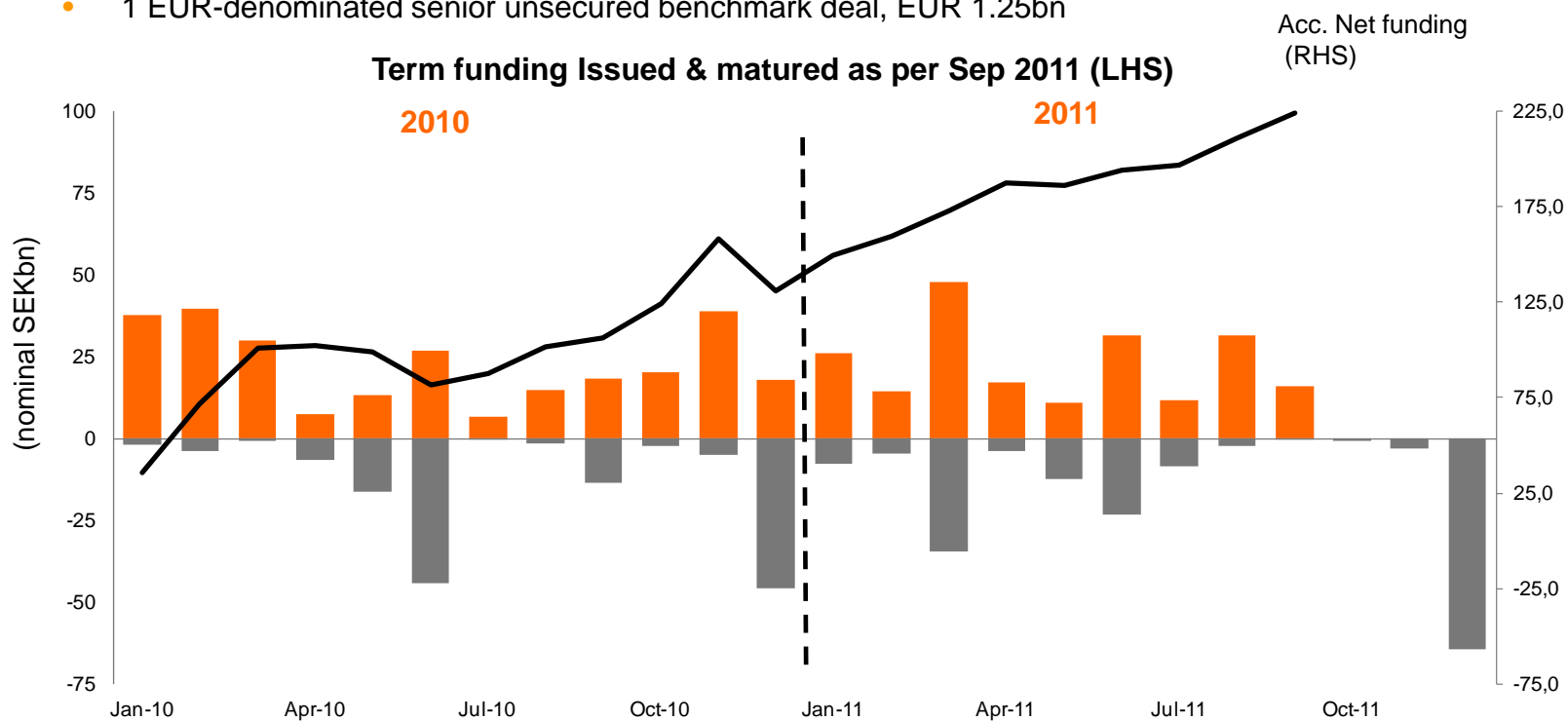
# Term funding at a slower pace going forward

- Over SEK 600bn term funding issued since Q3 2009
- Significantly lengthened maturities
- All government guaranteed debt pre-funded



# Nominal SEK 479bn term funding issued in 21 months...

- ...with around SEK 238bn of maturities during the same period
- Issued around SEK 425bn in covered bonds
  - 7 EUR-denominated covered bond benchmark deals, EUR 8.0bn
  - 3 USD-denominated covered bond benchmark deals, USD 3bn
  - 12 CHF-denominated covered bond benchmark deals, CHF 2.3bn
  - Increased domestic SEK covered bond outstanding, SEK 60bn
  - 1 EUR-denominated senior unsecured benchmark deal, EUR 1.25bn

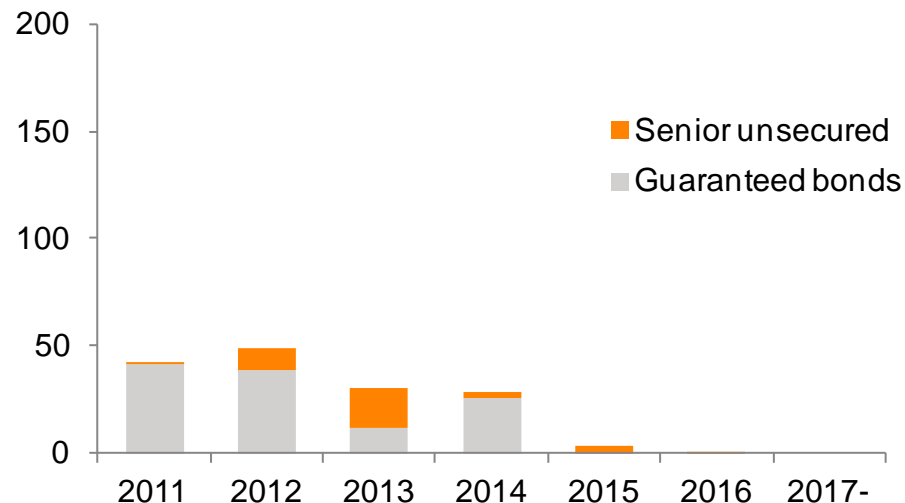
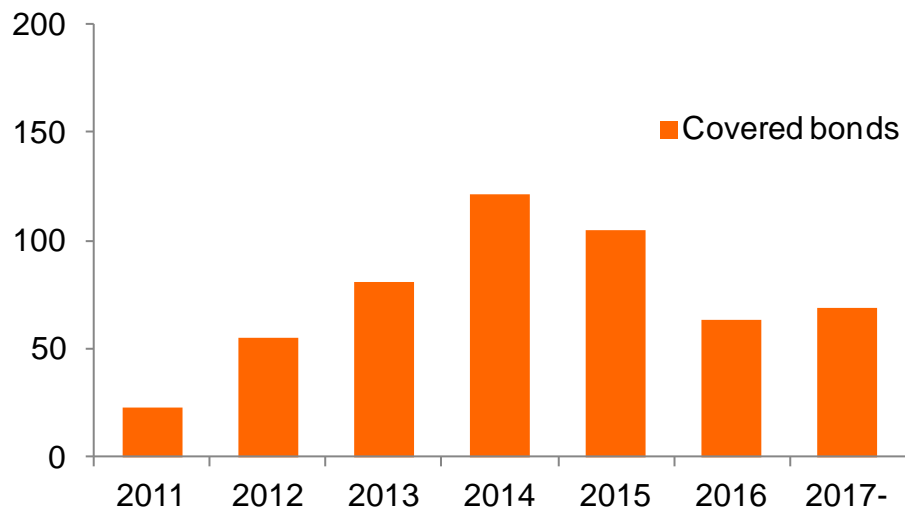


Source: Swedbank, Sep 30, 2011

## Chosen term funding maturity profile taking shape

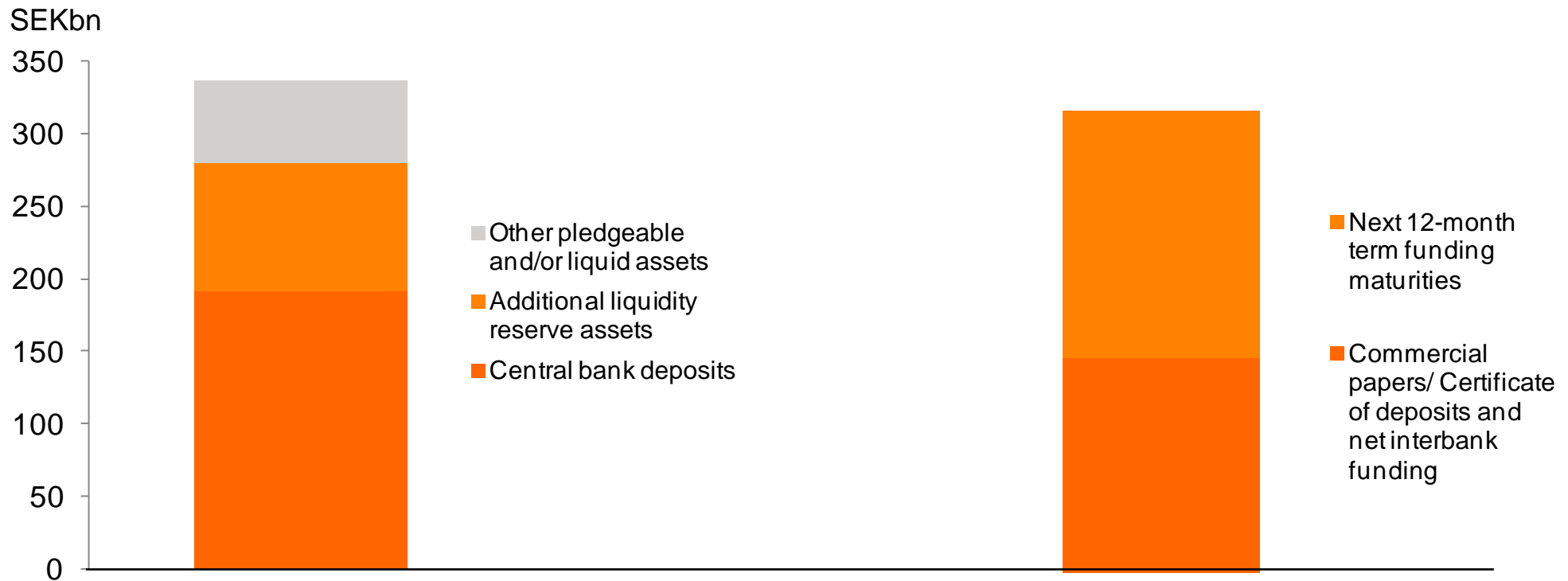
- Maturities for the remainder of 2011 amount to nominal SEK 69bn, of which SEK 42bn government guaranteed debt
- Total government guaranteed debt remaining of SEK 117bn

Long-term funding maturity profile, SEKbn



# Conservative liquidity levels

- Short-term funding mainly a tool for cash management
- More than 15 months pre-funded



Source: Swedbank 30 Sep 2011

# Liquidity reserve\*

SEKm

**AAA-rating\*\***

Cash and holdings in central banks	190 843
Deposits in other banks available overnight	759
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	32 854
Securities issued or guaranteed by municipalities or Public sector entities	
Covered bonds	54 383
- Issued by other institutions	54 383
- Own issued	
Securities issued by non-financial corporates	
Securities issued by financial corporates (excl. covered bonds)	929
Other	
<b>Total</b>	<b>279 768</b>

\*According to the template defined by the Swedish Bankers' Association

Additional liquid assets, Group	57 287
Other, over-collateralisation in the cover pool	130 000
<b>Total</b>	<b>467 055</b>

\*\*100% of the securities in the liquidity reserve per Q3 2011 are rated AAA

## 6. Swedbank's cover pool

# Cover pool data<sup>1</sup>

Rating	AAA/Aaa by S&P and Moody's
Total pool size	SEK 660.9bn
Geographic distribution	Sweden 100%
Current OC-level	24.5%
Weighted average seasoning <sup>2</sup>	59 months
Average LTV <sup>3, 4</sup>	
– WA LTV on property level (Max LTV)	57%
Non-performing loans <sup>5</sup>	None
Fixed /Floating interest loans <sup>6</sup>	
– Fixed	38%
– Floating	62%
Repayment structure <sup>7</sup>	
– Amortising	53%
– Interest only	47%
Average loan size	SEK 425 807
Number of loans outstanding	1 565 019
Number of borrowers	1 148 388
Number of properties	750 429
Dynamic pool	Yes

<sup>1</sup> As per Sep 30, 2011

<sup>2</sup> Public sector loans not included

<sup>3</sup> Index valuation as per Sep 30, 2011

<sup>4</sup> Maximum LTV: Residential 75%, Commercial 60%, Forest and Agriculture 70%

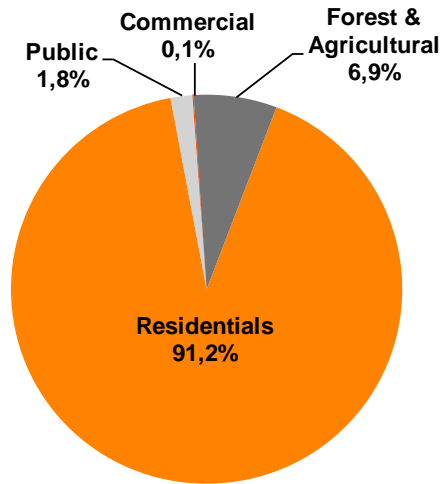
<sup>5</sup> Past due loans > 60 days are not eligible for the cover pool

