

## **Swedbank's Baltic investment**

### **Why did Swedbank invest in the Baltic countries?**

Swedbank began to invest in the Baltic countries in the mid-nineties given the countries attractive long-term growth potential. After breaking free from the Soviet Union and gaining EU-membership, the Baltic countries started a rapid catch-up in growth vis-à-vis its Western European peers. Before the financial crisis unfolded, the Baltic economies were among the fastest growing in Europe with GDP figures far above that of other European economies. The region's relatively underdeveloped financial markets contributed to making the Baltic countries very attractive growth markets compared to more mature Western markets. By early establishing a presence in the region, and later expanding to become the region's leading bank, Swedbank has been able to deliver very strong growth figures for a number of years.

The proximity between the Baltic and Nordic countries, and the historic ties between them, further contributes to making the Baltic countries a natural part of Swedbank's home markets. Swedbank's commitment to the Baltic countries is long-term. The countries are part of Swedbank's home markets and as the outlook for the countries now look brighter again, our presence in the region will enable us to do business with our customers again, as the economy turns. We're confident that our shareholders will benefit long-term from this.

### **What is the outlook for the Baltic operation?**

The Baltic economies continue to stabilize and credit quality improved more rapidly than anticipated in the second quarter, which led credit losses to decrease strongly. Swedbank in Estonia during the second quarter posted a profit for the first time since 2008, and Estonia – which is Swedbank's largest market in the Baltic countries – has been approved EMU-accession in 2011. The EMU-approval motivated rating agency Fitch to raise Estonia's credit rating and the euro-entrance is further expected to strengthen confidence in the country's economy and increase interest in direct investments, which will also likely give positive impact on Latvia and Lithuania.

Swedbank's work in the Baltic countries has further been acknowledged by the magazine Euromoney, which recently named Swedbank in Estonia and Lithuania the best bank in each respective country, so there have been several positive signals during the quarter. Naturally, big challenges still lie ahead of the countries and the development in the region could be adversely affected by new legislation on private debt rescheduling and insolvency, which, if implemented, could diminish the possibility for individual consumers to obtain loans and thus prolonging the recovery period in the region.

According to Swedbank Baltic Sea Report (June 2010), GDP for 2010 is forecast to grow 1.5 percent in Estonia, but fall 2.5 percent in Latvia and 2 percent in Lithuania. For 2011, GDP is forecast to rise 4.5 percent in Estonia, 4 percent in Latvia and 3 percent in Lithuania.

### **How is credit quality in the Baltic countries developing?**

Credit quality in the Baltic countries improved more rapidly than anticipated during the second quarter which meant that credit losses decreased strongly. The macro economic

development in the bank's home markets was favourable during the quarter, which is positive for credit quality, but at the same time one needs to remain humble given that growing financial concerns in many places in Europe imply a risk of a backlash. As the countries' economies start to stabilize, real estate markets also start to recovery, primarily in the bigger Baltic cities, and in Estonia. Transaction volumes increased during the first half of 2010 from low levels. Credit impairments in Baltic banking, which amounted to SEK 1.1 bn during the second quarter, was over SEK 1 bn lower than during the first quarter.

**What measures have Swedbank taken to handle problem loans in the Baltic countries?**

Swedbank responded quickly to the deteriorating macro-economic conditions during the financial crisis and increased the preparedness for increasing credit impairments. Securing the quality of the credit portfolio and finding working solutions together with customers whose repayment capabilities had deteriorated had the highest priority during 2009 and will remain in focus 2010. At the same time, the bank will now be able to spend more time on operational development in the business areas. The efforts to lower the risk level in the bank continued during the first half of 2010, although in a more selective manner with regards to the banks different risk areas. The Baltic unit for problem loans (BFR&R), which was created during 2009 to closely work with customers and projects that require particular attention due to the economic recession, remains fully operative. Swedbank has also set up subsidiary Ektornet, which manages and develops the Group's repossessed assets, mainly properties, in order to recover as much value as possible for Swedbank's shareholders in the long term. Ektornet managed properties valued at around SEK 1 billion as of June 30th.

**What will Swedbank's operation in the Baltic countries look like in five to ten years from now?**

It is still too early to make any long-term forecasts regarding what the financial markets will look like going forward, but the outlook for the Baltic economies is much brighter now than a year ago. Especially Estonia is making progress, and Estonia's accession to the EMU in 2011 is expected to strengthen confidence in the country's economy and increase interest in direct investments. But the outlook is also brighter for both Lithuania and Latvia. Since the Baltic countries' financial markets are still less developed and capital-rich than several other EU countries, the region has a long-term growth potential that will benefit Swedbank.