



## Overview & Investment Thesis:

- Headquartered in Stockholm, Sweden, Swedbank AB has its roots in the Swedish savings bank tradition, which dates back to 1820 and operates through more than 900 branches in 13 countries.
- The leading bank in Sweden, Estonia, Latvia and Lithuania - its four 'home' markets.
- Swedbank has about 17,000 employees and a network of 553 branches: Sweden (334) and the Baltic countries, Estonia (64), Latvia (59) and Lithuania (96) serving 9.4 million retail customers and 693,000 corporate customers. It also has 2,100 ATM's of which 732 are in Sweden.

### Swedish Retail Banking:

- Its dominant business is responsible for all Swedish customers except for large corporates and financial institutions. The bank services are sold through Swedbank's own branch network, the Telephone Bank, the Internet Bank and the cooperation with the Savings Banks in Sweden which adds another 260 branches to the distribution network.

### Swedish Large Corporates & Institutions:

- Responsible for large corporates, financial institutions and banks as well as for trading and capital market products. Large companies are defined as those with annual sales of over SEK 2 billion or with more complex needs.
- Operations are carried out by the parent bank in Sweden with branches in Norway, Denmark, Finland, the US and China, and the subsidiaries; First Securities in Norway and Swedbank First Securities LLC in New York, in addition to the trading and capital market operations in subsidiary banks in Estonia, Latvia and Lithuania.

### Baltic Banking:

- Offers a complete range of retail and corporate products and services through its business operations in Estonia, Latvia and Lithuania. The bank's services are sold through Swedbank's own branch network, the Telephone Bank and the Internet Bank.
- Total deposit market share is about 46% in Estonia, 14% in Latvia and 27% in Lithuania.

### Asset Management:

- Comprises the subsidiary group Swedbank Robur, which offers over 150 funds, institutional and discretionary asset management and pension management.
- Asset management is represented in Swedbank's four home markets and is by far Sweden's biggest player in socially responsible investments.
- Swedbank Robur is one of the top ranked fund managers in the region with total assets under management of SEK 732 billion.
- Products sold via retail network and via Savings Banks in Sweden - it has 24% market share in Sweden.
- Pending European mutual fund rules will make it possible to offer the same funds in different countries, so enabling 150 funds to be reduced by about 30%.

### Russia and Ukraine:

- Formed in April 2010, this business area comprises the banking operations of Swedbank Group in Russia and Ukraine offering retail and corporate products and services via 92 branches in Ukraine and corporate only products and services via 5 branches in Russia.

### Ektornet:

- Is an independent subsidiary of Swedbank. Its aim is to manage and develop the Group's repossessed assets in order to minimize losses and if possible recover value in the long term. The majority of the collateral consists of real estate, the large part of which is expected to come from the Baltic countries and the US, but also the Nordic region, Ukraine and Russia.
- As of March 31, 2011, Ektornet managed properties with a book value of SEK 3,253 million (after currency translation and current depreciation).
- The Baltic countries now account for about half of the repossessed properties against two thirds previously.

### Nordic & Baltic 'home' markets - approximate 2010 market share % (+/- 2009)

|                            | Sweden  | Estonia | Latvia  | Lithuania |
|----------------------------|---------|---------|---------|-----------|
| Corporate lending          | 17 (-1) | 40 (-3) | 10 (-1) | 22 (+1)   |
| Corporate deposits         | 17 (+1) | 40 (-1) | 21 (-3) | 21 (-1)   |
| Individual pension savings | 44 (+3) | -       | -       | -         |
| Consumer lending           | 26 (0)  | 47 (-1) | 27 (0)  | 26 (0)    |
| Mortgage lending           | 27 (-1) | 47 (0)  | 27 (0)  | 25 (0)    |
| Household deposits         | 24 (0)  | 55 (0)  | 23 (0)  | 32 (0)    |

## Business Description:

Swedbank AB consists of six business areas: Retail, Large Corporates & Institutions, Baltic Banking, Russia & Ukraine, Asset Management and Ektornet. Swedbank maintains a low risk level. A vast majority of exposures are in mature markets such as Sweden. Good risk diversification is achieved through a broad base of customers and businesses from many different industries. The bank also maintains a sustainable balance between lending and deposits in all its markets. Customers cash flow, solvency and collateral are always the key lending variables. Swedbank has a number of priorities tied to its long-term strategies: customer focus, growth in selected segments, quality and effectiveness and robust balance sheet with low risk. Swedbank works to promote the financial sustainability of its customers and has a strong tradition of social responsibility and high ethical standards. It acquired First Securities in November 2010.

