

CEO Annika Falkengren's speech at the Annual General Meeting 2009

I too want to welcome you to our Annual General Meeting.

Today's AGM is special. We hold it in a time that few of us active in the financial sector will ever forget.

In spite of everything, SEB reported its third best result ever in 2008. At the same time, we are experiencing a significant deterioration in the economic outlook and changes to how the market views banks' capitalisation.

It is against this background that SEB's Board of directors proposes a rights issue intended to strengthen the buffer and secure our capacity to be a long-term and reliable financial partner to our customers.

At last year's AGM I projected 2008 would be more challenging than 2007. However, the force and speed of the economic slowdown that followed surprised both others and us.

World economic activity is now slowing very quickly and there is significant uncertainty about when we will hit bottom and when a recovery will start.

The downturn particularly affects Eastern Europe, where previously many countries were looked upon as growth markets. Developments in the Baltic countries where the situation has worsened further affect us.

One date in the past year is etched into the financial history books - 15 September - the date when Lehman Brothers, one of the world's leading investment banks filed for bankruptcy.

Trust between banks and other institutions is a prerequisite for functioning financial markets. However, that trust started to disappear as the American subprime crisis continued. The process accelerated very quickly when Lehman Brothers filed for bankruptcy and a sense of fear that counterparties may not be solvent replaced the trust.

A liquidity squeeze followed an earlier liquidity bubble and losses at previously well-regarded banks rose to extreme levels, threatening the global financial system's stability.

The market's view of what is a sound – and sufficient – capitalization at a bank has changed dramatically. If the market previously viewed a core capital ratio of 7-8 per cent as acceptable, then the new norm is rather 9-10 per cent.

Since the end of 2007, the combined market capitalization for the world's twelve largest banks has dropped to 440 billion dollars from 1.3 trillion dollars. Fear of mounting credit losses due the deteriorating economy affect us as well. Our shares – like the bank index – fell 63 per cent in 2008. I am of course not pleased to show this chart here today.

Despite the exceptional market conditions in 2008, SEB reported a pretax profit of 12.5 billion kronor, corresponding to a return on equity ratio of 13.1 per cent. Earning per share amounted to 14.66 kronor. Results are down 30 per cent compared to 2007.

Income rose two per cent as strong net interest income compensated for weaker net fee income and lower life insurance income. The level reflects our strong underlying operation and our broad and strong business.

Costs increased, lifting the so called C/I (cost/income) ratio to 0.62. The growth phase SEB experienced at the start of 2008 explains much of the higher costs.

Our costs overall are still somewhat high, but I want to underline that they are much better aligned now compared to the previous downturn in the early 2000s.

As you know, we have put a lot of effort into integrating the bank and improving efficiency, not least through our programme for operational excellence called SEB Way.

So far, we have freed up around 1,500 full time equivalents. This means we have moved seven per cent of the work force from process work to customer and sales work. We have increased productivity.

The work continues and over the coming year focuses on cutting costs rather than freeing up time to invest in our business. However, it takes time. We do want to create lasting changes.

During the past year, we continued to increase provisions for anticipated credit losses. Half of these are collective, meaning preparations for difficult times rather than realised losses. SEB's realised credit losses remained at the relatively low level of 0.3 per cent.

During 2008, we reinforced our position as the Nordic region's leading corporate and investment bank, particularly in cash management and foreign exchange trading.

We are the Nordic region's second largest asset manager and number one in alternative investments.

I am particularly pleased that our "Enkla firman" product, a packaged solution with basic services for small business owners, received an award for best product targeted at small and medium sized businesses from personal finance magazine Privata Affärer. We want to expand in this segment.

At past AGMs, I have highlighted that we, as a bank, are different from our Nordic competitors. SEB is an advisory bank with an attractive customer base, with corporate clients representing more than 67 per cent of our income. We are a large corporate and investment bank.

However, we also have retail banking in five countries and an extensive asset management and life insurance business. Sweden is our largest market, but we have significant businesses in the other Nordic countries, in the Baltic countries and in Germany. Additionally, we have representation in all financial centres of the world.

This fact, that we have a diversified business, was evident a year as 2008.

Looking at our four business divisions, it is clear that the bank's division for corporate clients, Merchant Banking, had a good year.