<sup>6</sup> Floating interest loans < 365 days

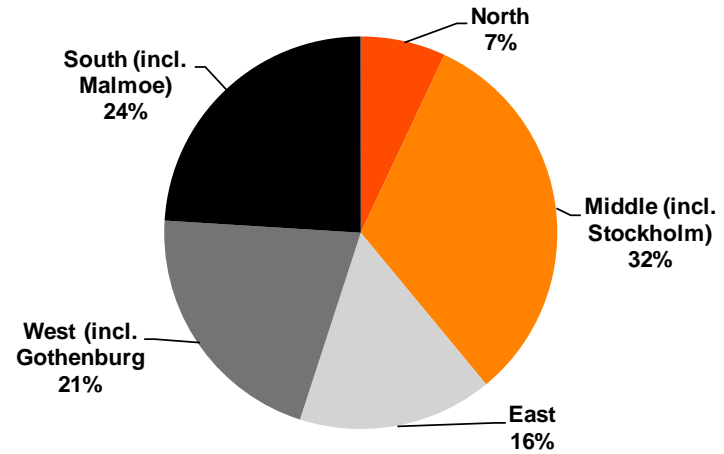
<sup>7</sup> Property level of cover pool

# Cover pool data

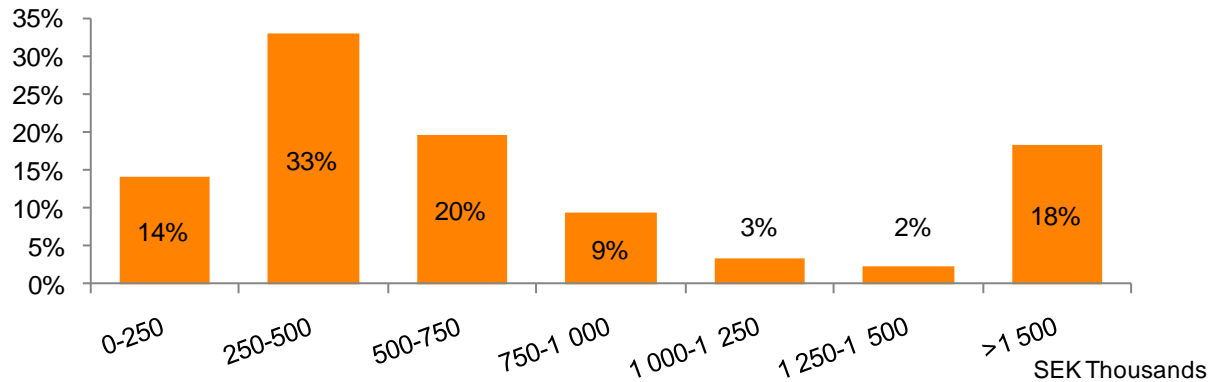
Type of loans



Geographical distribution\*



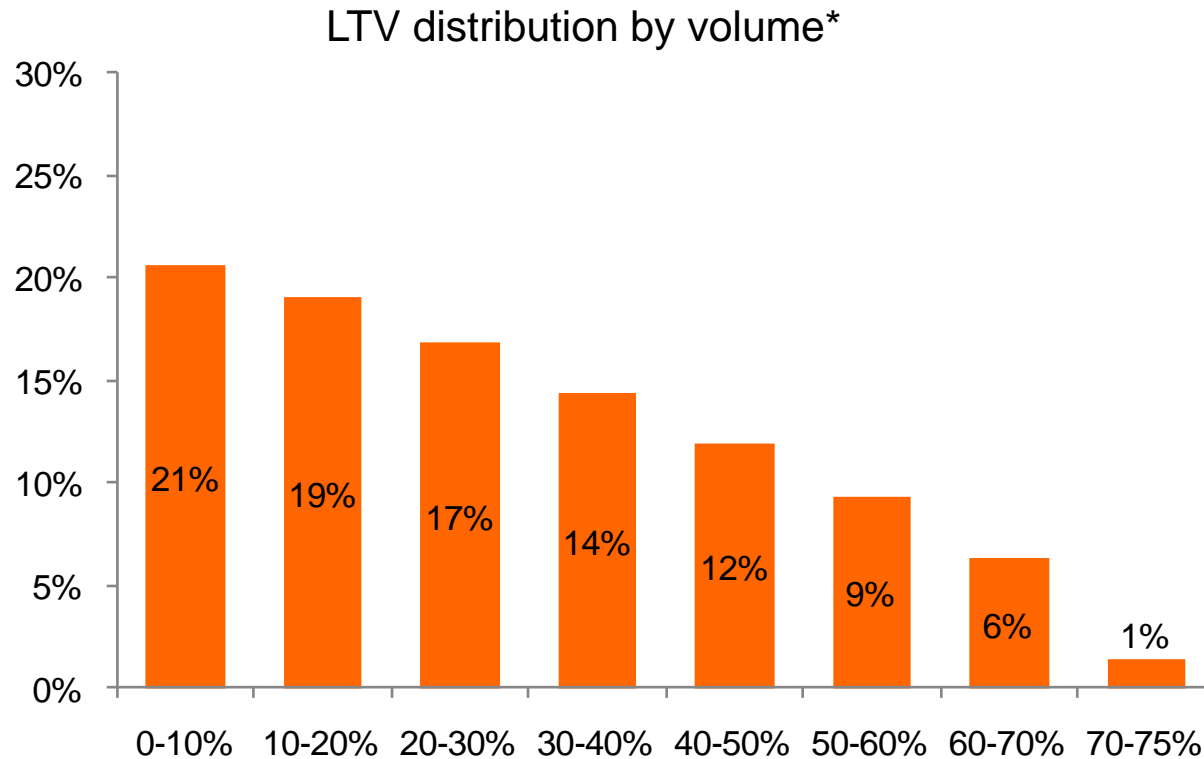
Loan size distribution by volume



Source: Swedbank, Sep 30, 2011

\* Excluding public sector loans

# Cover pool loan-to-value distribution

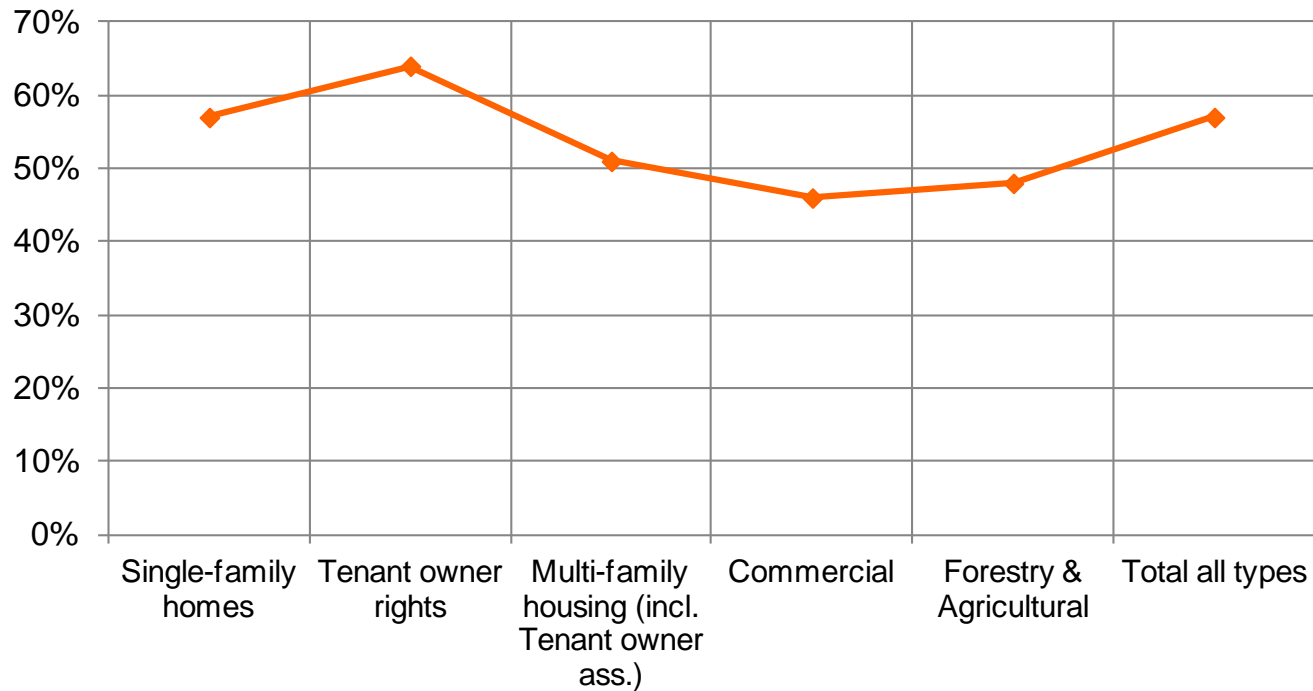


\*LTV distribution as defined by the Association of Swedish Covered Bond Issuers ([www.ascb.se](http://www.ascb.se))

Source: Swedbank, Sep 30, 2011

# Cover pool loan-to-value distribution by property type

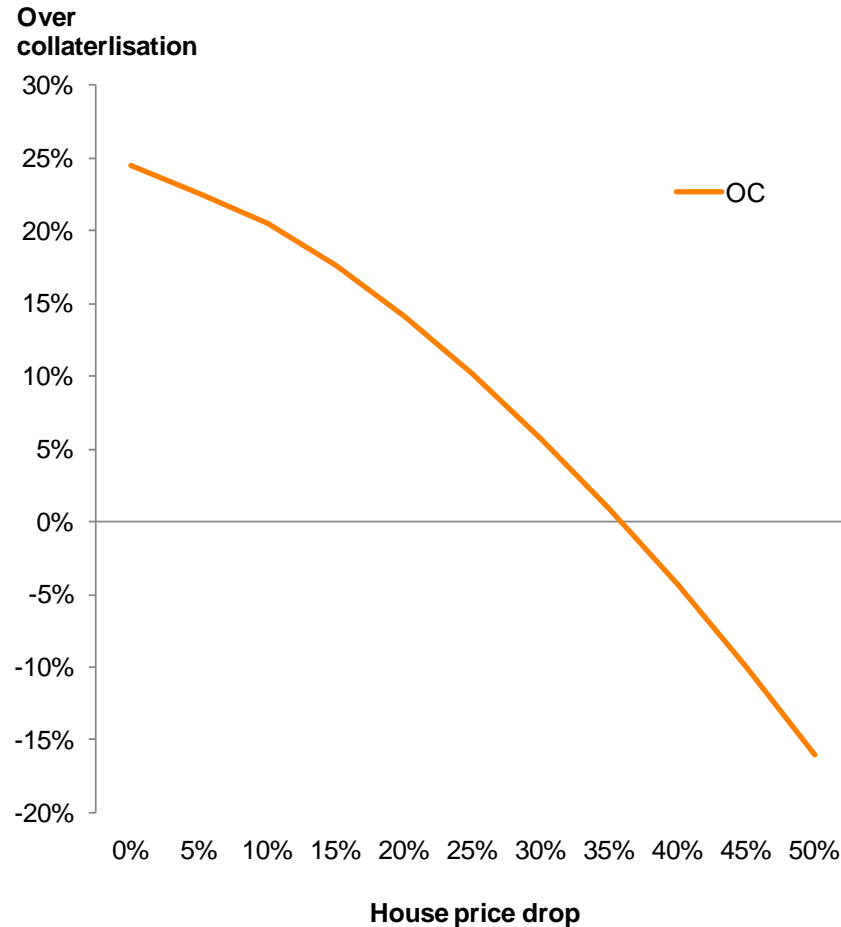
WA LTV per property type (property level)



Source: Swedbank, Sep 30, 2011 (excluding public sector loans)