## Industry Growth Drivers/Trends:

- Sweden and Baltic reach offers attractive growth dimensions to improve, mix margin and share of wallet.
- Ongoing consolidation and flight to quality in financial services sector strongly positions this leading bank in its 4 'home' markets.
- Cross border investing, aging societies, outsourcing management of pension assets, under funded government pension plans - all increase demand for wealth management and wholesale (payments, cash management, custody) services.
- The recovery in the Swedish economy remains strong. GDP grew 7.3% during the 4th quarter 2010, and is driven by increased domestic demand, consumption and investments. Unemployment fell to 7.6% in February 2011.
- However, Swedish house prices rose through the recession and are now among the most expensive in the developed world prompting the Swedish Government to limit new mortgages to 85% of property value.
- Estonia joined the Eurozone on January 1, 2011 which, with introduction of the Euro, has helped lower business risks and increased confidence in the Estonia economy.
- Baltic countries' economies were among the hardest hit by the global downturn but are recovering and profitability is improving on heels of considerably lower credit impairments. Year to date profits highlight the rate of recovery in the Baltics with consequent broadening of group profits being: retail 42%, Large Corporates & Institutions 20%, Baltic Banking 24%, Asset Mgt 4% and Russia & Ukraine 9%.

## Competitive Advantages:

- Leading market positions in each of its 4 'home' markets and seeking to expand reach into Ukraine and Russia.
- One of Europe's most highly capitalized banks, founded on the traditional Swedish Savings Bank model.
- Savings Banks are Swedbank's largest partner comprising around 30% of Swedbank's Swedish business volumes. A new cooperation agreement was signed in 2010.
- Integrated operating platform across Sweden and Baltic regions enables uniformity of pricing and service and is scalable.
- Large customer bases, business volumes and well-organised processes enhance cost efficiency in the bank. All business operations are managed locally with decentralised decision-making as close to customers as possible.

## Competitors:

- Sweden: Nordea, SEB, Handelsbanken, Danske, Sparbankerna
- Baltics: Nordea, Raiffeisen, Samp (ie Danske) SEB, DnB Nord

## Barriers to Entry:

- Governance and regulatory compliance costs include European competition law, information technology and capital.
- Extensive branch network distribution capability - prohibitively expensive to replicate.

## Customers:

- Diversified customer base.
- No single customer contributes significant amount to total revenue.
- Swedbank maintains a well-balanced risk level, through a vast majority of exposures in mature markets, such as Sweden. Risk diversification is also achieved through a broad base of customers and businesses active in different industries.



## Officers and Directors:

**Leadership team:** President and CEO, Michael Wolf heads a relatively young executive group committee comprising 12 individuals including; Head of Retail, Catrin Fransson; Head of Large Corporates, Magnus Gagner-Geeber; Head of Institutions, Stefan Carlsson; Head of Baltic Banking, Hakan Berg; Group Chief Risk Officer, Goran Bronner; and Group CFO, Erkki Raasuke.

## Board of Directors:

- **12 member board** – all are non-executive, 9 are also independent and 2 are employee representatives.
- The Chairman, Lars Idermark, was appointed in 2010 but has been on the Board for 10 years. He is independent and non-executive and chairs both the Risk and Capital Committee and Compensation Committee. Ulrika Francke is also a non-executive and independent and chairs the Audit and Compliance Committee.
- Directors are from a range of backgrounds including, technology, telecommunications, government, electronics and retail - but mostly finance.

## Ownership:

Sparbanks Gruppen 7.7%, Folksam Group 4.2%; Alecta Pensions 3.6%; Cevian Capital 3.6%; Swedbank Robur 3.0%, AMF Pension 1.9%. Over 330,000 shareholders.

## Capital Allocation/Uses:

In 2008, Swedbank completed a mandatory preferred share issue and in 2009 reported a loss predominantly across the Baltic franchises and so completed a rights share issue. No dividend was paid in either year. Since the capital raises, Swedbank intends to maintain an extra capital buffer in addition to that required by law (10% of Core Tier 1 capital). Nevertheless, as Swedbank's markets are recovering and credit impairment falling, the Directors, in 2011, changed the dividend policy from 40% to 50% of profits against the backdrop of the banks strong capitalization and focus on capital efficiency and declared a dividend of SEK 2.10 per common share and SEK 4.80 per preferred share in 2010. The preferred shares are mandated to be converted to ordinary shares by 2013 and are including in earnings and book value per share calculations. Testimony to the Swedbanks ability to generate capital, its Core Tier 1 capital ratio has increased to 14.8% according to Basel II (and 10.1% according to Basel III) and its Basel II Tier 1 capital ratio to 16.1% (and 11.0% re Basel III). A demonstration of its capital management is the decision to repurchase up to 10% of outstanding shares (2.9% of shares already purchased by mid-year) to adapt the group's capital structure to its capital needs, taking into consideration the Basel II Core Tier 1 capital ratio target of at least 13% by end 2013. Given its return on equity has improved to 15.3% year to date, we believe the aggressive repurchase programme is achievable with book value per share also benefiting, increasing to a current level of SEK 82.61.