Operating profit in Merchant Banking rose 22 per cent and represented about half of SEB's total result. Income from areas such as corporate advisory and equity- and fixed-income trading fell. However, higher income from other areas compensated for those declines.

As an example, our foreign exchange trading increased income by close to 50 per cent, reflecting high customer activity.

Results at the Life and Wealth Management divisions declined in the aftermath of falling markets, as income correlate closely to the volume of assets under management. Looking to the future, it is encouraging that both divisions reported significant net inflow of new business.

Retail Banking income held up well, particularly in Sweden, with provisions in the Baltic countries weighing on results.

As you can see, results differed materially between divisions, but all four continued to experience high customer activity.

Let me give you two examples of this from our lending and savings businesses.

Last year our lending volumes increased by 21 per cent. Excluding effects from a weaker Swedish currency, lending to companies rose 14 per cent. Growth was even higher in our core business, large corporate clients.

Many of our corporate clients turned to us because of the liquidity squeeze experienced in the market. We lent money to clients we know well.

Our lending to small and medium size businesses rose 10 per cent during 2008. At the same time, we also attracted 10,000 new clients in this segment in Sweden.

Following the financial crisis and a slowing economy, there has been much talk about the role of a bank and what responsibility banks have in society, also here in Sweden. Sometimes banks are accused of not helping companies that need credits. Our lending and the number of new customers deny that statement.

The single most important thing we and other banks can do for society is applying sound lending policies based on sustainable business principles that hold up in good times, and bad times.

The other example I wish to highlight in order to demonstrate our customers' high business activity concern savings. Long-term savings is an important part of SEB's offering.

We continue to attract new savings despite the tough market conditions. According to the latest savings barometer, SEB is number one in the Swedish savings market.

One explanation is our focus on alternative investment products. Our customers appreciate this, as they increasingly demand products generating absolute returns. This is an area where SEB leads the market and can be exemplified by our SEB Asset Selection fund. A fund that generated a return of 25 per cent last year, making it one of Europe's best funds.

We had significant inflows in all savings areas last year. Deposits at SEB increased by twelve per cent overall.

In the Swedish funds market, our inflow of seven billion kronor made us number one. One important explanation is our strong distribution, not least in Retail Banking, but also in Life and Private Banking.

Life increased sales by ten per cent compared to 2007 and in Private Banking, sales rose a full 45 per cent.

These two examples – lending and savings illustrate that business activity remained high, with demand higher than ever.

One month ago, we announced the capital measures proposed at today's AGM.

The bank's chairman, Marcus Wallenberg, and myself wrote a letter to all shareholders informing you about the background to the proposal.

I have had contacts with many shareholders, large and small, over the past weeks. This includes contacts via phone, e-mail and regular mail. I have received questions about the bank's future and the risks ahead.

I want to take this opportunity to answer four of the most common questions I get.

The first question: how serious is the downturn, and how serious can it get?

None of us possesses a crystal ball. The forecasts we provide are reflect our best judgement of the situation as it stands right now. In the prospectus released next week, we outline the risks in more detail.

We know that the bank's results partly reflect the overall economic situation and market developments.

In a weaker economy, it is unavoidable that credit losses increase. How much depends on how serious the economic downturn become, how well we manage our lending and how good we are at finding solutions together with clients once problems arise.

In the past years, SEB applied a cautious strategy. We started getting our house in order at an early stage and prepared for difficult times.

In order to be prepared once the downturn arrived, we took some strategic decisions, such as creating a more integrated and efficient bank. We increased our capital buffer, raising the capital from 61 billion kronor at the end of 2006 to 77 billion kronor.

We did this in a situation when the market wanted to see expansion, share buybacks and increased dividends. Combined with the capital measures proposed today, our core capital increases to 97 billion kronor.

About the depth and length of the economic downturn, the bank's economists project the deepest downturn since World War II and that recovery will take time. Others take a more positive view.

Regardless of what happens, I can say that we are prepared for a very dark outcome. We have simulated crises in one, several and all of our markets, including significantly weaker currencies. Based on these scenarios, we consider the improved capital base as sufficient.

The second question is about the Baltic countries. How do we view the situation? Why are we there? In addition, how do we handle things?

I want to underline that we take a long-term view of our Baltic business. We are there to stay.