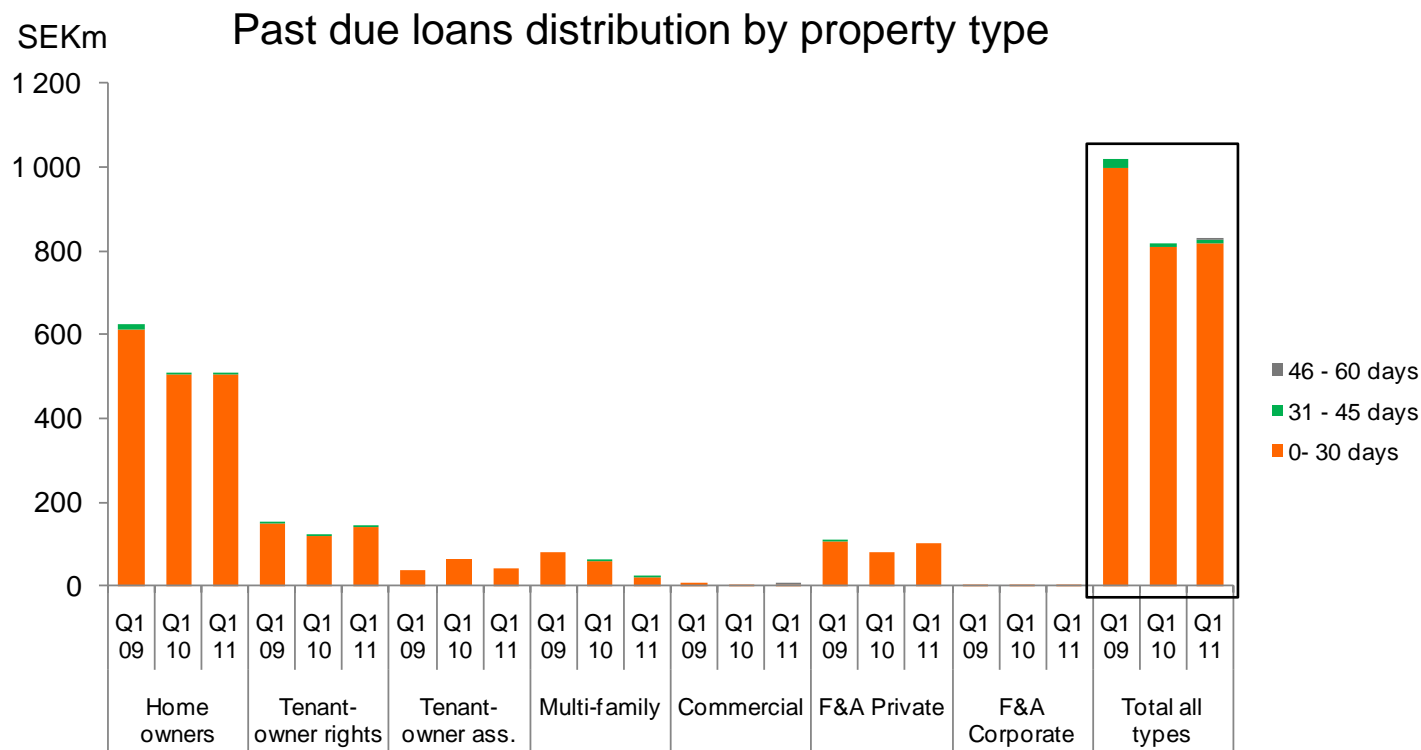
# House price sensitivity of the cover pool

- Resilient LTV-structure with an approximate 2-to-1 relationship between house price drops and cover pool size



# Cover pool past due loans distribution

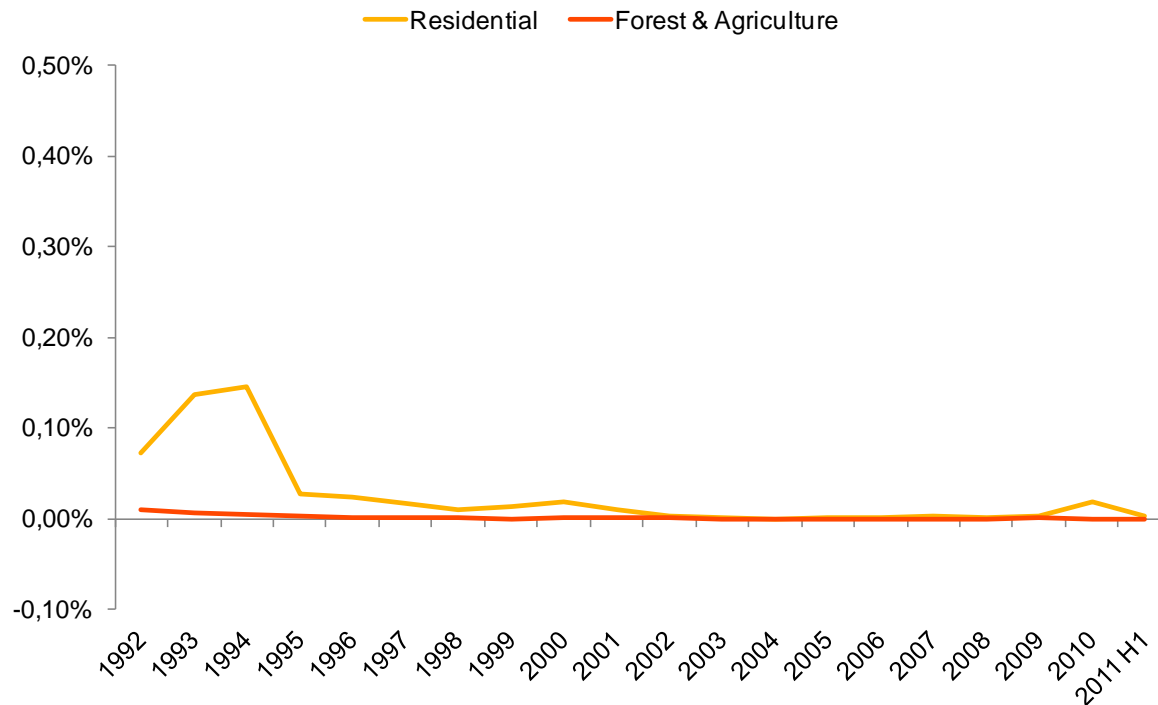
- In total, past due loans represent approx. 0.13% of the assets in the cover pool
- 99% of total past due loans are past due 30 days or less
- Past due loans > 60 days are not eligible for the cover pool



Source: Swedbank, Mar 31, 2011

# Insignificant historical loan losses in Swedbank Mortgage

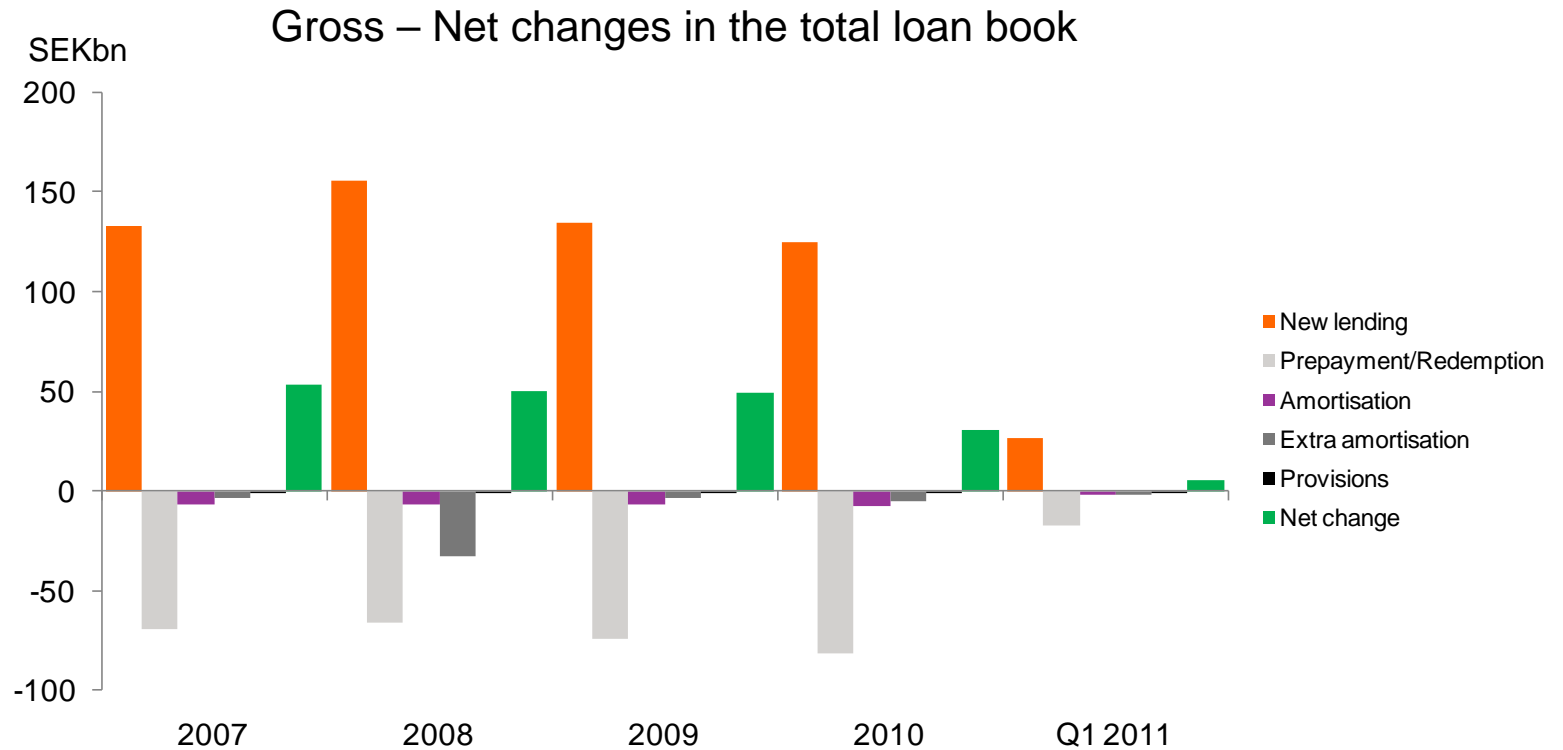
- Total accumulated losses since 1982 of SEK 7.3bn
- Main part incurred during the years of 1992 and 1993
- Less than 20% in the private segment



Source: Swedbank

# Turnover of Swedbank Mortgage AB's total loan book

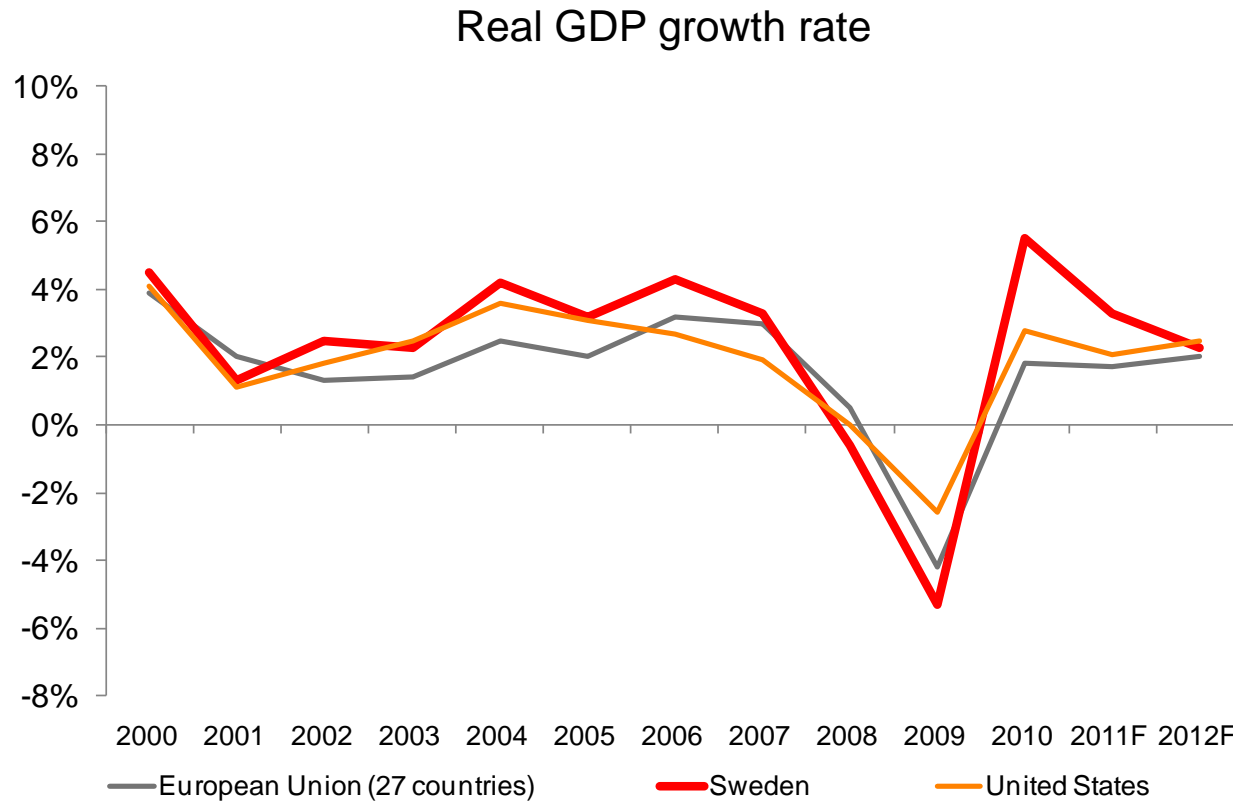
- Total mortgage loan book of SEK 700bn



Source: Swedbank, Mar 31, 2011

# 7. Appendix

# Solid macro recovery



Source: Eurostat, Mar 8, 2011

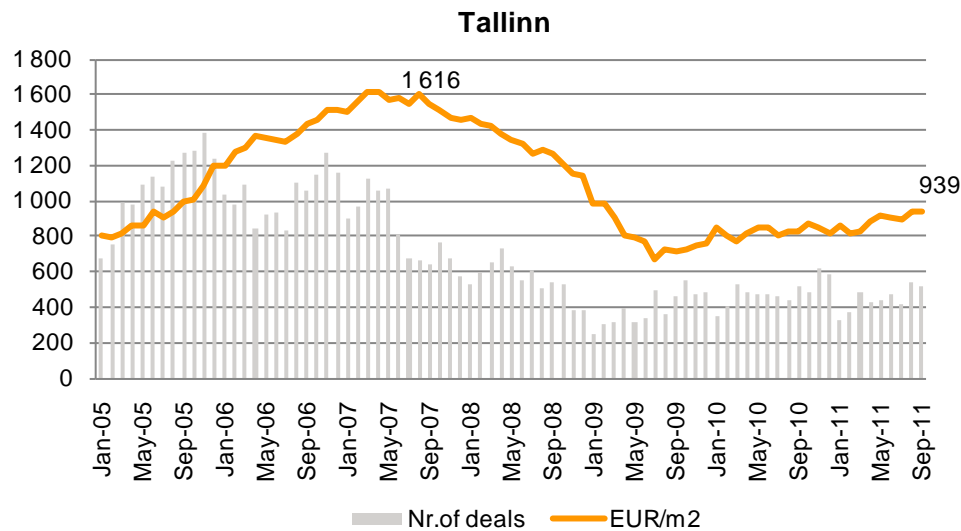
# Real estate prices – Sweden 2011

	Single-family homes		Tenant owner rights	
	Purchase price / assessed tax value*	12M Δ	Price (SEK) per Sqm*	12M Δ
Jan/11	1,58	1%	21 909	8%
Feb/11	1,59	1%	22 074	7%
Mar/11	1,59	0%	22 004	7%
Apr/11	1,6	0%	21 884	5%
May/11	1,6	-1%	21 584	4%
Jun/11	1,6	-1%	21 286	3%
Jul/11	1,58	-2%	21 196	1%
Aug/11	1,56	-2%	21 264	-1%
Sep/11	1,56	-2%	21 480	-1%

