

# Annual Reports 1997

*Nordbanken AB (publ) & Nordbanken Holding AB (publ)*



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# Annual General Meeting

*The Annual General Meeting of Nordbanken Holding AB  
will be held Thursday, April 23, 1998, at 3:00 p.m.,  
in the China Theatre, Berzelii Park, Stockholm.*

## Application

Shareholders who wish to participate in the Meeting:

**must** be recorded in the share register maintained by Värdepapperscentralen VPC AB (Swedish Securities Register Center) not later than Thursday, April 9, 1998, and

**must** notify Nordbanken Holding AB by telephone (+46-8 614 97 10) or by telefax (+46-8 614 87 70), or by mail to:

Nordbanken AB  
Group Legal Staff, H50  
SE-105 71 Stockholm  
Sweden

not later than 1:00 p.m. on Monday, April 20, 1998.

To be entitled to participate in the Meeting, shareholders whose shares are held in the name of a trustee must temporarily reregister the shares in their own name. Such reregistration must be in effect at VPCAB (Swedish Securities Register Center) on Thursday, April 9, 1998. Accordingly, shareholders must advise trustees of the need for such action.

## Dividend and record date

The Board of Directors will propose payment of a dividend of SEK 1.50 per share, and Tuesday, April 28, 1998 as the record date for payment. If shareholders at the Annual General Meeting approve this proposal, it is expected that dividend payments will be mailed by VPC on Wednesday, May 6, 1998.

# The merger with Merita

## Background

As the new millennium approaches, the Nordic countries and Baltic Region are emerging as an increasingly important trading area in Europe, creating new opportunities and needs in the financial sector. Deregulation, the harmonizing of rules, the expansion of the European Union and the introduction of the euro, as well as the intensive development of information technology, are contributing to making former national bank and insurance markets more international.

The structural transformation in the financial sector in the Nordic countries has begun through the formation of larger national and cross-border units.

Proximity to customers and business volumes large enough for cost-effective service and distribution are required in order to be able to compete in the banking market. Growth potentials for continuing operations are also needed.

The merger with a strong partner in another Nordic country is leading more rapidly to increased size and a broader customer base than could be achieved by organic growth.

The combination of Merita and Nordbanken offers both local proximity and a size that strengthens competitiveness. It enables growth in an international perspective, notably in an increasingly borderless Baltic Region.

On October 13, 1997, the Boards of Directors of Merita Abp, Finland's largest banking group, and Nordbanken AB (publ) unanimously proposed that the two companies should merge.

The new MeritaNordbanken Group becomes a leading banking group in the Nordic countries and the Baltic Region, with strong positions in two home markets. The customer base comprises approximately 6.5 million private individuals and nearly 300,000 companies.

## Implementation

Nordbanken's merger with Merita is being implemented by creating a structure with two holding com-

panies – Nordbanken Holding AB (publ) and Merita Abp – that are listed on the stock exchanges in Stockholm and Helsinki, respectively. The two holding companies will jointly own a newly formed Finnish parent company, MeritaNordbanken Abp, which in turn will own the shares of the operating companies. Merita Abp will own 4% of the shares in the parent company, and Nordbanken Holding 60%, including 20% in the form of preference shares without voting rights.

A number of decisions and transactions are required to achieve this structure.

On November 12, 1997 Nordbanken Holding made a public offer to Nordbanken's shareholders to exchange one share of Nordbanken AB for seven newly issued shares of Nordbanken Holding. A full 99.7% of the shareholders supported the proposal to merge with Merita by tendering their shares for exchange.

At an Extraordinary General Meeting of Merita on November 26, 1997, 99.9% of the votes represented supported the merger.

During 1998 both Merita Abp and Nordbanken Holding will transfer their shareholdings in subsidiaries to the newly formed parent company, MeritaNordbanken Abp, against payment in the form of shares. The new MeritaNordbanken Group is being formed through these transactions.

At year-end 1997, Nordbanken Holding still owned 99.7% of the shares in Nordbanken AB. The holding is temporary until the new Group structure is completed during the early part of 1998, as described above.