## Key Products:

- Swedbank offers a full range of easy-to-use and competitively priced financial services. "Global Finance" awarded it as having the best personal internet banking service in the Baltic countries and Euromoney named Swedbank as "best bank" in Estonia and Lithuania.
- Swedbank Robur received 4 awards in 3 categories from the fund rating agency Lipper for best risk-adjusted returns over 3, 5 and 10 years and has the most funds (60) with 4 or 5 stars in Money Mate's rating.

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## Portfolio Composition:

| Group Operating Profit Mix      | 2008 | 2009   | 2010  |
|---------------------------------|------|--------|-------|
| Retail                          | 66%  | 82%    | 73%   |
| Large Corporates & Institutions | 4%   | 42%    | 31%   |
| Baltic Banking                  | 23%  | (117%) | (2%)  |
| Russia & Ukraine                | 0%   | (92%)  | 4%    |
| Asset Management                | 4%   | (1%)   | 7%    |
| Ektornet                        | 0%   | 0      | (2%)  |
| Group Functions                 | 3%   | (14%)  | (11%) |

| Geographic Mix - Total Operating Income | 2008 | 2009  | 2010 |
|---|------|-------|------|
| Sweden                                  | 72%  | 91%   | 83%  |
| Estonia                                 | 14%  | (12%) | 6%   |
| Latvia                                  | 6%   | (57%) | (7%) |
| Lithuania                               | 9%   | (44%) | 1%   |
| Russia                                  | (6%) | (10%) | 1%   |
| Ukraine                                 | 1%   | (80%) | 4%   |
| Others                                  | 4%   | 12%   | 12%  |

| Loan Portfolio                 | 2009 | 2010 |
|--------------------------------|------|------|
| Mortgage Financing             | 50%  | 54%  |
| Consumer Financing             | 4%   | 3%   |
| Agriculture, Forestry, Fishing | 5%   | 5%   |
| Manufacturing                  | 3%   | 3%   |
| Public Sector & Utilities      | 2%   | 1%   |
| Construction                   | 1%   | 1%   |
| Retail                         | 2%   | 2%   |
| Transportation                 | 1%   | 1%   |
| Shipping                       | 1%   | 1%   |
| Hotels & Restaurants           | 1%   | 1%   |
| Finance & Insurance            | 1%   | 1%   |
| Property Management            | 14%  | 13%  |
| Housing Co-operatives          | 6%   | 7%   |
| Professional Services          | 3%   | 2%   |
| Other                          | 6%   | 5%   |

| Interest Earning Assets        | 2008 | 2009 | 2010 |
|--------------------------------|------|------|------|
| Treasury/Acceptances Bills     | 4%   | 8%   | 4%   |
| Loans to Banks                 | 8%   | 6%   | 11%  |
| Loans to Customers             | 81%  | 81%  | 79%  |
| Financial Investments          | 7%   | 5%   | 6%   |
| Customers: Loans/Deposits      | 253% | 256% | 222% |
| Loans/Deposits & Covered Bonds | 170% | 153% | 126% |

## Financial Statement Summary: (SEK millions, years ended December 31)

| Income Statement             | 2008     | 2009     | 2010     |
|------------------------------|----------|----------|----------|
| Net Interest Income          | 21,702   | 20,765   | 16,329   |
| Other Income                 | 9,282    | 8,472    | 10,137   |
| Provisions for Credit Losses | (3,156)  | (24,641) | (2,810)  |
| Non-Interest Expenses        | (18,058) | (17,848) | (17,642) |
| Taxes                        | (2,880)  | (981)    | (2,472)  |
| Net Income                   | 10,939   | (10,442) | 7,483    |
| EPS                          | 16.51    | (10.66)  | 6.43     |
| Diluted EPS                  | 16.51    | (10.66)  | 6.43     |
| Dividend per Share           | 7.04     | -        | -        |

| Balance Sheet        | 2008   | 2009   | 2010   |
|----------------------|--------|--------|--------|
| Common Equity        | 86,230 | 89,670 | 94,897 |
| Book Value per Share | 111.54 | 77.40  | 81.92  |

## Key Profitability Ratios and Figures:

| Y/E December 31                                 | 2008  | 2009    | 2010  |
|---|-------|---------|-------|
| Core Tier 1 Capital Ratio                       | 9.7%  | 12.0%   | 13.9% |
| Tier 1 Capital Ratio                            | 11.1% | 13.5%   | 15.2% |
| Efficiency Ratio (Costs/Income)                 | 49.5% | 51.3%   | 56.8% |
| Provisions for Credit Losses % of Average Loans | 0.22% | 1.78%   | 0.21% |
| Loan Loss Reserve as % of gross Loans           | 0.12% | 1.51%   | 1.37% |
| Loan Loss Reserve as % of Impaired Assets       | 54%   | 52%     | 53%   |
| Return on Average Equity                        | 15.2% | (12.5%) | 8.1%  |
| S&P Senior Rating of Debt                       | A     | A       | A     |

Sourced from 2010 Annual Report and April 2011 Company compiled "Facts & Figures"