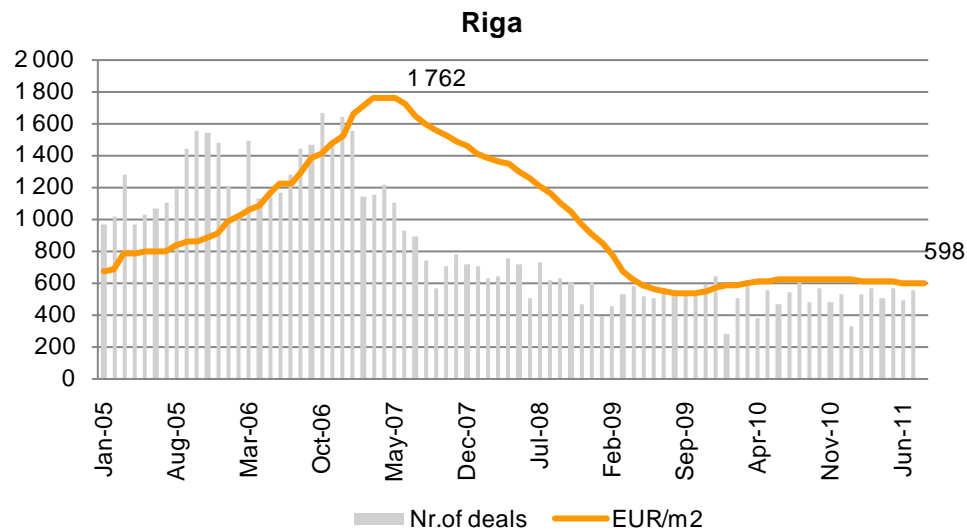
\*3 months moving average

Source: Mäklarstatistik ([www.maklarstatistik.se](http://www.maklarstatistik.se))

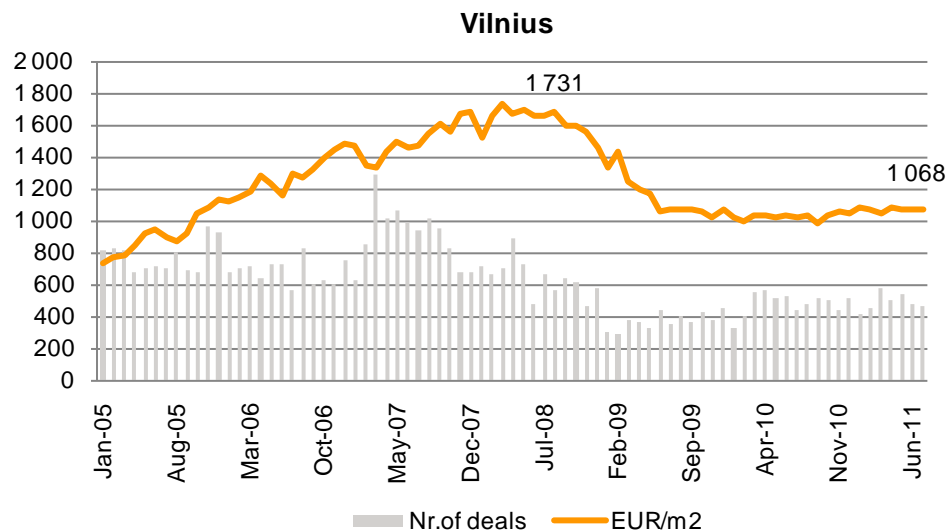
# Real estate prices – Baltic countries



Source: Swedbank, Estonian Land Board



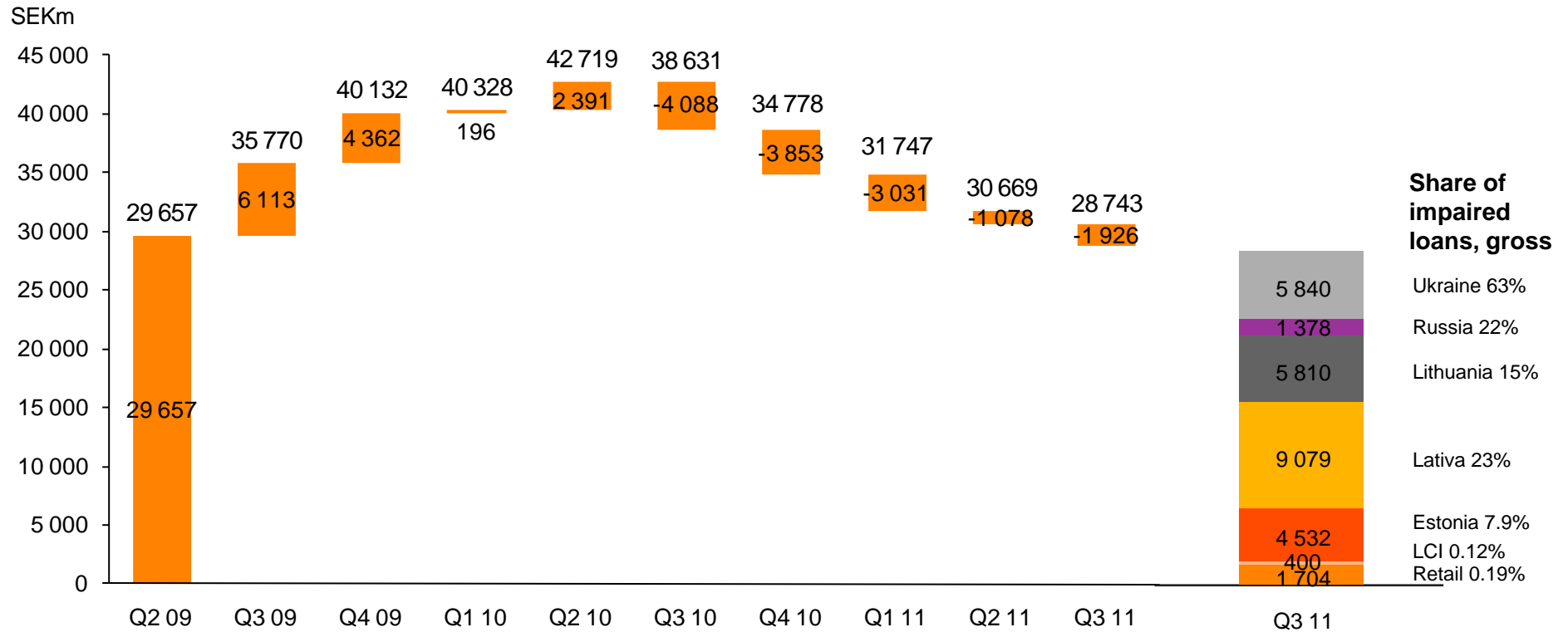
Source: Swedbank



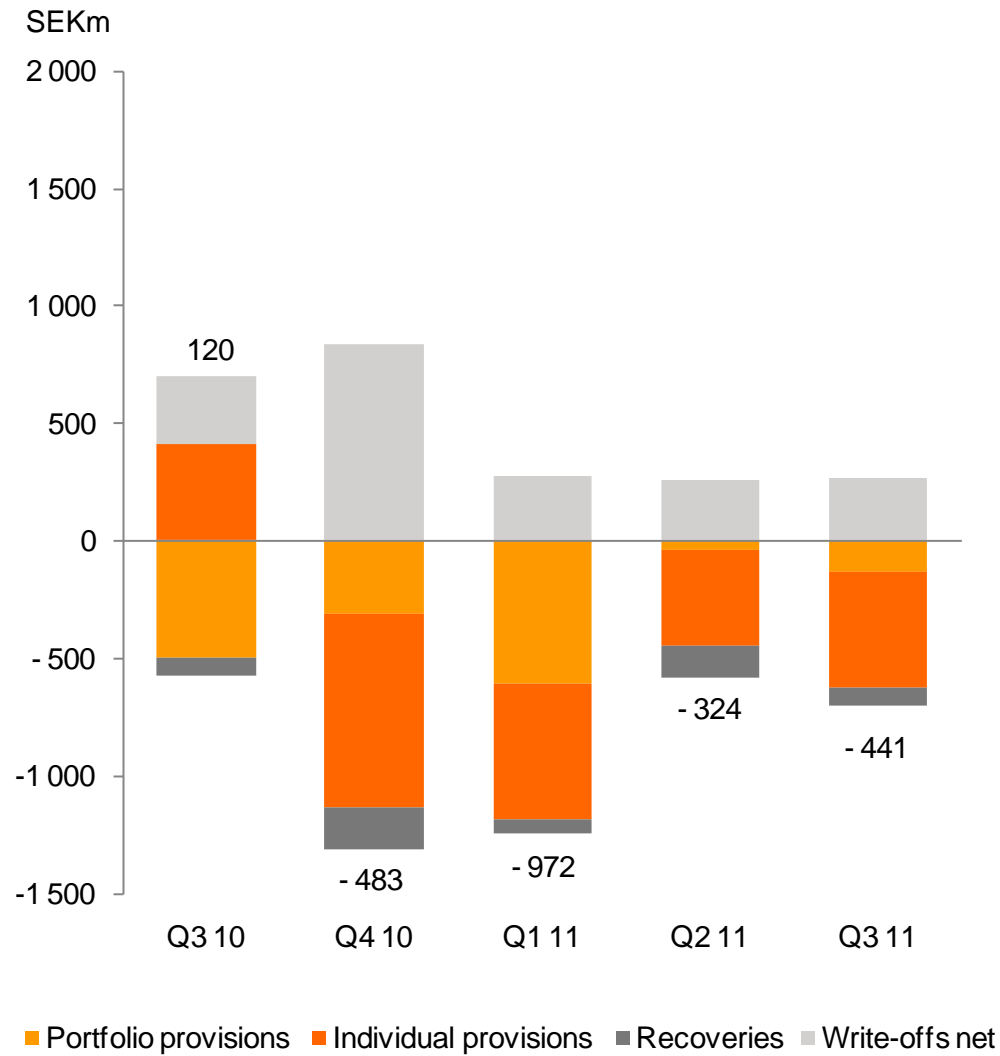
Source: Swedbank, State Enterprise Centre of Registers