The present annual reports for Nordbanken AB and Nordbanken Holding comprise information pertaining to the Nordbanken Group exclusively. Pro forma information for 1997 pertaining to the combined operations in Merita and Nordbanken is presented in a separate report, "MeritaNordbanken. A new bank emerges." A copy of the report may be ordered from MeritaNordbanken, Investor Relations, SE-105 71 Stockholm, Sweden. (Telefax: +46-8 614 87 10, telephone: +46-8 614 78 51.)

# Nordbanken 1997

- *MeritaNordbanken – merging for growth.*
- *Swedish Government's shareholding reduced to 42.5 %.*
- *Return on equity continued to be high: 26.0 %.*
- *Operating profit amounted to SEK 6,029 M.*
- *Continued strong competition with depressed interest margins.*
- *Net commission income rose sharply: up 19 %.*
- *Operating costs increased a modest 2 %.*
- *Loan losses at a very low level: 0.1 % of lending.*
- *Mutual funds and mortgage loans increased strongly.*

# A successful year

*The year 1997 was a successful one for Nordbanken and its owners.  
The Bank achieved very good profits and the price of its shares developed favorably.  
With the merger with Finnish Merita, Nordbanken took the first step  
toward realizing its vision of a true Nordic bank.  
Concurrent with taking a position with respect to the merger proposal,  
private individuals as well as institutions were able to increase  
their stake in Nordbanken Holding as a result of the Swedish Government's  
sale of approximately 29% of its shareholding.*

Nordbanken's operating profit in 1997 amounted to SEK 6.0 billion (7.4). The return on shareholders' equity was 26.0% (27.8). The profitability thereby exceeded by a good margin the long-term objective established for the Bank. The profit did not match the level of the preceding year due to the fact that 1996 had offered unique business conditions for Swedish banks. Interest rates had been reduced by half and stabilized on a much lower level than earlier; this trend was not repeated in 1997.

The pace of change in the Swedish financial market continued to be very rapid. The opportunities – created by advances in information technology – for new forms of distribution and new services were utilized to a greater degree; this was a development that helped to strengthen relations with customers but which also contributed to increasing the competition. Internationalization characterized the market to a high degree and the European Economic and Monetary Union (EMU) will reinforce this trend. The entry of new players into the market continued to redefine the banking and finance industry. Increasingly active customers imposed demands that banking services be delivered more cheaply, faster and more simply than before.

Nordbanken has in recent years followed a clear, focused strategy that is being implemented consistently. The efforts based on this strategy has contributed significantly to the fine results and to strengthening Nordbanken's position in the market. Let me mention a few elements:

- Improved productivity
- Sharply reduced loan losses
- The development of such forms of distribution as the telephone bank, the Internet, "the in-store bank," and Postbanken
- Larger share of the market for mortgage loans

For management, operations during the year were focused to a great extent on structural matters. In the Annual Report for 1996 I wrote:

"In the structural transformation of the Swedish finance market now under way, Nordbanken must guard its positions and take advantage of the opportunities which could emerge. The starting point must be to seek combinations which can increase the Bank's competitiveness, create added benefits for customers and value for shareholders while capitalizing on Nordbanken's strengths and development."

On October 13, 1997, the Boards of Directors of Nordbanken and Merita of Finland were able to propose unanimously to their shareholders that the two groups, through a merger, should create a leading bank group in the Nordic countries and Baltic Region, with strong positions in two home markets. The merger will also provide a solid foundation for continuing expansion in the region, and other companies are accordingly being invited to participate in this development.

In the beginning of December it could be announced that the shareholders in both Merita and Nordbanken had given overwhelming support for the proposed merger. No fewer than 99.7% of Nordbanken's shareholders had tendered their shares for redemption in exchange for shares in the new company (Nordbanken Holding) that will own 60% of the combined group. In a vote at an Extraordinary General Meeting of Merita, 99.9% of the votes represented were cast in favor of the merger.

As the new millennium approaches, the Nordic countries and the Baltic Region are emerging as a potential growth area in Europe, creating new opportunities and needs in the financial sector. The conditions for banking operations are continuing to change; deregulation, the harmonizing of rules, the expansion of the European Union (EU) and the introduction of the EMU, as well as the increasingly intensive development of information technology are helping to make formerly national banking and in-

insurance markets more international. Technical developments are resulting in continuing changes in financial products, forms of distribution and customer preferences.