These countries are part of our region and home market. There are historical and cultural ties between Sweden and these three countries. Since we first entered around eleven years ago, we have helped build and develop their financial markets.

Our lending in the region is 172 billion kronor, corresponding to around eleven per cent of our total lending. In our Baltic credit portfolio, lending to companies and to private individuals represent 40 per cent each. Lending for real estate is around 20 per cent, and this is well structured with first loans.

Collectively we have around 2.5 million customers in the three Baltic countries, and a broad offering that is not only lending. Our customers demand deposits, funds, pensions and other advisory services for both private individuals and companies.

Towards the end of 2008, the economic development in the Baltic regions deteriorated sharply. It became clear that all three countries must endure a difficult period with sharply lower gross domestic products in the coming years.

In the past year, impaired loans increased and represented between two and three per cent of total lending. We have increased provisions for expected credit losses by 1.7 billion kronor in 2008.

We have looked back on experienced gained during the Swedish crisis in the early 1990s and taken action to handle the rapid slowdown. We monitor our credit portfolios closely and to handle problems we have established a new risk committee. Additionally, we established a work-out unit, consisting of Swedes as well as locals. Currently around 100 people are tied to the unit. Moreover, we have established special purpose vehicles to handle problematic issues and resolve them responsibly. The result of these measures is better solutions for companies and individuals, as well as fewer losses for the bank.

The third question concerns the overall state of our credit portfolio.

My answer is that we have a large, well-diversified and high-quality credit portfolio. Sweden represents around 50 per cent of the exposure. Combined with the other Nordic countries and Germany the figure is 85 per cent.

Lending to companies represent 40 per cent and households 25 per cent, half of which is mortgages in Sweden. Our exposure to real estate is relatively limited in a Nordic perspective. Concerning credits, SEB is primarily a corporate bank.

Significant for our corporate credit portfolio is that around 1,800 large companies dominate, primarily in Sweden, but also in the other Nordic countries and Germany. Small and medium sized business in Sweden and the Baltic countries collectively represent 20 per cent of the portfolio.

SEB's credit philosophy is conservative. We did not change our credit policy during the boom years; and we have not made changes now as the economic climate is deteriorating. However, the prerequisites for certain, industries, segments and companies have changed impacting if we grant a credit or not.

We hold the view that asset quality in our Nordic and German credit portfolio is stable. We do, however, see a number of mid-corporates active in the car industry, retailers, construction that now have a weak development even though they are still paying interest and collateral.

The fourth question that often has been addressed to me, not least on the back of the turbulence during autumn, is if we have difficulties in funding ourselves. As the subprime bubble started to burst in the summer of 2007, we were quick to secure long-term funding.

All through the credit crisis, SEB has had good access to short term funding. However, the market for long-term funding has been partly non-functioning. Nevertheless, we raised SEK 160bn with maturities above one year during 2008. As you can see on the chart, the markets for longer maturities are continued fragile.

These were four of the most frequent issues that I have been discussing with shareholders and investors over the last weeks.

My entire management team is here, and if there are questions related to your own business or other queries, they are available after the AGM as well.

Looking ahead, let me first underline that there is no doubt that we – and other banks – face a very challenging year. In this situation it is comforting to know that our core business is stable and profitable, based on strong and long-term customer relationships.

Our earnings ability is based on our activity level, and that we have passionate employees working closely with customers, offering basic easily accessible products as well as complex cutting-edge products.

We showed our ability to generate income in a weakening market in 2008. The strength of our client business is our best defence in difficult times.

The breadth of our business means we do not need to rely on any single market or segment. Our long-term strategy to become leading regarding customer satisfaction and profitability remains.

Over the next years, this means we continue building on our existing attractive platform rather than expanding into new markets. We prioritise reinforcing relations with existing customers.

At the same time, our work to become more efficient continues. We can extract more synergies and we will deliver on our existing cost- and efficiency programme.

Dear shareholders, with the capital measures proposed at the AGM today we further strengthen our ability to handle a very dark economic development.

Our customers and counterparties can trust that SEB is a long-term and perseverant partner, particularly in times when they need such a partner the most.

At the same time, we continue our journey towards our long-term goals, having the most satisfied customers and good long-term profitability.

Thank you!