# Impaired loans decreasing

- Excluding FX effect down SEK 2.5bn in Q3
- Minor increase in Retail in Q3

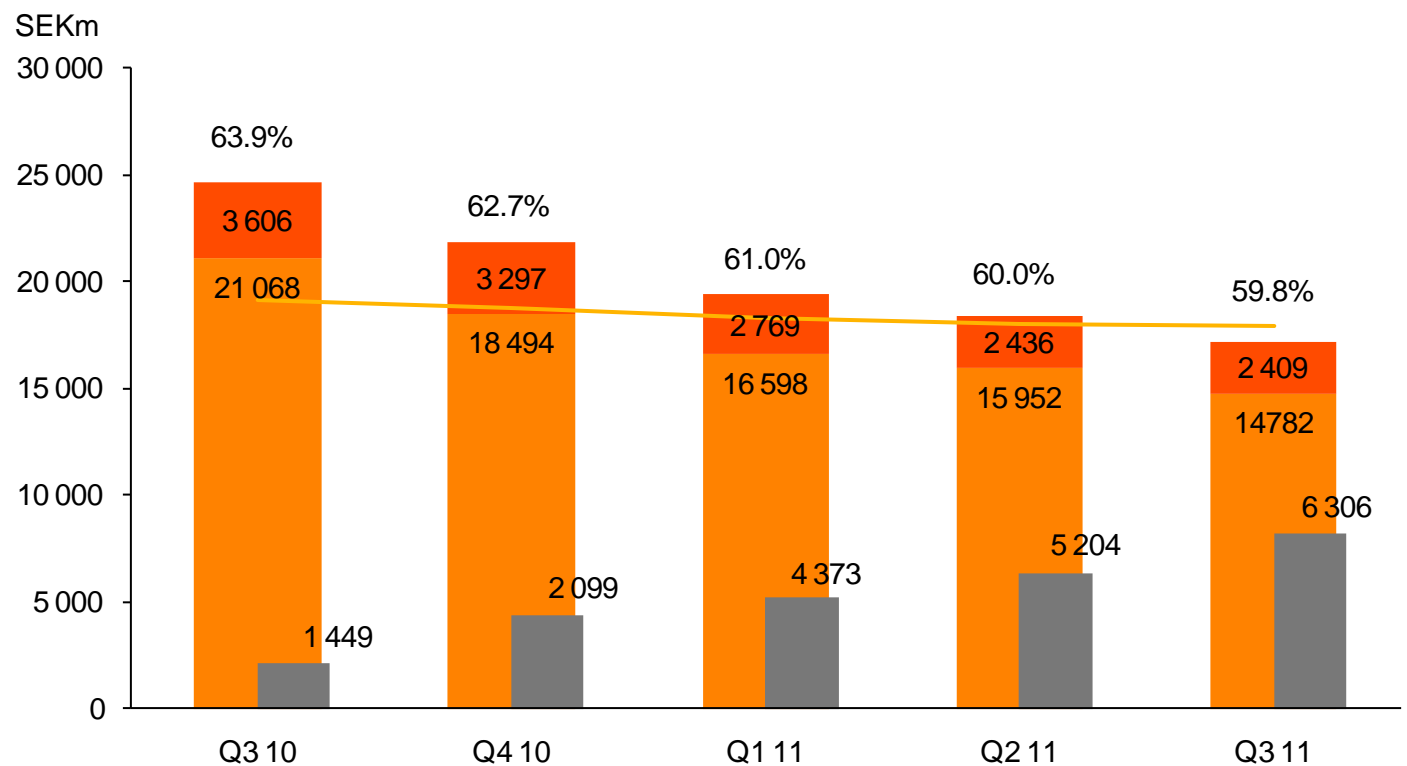


# Credit impairments by category



# Provisions – well provided for

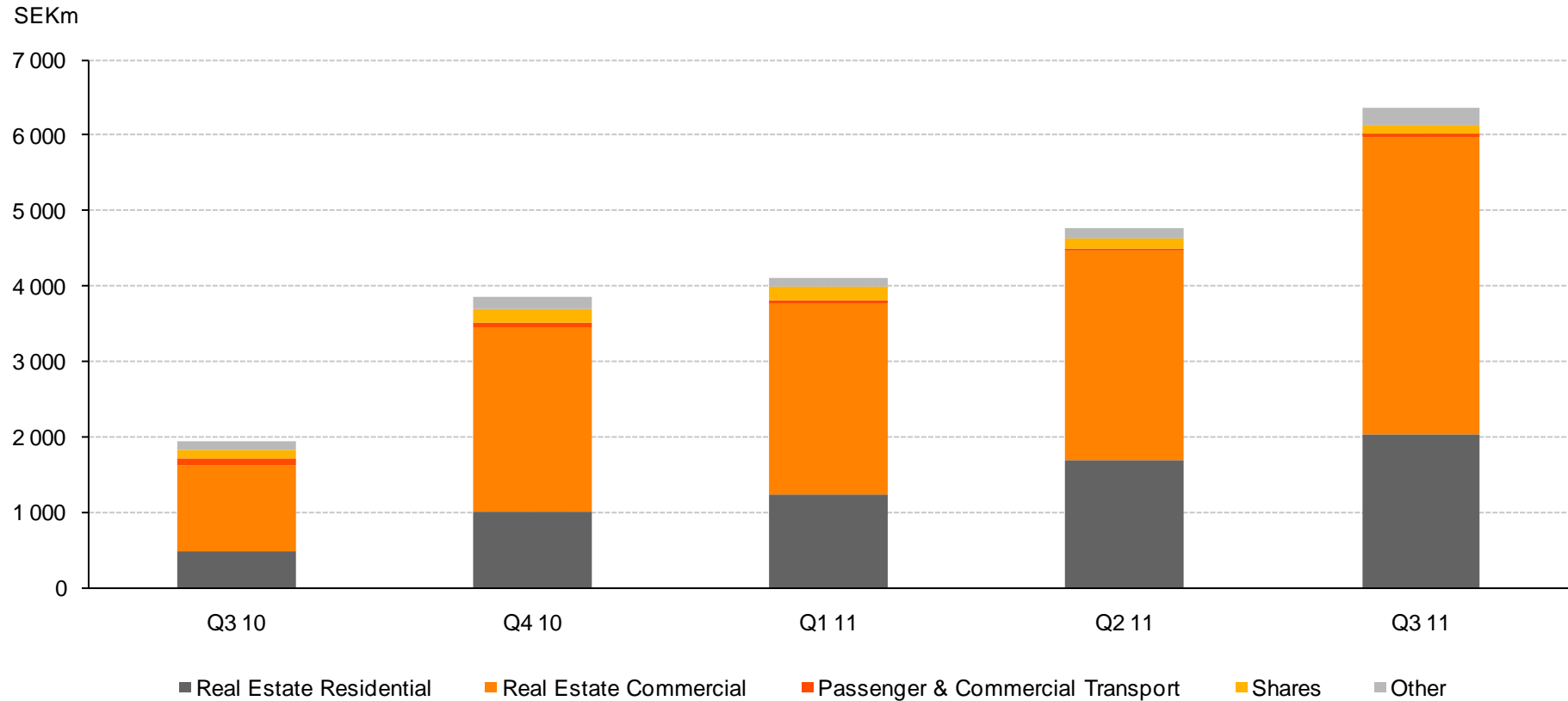
- Individual provisioning rates maintained
- Work-out portfolios slowly declining
- Positive rating migrations



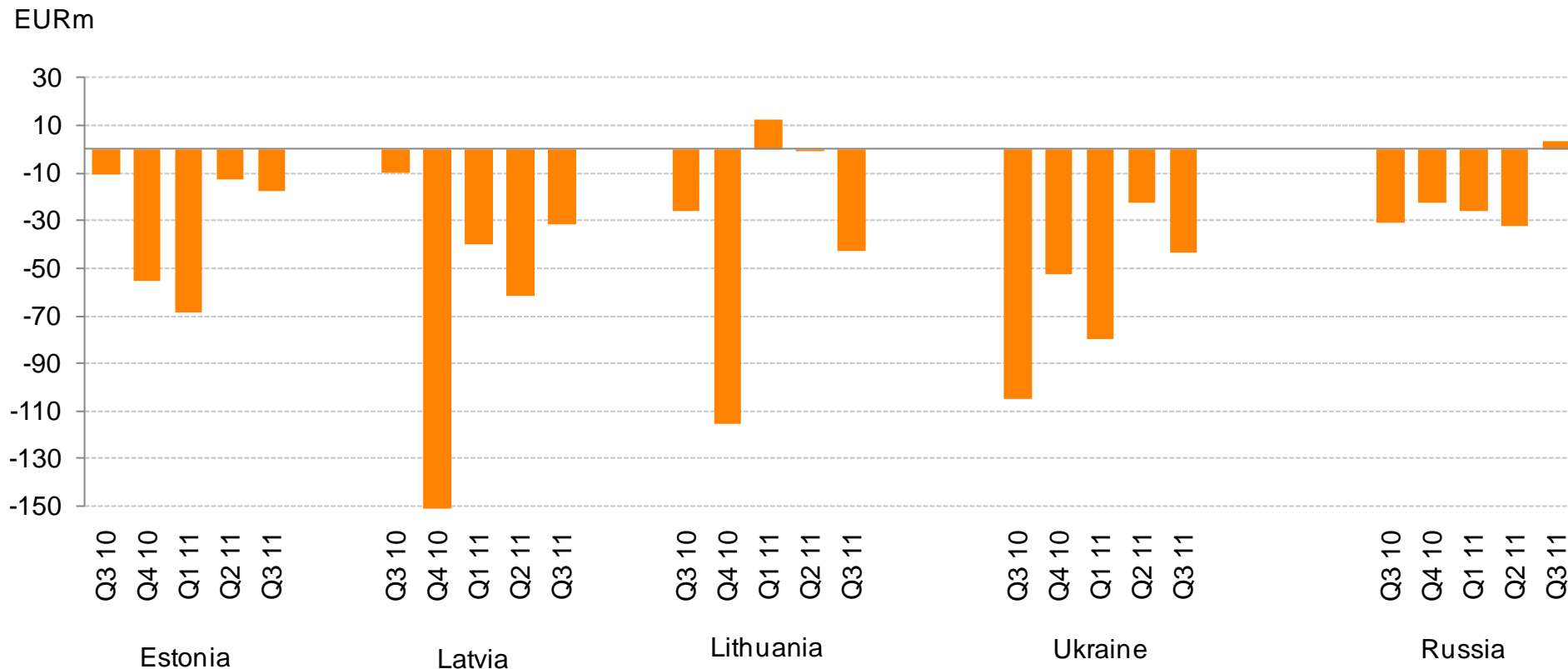
Provision ratios, %	Q3 11
Retail	87
LC&I	103
Baltic Banking	54
Russia	62
Ukraine	67
<b>Group</b>	<b>60</b>

■ Individual provisions 
 ■ Portfolio provisions 
 ■ Write-offs, gross, cum from 2010 
 — Provision ratio

# Reposessed assets



# Loans past due 60 days – performance Q/Q

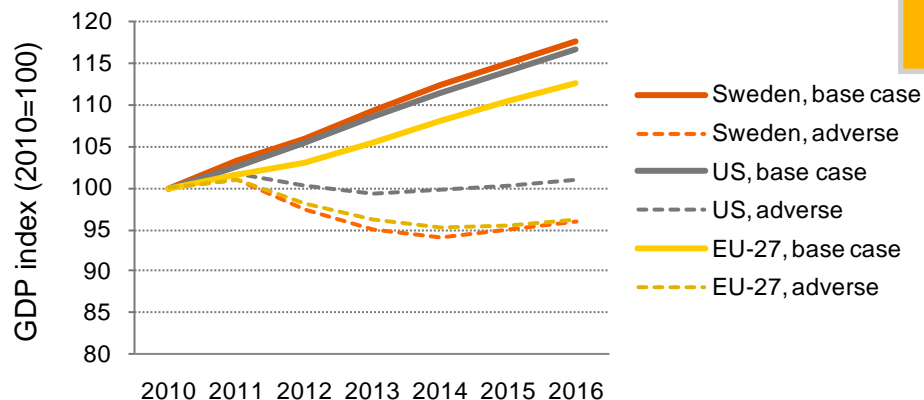


# Scenario: “Eastern slowdown – Western standstill”

## Triggers

- Chinese housing market collapses
- The export led recovery in the US halts as Asian demand dries up
- US protectionism and US economic pessimism turns world growth negative
- US enters into a “Japanese” scenario
- A weak EU is severely hit by falling demand in China and the US

Adverse scenario 2011 - GDP development



Source: Swedbank, Jun 30, 2011 interim report

## Outcome

### Sweden

- Negative GDP for three consecutive years, 2012-2014 (a drop of 7% relative 2011)
- Unemployment rate rises from 8.4% in 2010 to 16.9% in 2014
- Residential real estate price drop of 33% until 2014
- Swedish krona strengthens 31% against the USD
- Interest rates remain low (treasury bill rate of 0.3%)

### Baltic countries

- 30% devaluation in Latvia and Lithuania early 2012, Estonia affected by contraction of external demand
- Negative GDP growth in all three countries during 2011-2014 (drops of 9%-11% relative 2010)
- Unemployment rates peak in 2013-2014: EE 19.5%, LV 21.5%, LT 20.0%
- Residential real estate price drops. Trough in 2014 EE -24%, LV -15%, LT -21%

## Scenario model results

Income statement (SEKm)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	Total 2011-2016
Profit before impairments	12 485	13 233	13 766	7 666	7 287	7 150	7 610	56 712
Credit impairments	3 005	5 972	19 318	15 359	10 231	6 734	4 290	61 904
Profit for the year	7 084	5 033	-5 696	-7 694	-2 944	146	1 971	-9 184

(SEKm)	2010F	2011F	2012F	2013F	2014F	2015F	2016F
Risk-weighted assets, full Basel 2	541 327	519 839	524 279	464 569	434 894	413 542	399 855
Core Tier 1 capital	75 470	77 815	69 084	55 936	52 981	53 069	54 043
Core Tier 1 capital ratio, %	13.94	14.97	13.18	12.04	12.18	12.83	13.52

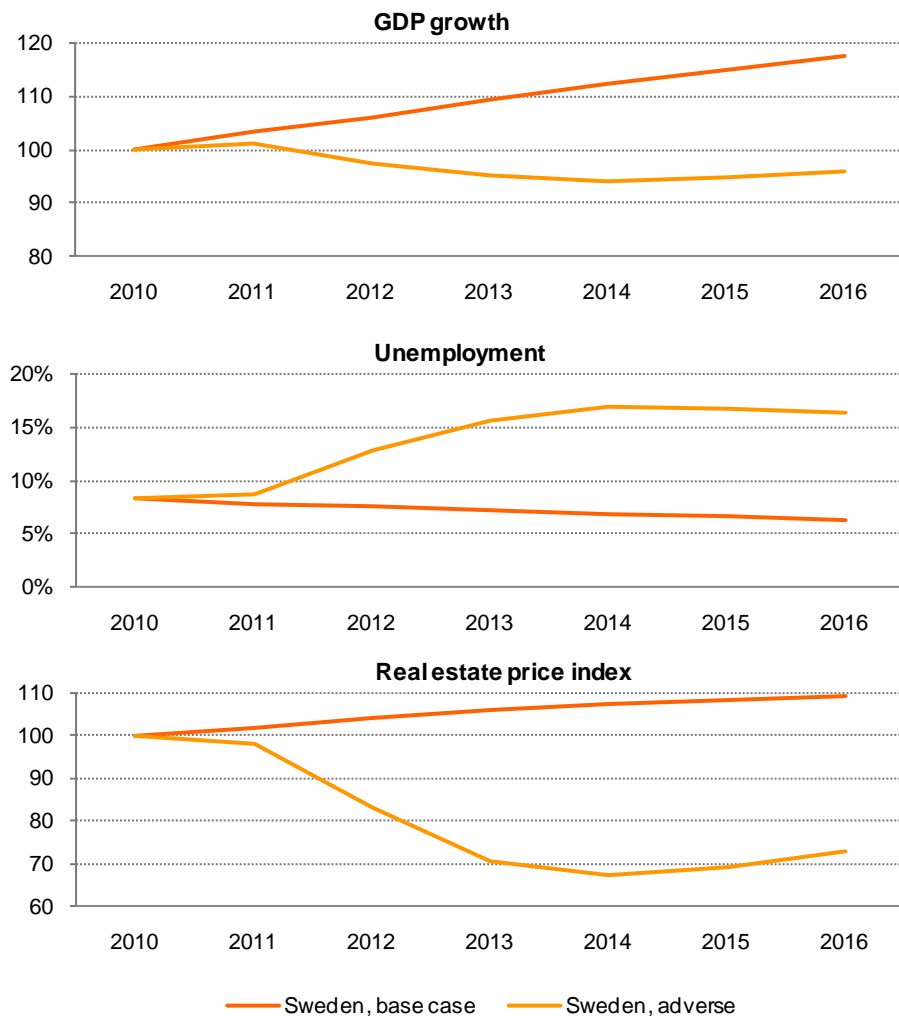
- Core Tier 1 capital ratio troughs in 2013
- Low interest rates combined with lending volume decline during the scenario period decrease NII and risk-weighted assets

NB: Not adjusted for the buy-back programme or any additional regulatory changes.

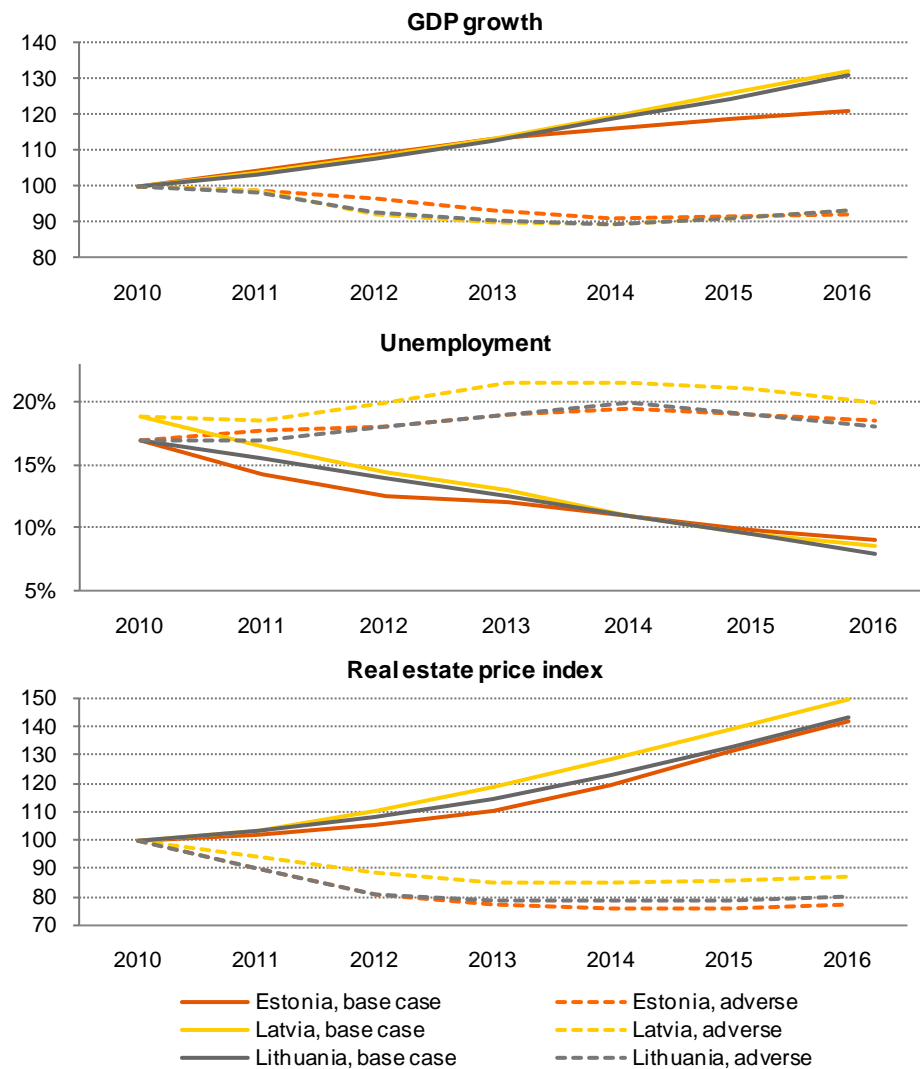
Source: Swedbank, Jun 30, 2011 interim report

# Macroeconomic assumptions

## Sweden



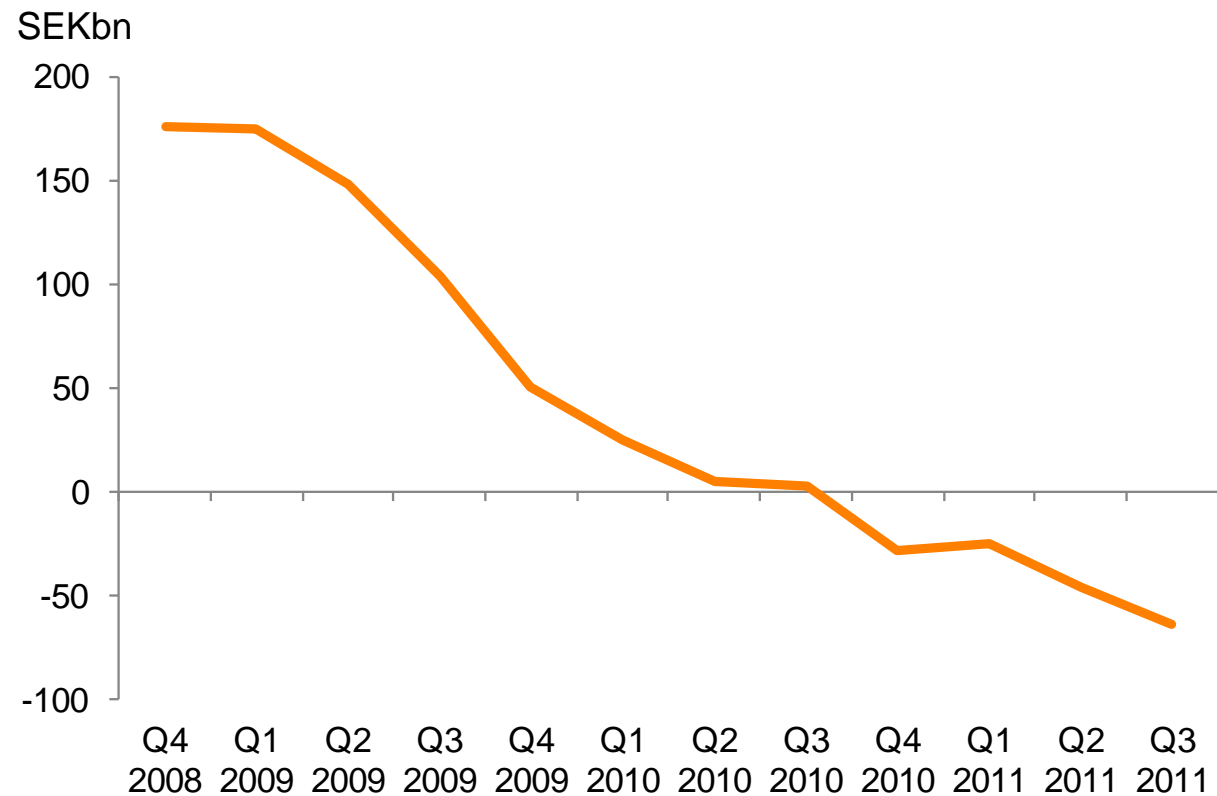
## Baltic countries



Source: Swedbank, Jun 30, 2011 interim report

# Limited unsecured funding need

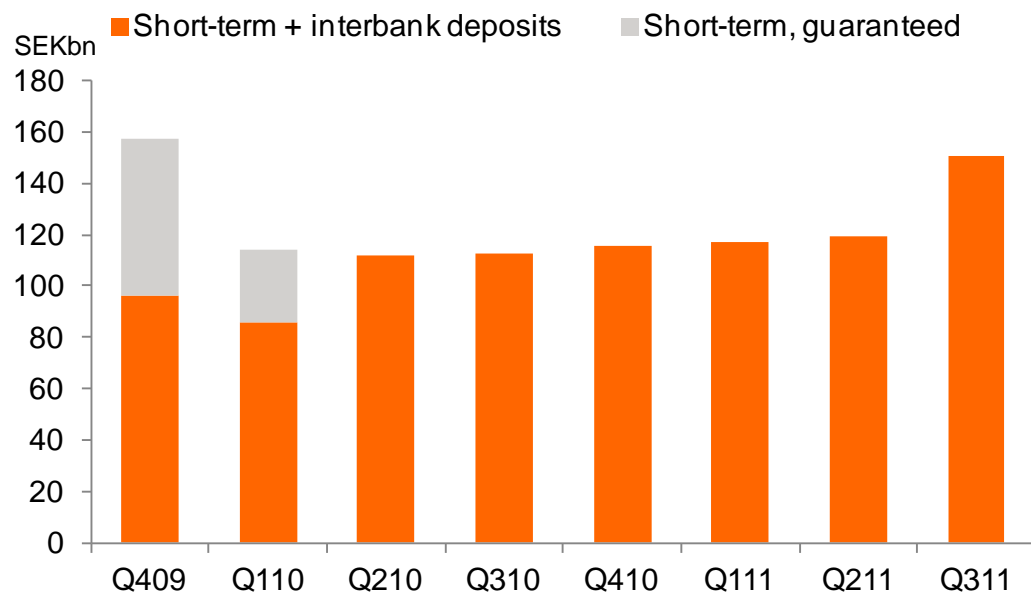
**Lending to the public, less deposits, covered bond pool and retail bonds**



## Stable short-term funding development

- Replacement of government-guaranteed short-term paper
- Increased demand, especially in US short-term programs (USCP and Yankee CD), but also in the ECP program
  - Total short-term program out standings increased from SEK92bn (Q2 2011) to approx. SEK 118bn(end September 2011)

Short-term funding - outstanding volumes 31 Dec 2009-30 Sep 2011



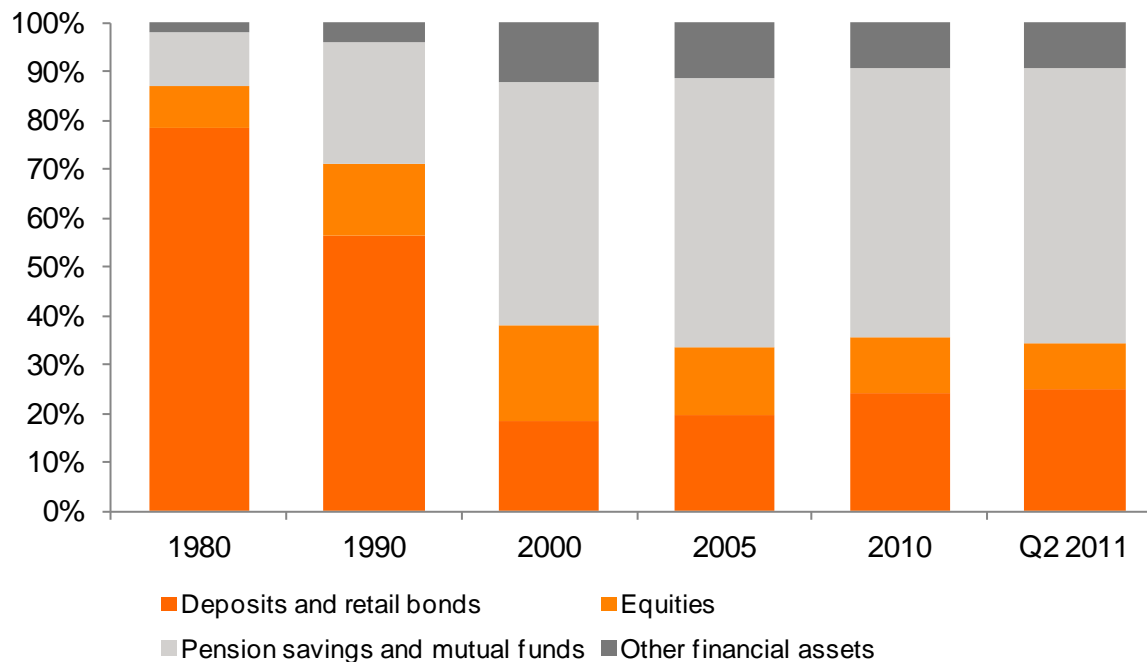
Source: Swedbank

# Structure of the Swedish domestic covered bond market

- Benchmark system established in early 1990s
- Tap issuance enhances liquidity and reduces execution risk
  - Continuous daily issuance
  - Buy-backs against issuance of longer tenors
  - Total issue size often peak at SEK 40-60bn
- Market making at pre-set bid/offer spreads

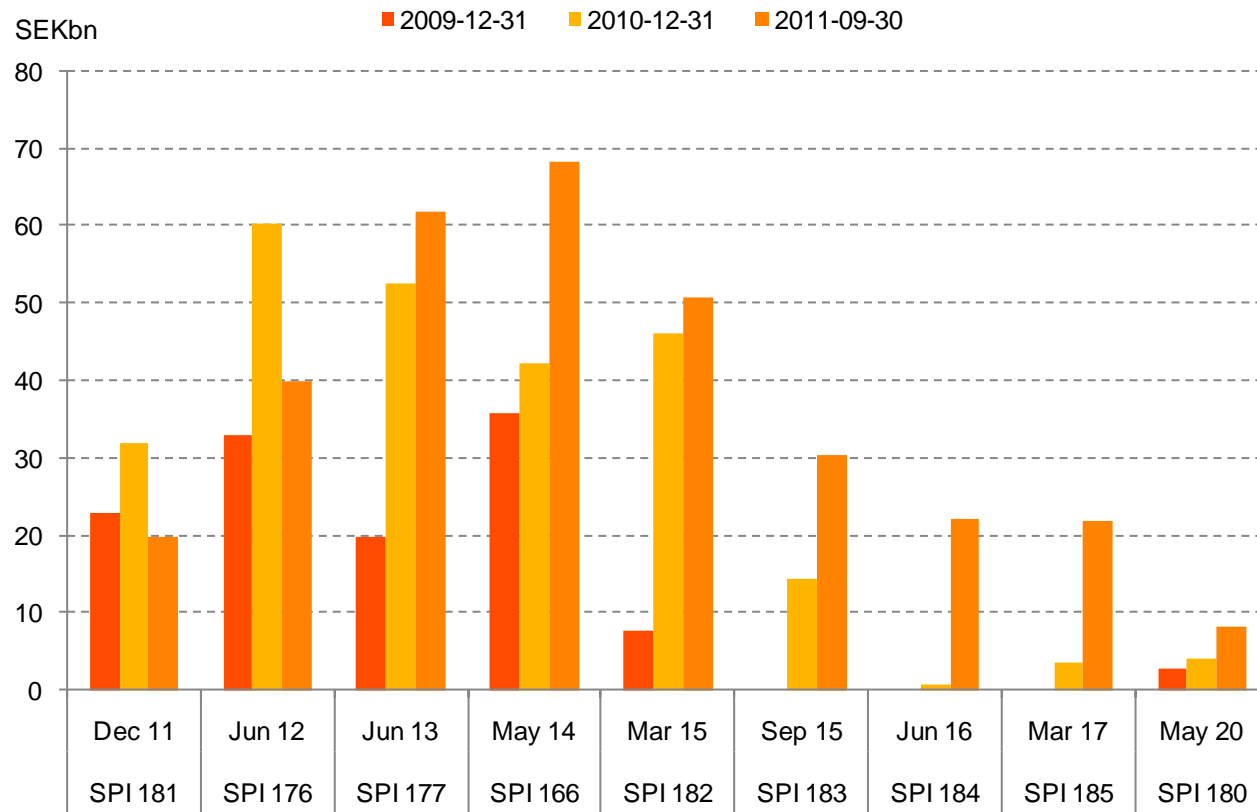
# Natural domestic wholesale funding market

Swedish households' financial assets



Source: Statistics Sweden "Hushållens ställning och transaktioner" Q2 2011

# Swedbank's domestic covered bonds

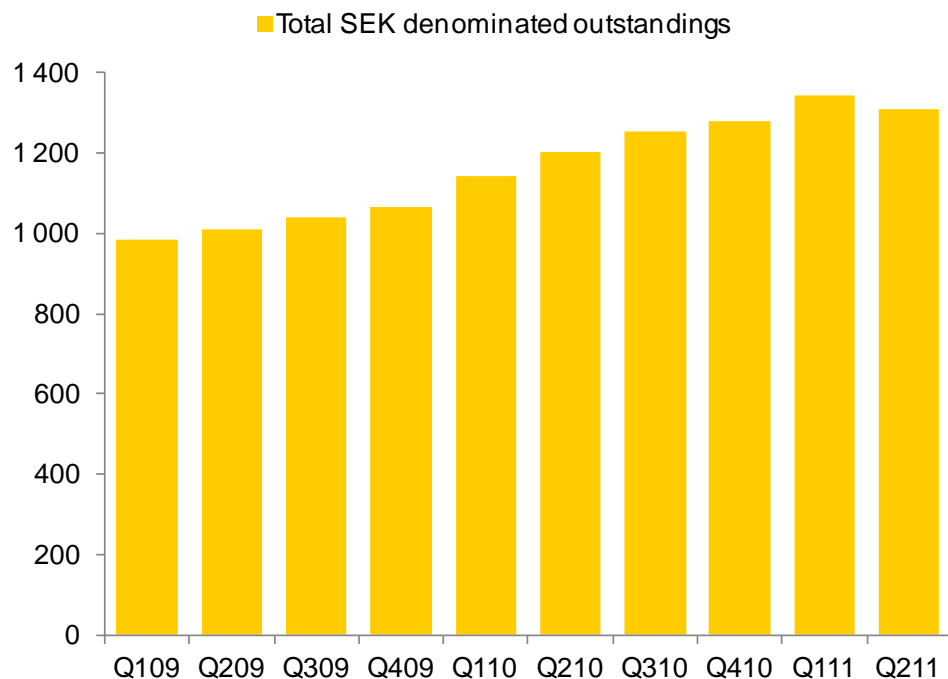


Source: Swedbank, Sep 30, 2011

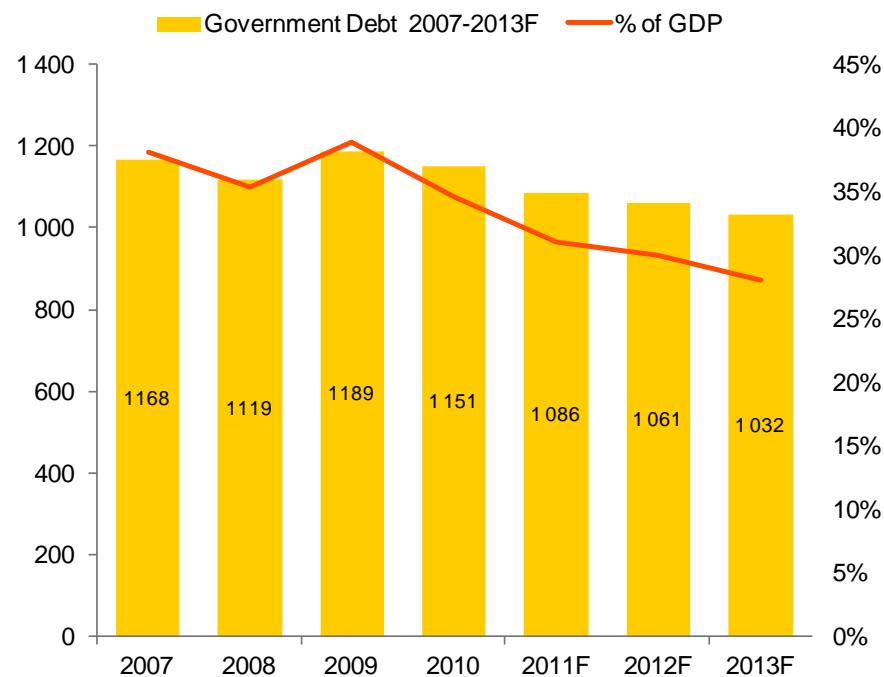
# The Swedish covered bond market

- Domestic covered bonds represent approximately 1/3 of GDP and 1/2 of the total Swedish bond market

Swedish Domestic Covered Bonds, in SEKbn



Public debt projections 2010-2014, in SEKbn



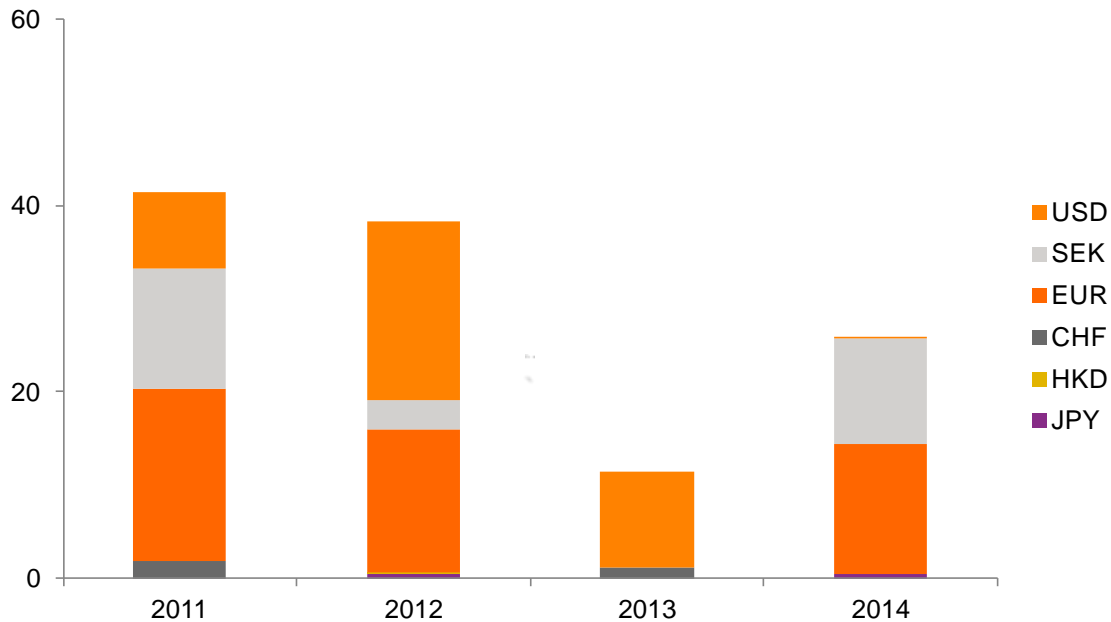
Source: [www.ascb.se](http://www.ascb.se) Oct 2011

Source: Government budget statement, Oct 25, 2011

## Remaining government guaranteed debt

- Exited the programme on 30 April 2010
- No issuance under the programme since summer 2009
- SEK 39bn of government guaranteed debt matured during the first nine months of 2011
- Maturities of SEK 41bn for the remainder of 2011

Maturity profile as per Q3 2011, SEKbn



# Funding sources

## Swedbank AB

100% owned

## Swedbank Mortgage AB\*

Program	Limit
<b>Long Term</b>	
Global MTN	USD 40bn
Domestic MTN	SEK 60bn
<b>Short Term</b>	
Domestic CP	SEK 80bn
European CP/CD	EUR 6bn
US CP	USD 15bn
Yankee CD	USD 10bn
French CD	EUR 4bn
Finnish CD	EUR 4bn

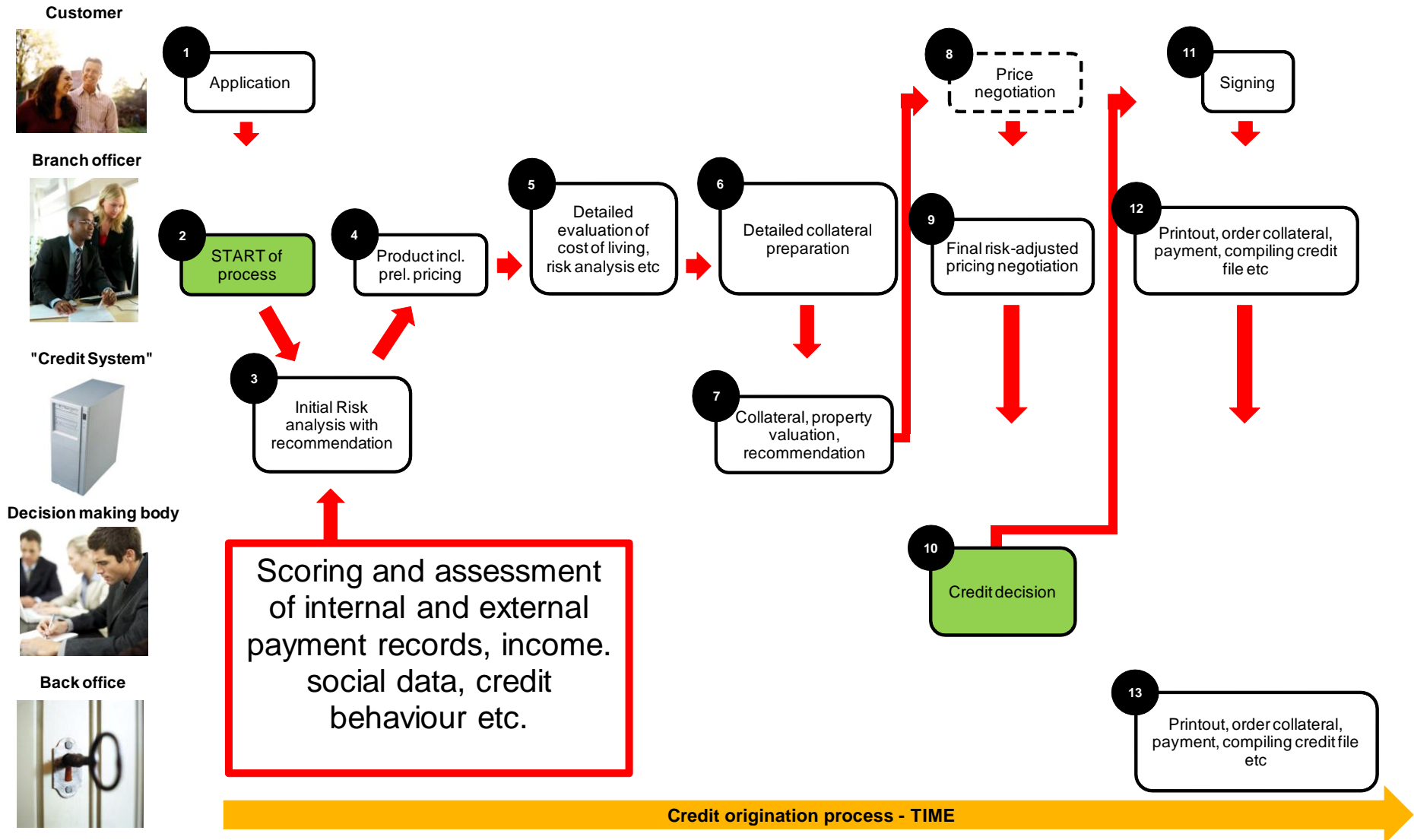
Program	Limit
<b>Long Term</b>	
Domestic Benchmark CB	Unlimited*
EMTN CB	EUR 25bn
144a US Covered bonds	USD 15bn
Domestic MTN CB	SEK 150bn
Norwegian Benchmark CB	Unlimited*
-----	
Registered CB (stand alone doc.)	
<b>Short Term</b>	
Domestic CP	SEK 50bn
European CP	EUR 6bn

\* Limited by cover pool size

**\*100% guaranteed from parent company**

- Irrevocable
- Unconditional
- Timely

# Origination process – mortgage loan application



Source: Swedbank

## Origination practices – summary

- Assessment of customer
  - Income is always verified
    - Direct access to tax authority filings
  - UC AB (Upplysningscentralen) – Sweden's largest credit information agency
    - Owned by the major Swedish banks. Supports more than 10 million credit- and commercial decisions annually
    - The credit information agency also contains track record of delinquencies and defaults
    - Direct access to full tax authority filings
  - Credit scoring
    - Is used on all customers with specific score cards for private individuals, SME's large corporate etc.
  - Affordability analysis carried out on all private individuals
    - 5Y fixed mortgage interest rate +300 bps, in addition 100bps in amortization of mortgage is applied
    - Minimum level of remaining cash-flow when all costs are included
- Assessment of collateral
  - Valuations of single-family houses and cooperative apartments are based on market values. Value of a property is collected by an independent data provider and then affirmed by an internal or external appraiser

## Home loan purchase process – summary

- **Customer contacts bank:** Various channels
- **Assessment of customer:** See origination practices
- **Application of loan promise:** Written form, 6 month validity, size limit based on customer assessment
- **Open tender offer process on property:** Broker obliged to track offer process and provide list to property purchaser
- **Purchase:** Purchase agreement signed with bank, buyer, seller and broker; Confirmation of customer assessment and complete property valuation by bank; Down payment on property purchase by customer
- **Effective date, access to property:** i) Complete financing of purchase; ii) Mortgage deed, release and registration (lantmäteriet.se for houses and denotation to the condominium association for condominiums); iii) Signing of loan agreement with bank → 1 loan agreement per interest rate fixing period, includes amount, borrower, mortgage deed owner, property details, appendix on mortgage deed describing collateral rights backing the loan and loan conditions; iv) Information of total loan size sent to UC
- **Loan seasoning, contract renewal:** Interest re-fixing: automatically renewed to same interval for variable rate mortgagees (3M); customer informed prior to reset date of fixed rate mortgages
- **Loan pre payment:** interest settlement on difference

# NPL process – performing to realized loss

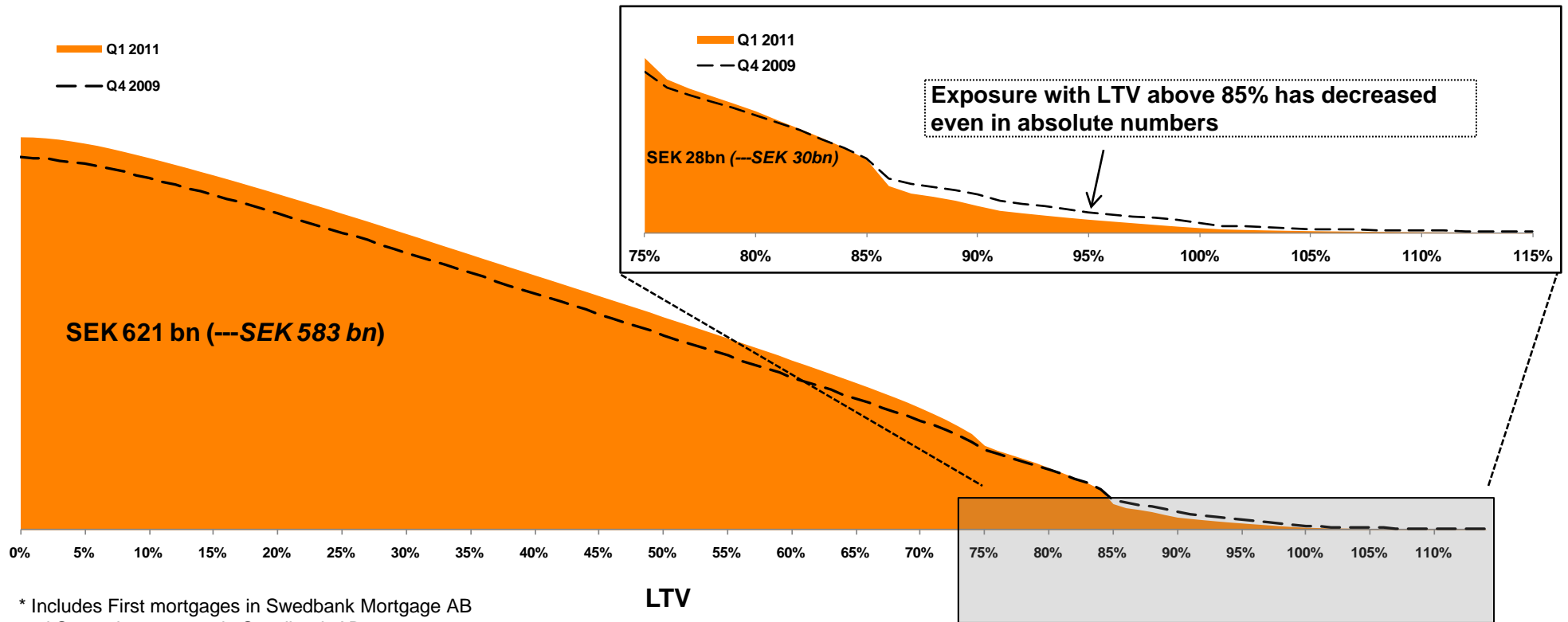


## Social security – unemployment compensation

- Eligible: Minimum 480 hours of work in last 6 months
- Compensation: Income related compensation or base compensation:
  - Member of unemployment benefit fund > 12 months → income related compensation,
  - Not a member of benefit fund or less than 12 months → base compensation
- Details of compensation:
  - Monthly compensation for 5 day income week.
  - Maximum payout time: Unlimited
  - Income related compensation: 80% of previous income for first 200 days; 70% of income for 100 days; beyond 300 days at 65% of unemployment benefit income under first 300 days
  - Family considerations: Parent to child under 18: 200 days at 80% of income, 250 days at 70% of income; beyond 450 days at 65% of unemployment benefit income under first 450 days
  - Maximum compensation is SEK 680 per day = income related compensation
  - Minimum compensation is SEK 320 per day = Base compensation
  - Grace period until first compensation payment: 7 business days after filing for unemployment, 45 business days if a voluntary resignation.

# Growth in mortgages primarily in LTV < 75% brackets

- By Q1 2011 the portfolio had grown by SEK 38bn since Q4 2009 to SEK 621bn\*
- The portfolio with LTV above 75% has decreased from 5.1% to 4.5%



\* Includes First mortgages in Swedbank Mortgage AB and Second mortgages in Swedbank AB

Source: Swedbank, March 31, 2011

# Overview of the Swedish covered bond legislation

## The Covered Bond Act

- The Covered Bond Act entered into force on July 1, 2004 and is over-sighted by the Swedish FSA. Its main characteristics are:
  - ▶ Dual recourse to the issuer and cover pool
  - ▶ Dynamic, regulated pool of assets – frequently monitored by the Swedish FSA via appointment of an independent inspector
  - ▶ Regulated valuation of cover pool assets
- The cover pool may consist of certain mortgage credits, public credits and supplemental assets

## Loan-to-value Ratios and Other Limitations

- Maximum LTVs: Residential 75%, Agricultural 70%, Commercial 60%
- Maximum 10% commercial loans and 20% supplemental assets in cover pool
- Regular monitoring of the property values (reviewed on a monthly basis by Swedbank)

## Matching Requirements

- The cover pool value shall always exceed the aggregate value of claims (including derivatives)
- A sound balance in terms of FX, interest rates and maturities must be achieved. It is deemed to exist when the present value of the cover pool at all times exceed the present value of liabilities (including derivatives), even on a stressed basis
- Non-performing assets in the cover pool which are more than 60 days overdue must be disregarded for the purposes of the matching tests

## Benefit of a priority right over the cover pool

- Holders of covered bonds and relevant derivative counterparties benefit from a priority claim over the cover pool should the institution be declared bankrupt
- Holders of covered bonds and relevant derivative counterparties rank pari passu ahead of unsecured creditors and all other creditors of the Institution in respect of assets in the cover pool

## Administration in event of bankruptcy

- The assets in the cover pool, the covered bonds and any relevant derivative contracts that have been entered into the Register are required to be maintained as a unit and kept segregated from other assets and liabilities of the bankruptcy estate of the Institution
- The administrators-in-bankruptcy are then required to procure the continued timely service of payments due under the covered bonds and any relevant derivative contracts

Source: [www.ascb.se](http://www.ascb.se)

# Administration of the cover pool in the event of bankruptcy

- Should an Institution be declared bankrupt, at least one administrator-in-bankruptcy would be appointed by the bankruptcy court and one administrator-in-bankruptcy would be appointed by the Swedish FSA. The administrators-in-bankruptcy would take over the administration of the bankruptcy estate, including the Cover Pool.
- Provided that (and as long as) the Cover Pool meets the requirements of the Covered Bond Act (including the matching requirements), the assets in the Cover Pool, the covered bonds and any relevant derivative contracts that have been entered into the Register are required to be maintained as a unit and kept segregated from other assets and liabilities of the bankruptcy estate of the Institution. The administrators-in-bankruptcy are then required to procure the continued timely service of payments due under the covered bonds and any relevant derivative contracts. Consequently, the bankruptcy would not as such result in early repayment or suspension of payments to holders of covered bonds or to counterparties to derivative contracts, so long as the Cover Pool continues to meet the requirements of the Covered Bond Act.
- If, however, the Cover Pool ceases to meet the requirements of the Covered Bond Act, and the deviations are not just temporary and minor, the Cover Pool may no longer be maintained as a unit and the continuous payment under the terms and conditions of the covered bonds and derivative contracts will cease. The holders of covered bonds and counterparties to derivative contracts would in such case instead benefit from a priority claim over the proceeds of a sale of the assets in the Cover Pool in accordance with general bankruptcy rules. This could result in the holders of covered bonds receiving payment according to a schedule that is different from that contemplated by the terms and conditions of the covered bonds (with accelerations as well as delays) or that the holders of covered bonds are not paid in full. However, the holders of covered bonds and derivative counterparties would retain the benefit of the right of priority to the assets comprised in the Cover Pool. Any residual claims of the holders of covered bonds and derivative counterparties remain valid claims against the Institution, but will rank *pari passu* with other unsecured and unsubordinated claims.

# Swedbank – contacts and financial calendar

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## Financial calendar

Q4 Interim report 14 February 2012

AGM 30 March 2012

Q1 Interim report 25 April 2012

Q2 Interim report 18 July 2012

Q3 Interim report 23 October 2012

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