The financial industry in the Nordic countries has begun a structural transformation by forming larger units, both national and cross-border. Continued restructuring is essential, particularly in view of the fact that the Nordic market and its banks are relatively small, viewed in an international perspective. Proximity to customers and adequately large volumes of business are required for cost-effective service and distribution in order to be able to compete successfully with both old and new players in the banking market. Opportunities for growth that can result in further improved efficiency are also required.

The combination of Nordbanken and Merita offers continued local proximity and a size that strengthens competitiveness and permits growth, internationally in particular. An increasingly borderless Baltic Region that is expected to become Europe's primary growth area will offer many new business opportunities. MeritaNordbanken is becoming an attractive partner for other financial companies in the Nordic countries.

The merger is also creating specific advantages for both banks.

- The increased size will in itself offer growth potentials through greater total resources and a broader customer base.
- The combined capital strength provides flexibility and conditions for focusing operations more rapidly on core areas.
- Cross-marketing of products will yield increased sales – of mutual funds in Finland and insurance in Sweden, for example.
- True synergies related to both cost-savings and income enhancement are substantial both in the short and long term and will be exploited.

- Bench marking of operations in the two banks creates incentives to further improve profits.
- The larger customer base makes it possible to further develop the range of services offered internationally, with a focus on Nordic-related companies.

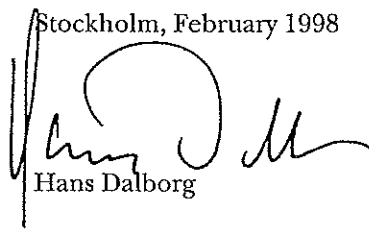
By taking advantage of the benefits that can be created through cooperation over the short and long term, earning capacity is being strengthened. Combined, Merita and Nordbanken have such a good customer base and such financial strength that aggressive investments in technology and expertise for the next century can be implemented successfully. Value can thereby be enhanced for the shareholders in Nordbanken Holding.

MeritaNordbanken will participate actively in shaping the next century's financial market in our part of the world. We will do this with a focus on the objective that has guided Nordbanken in recent years: creation of value for shareholders by being the bank that offers customers comprehensive, dependable and cost-effective service at the same time that employees are being motivated and offered continuous opportunities to develop their skills.

I want to express warm thanks to Nordbanken's employees for their fine work in 1997. Their highly skilled performance and deep sense of involvement are creating good prospects that we will continue to handle major changes in the future favourably.

There will be increased demands for growth and flexibility, for judgment and willingness to contribute, on all employees of the Bank. Being allowed to participate in the creation of MeritaNordbanken is a great responsibility and a unique challenge.

Stockholm, February 1998



Hans Dalborg

# Five-year Summary

*As a result of the new Annual Accounts Act in Sweden, new accounting principles for financial institutions became effective on January 1, 1996. Information for 1995 is presented below in accordance with both the new and the previous accounting principles. In addition, information for 1995 and 1996 is adjusted to the reclassifications which occurred in 1997. See Accounting Principles on pages 60-61.*

SEK M	1997	1996	1995
<b>INCOME STATEMENTS</b>			
Net interest income	9,835	10,655	11,481
Net commission income	2,607	2,188	2,096
Net result from financial operations	37	1,427	678
Other operating income	758	565	632
Total operating income	13,237	14,835	14,887
Personnel costs	- 2,937	- 2,846	- 2,947
Other operating costs	- 3,968	- 3,906	- 3,925
Total operating costs	- 6,905	- 6,752	- 6,872
Profit before loan losses	6,332	8,083	8,015
Loan losses <sup>1)</sup>	- 303	- 651	- 1,269
<b>Operating profit</b>	<b>6,029</b>	<b>7,432</b>	<b>6,746</b>
Pension adjustment	155	- 172	- 186
Tax on profit for the year	- 1,322	- 1,885	- 1,691
<b>Net profit for the year</b>	<b>4,862</b>	<b>5,375</b>	<b>4,869</b>
<b>BALANCE SHEETS</b>			
<b>Assets</b>			
Loans to the public	284,153	261,921	225,746
Loans to financial institutions	37,105	19,760	28,769
Interest bearing securities			
- Fixed assets	23,971	17,370	15,031
- Current assets	38,692	30,189	47,935
Other assets	29,741	31,275	29,212
<b>Total assets</b>	<b>413,662</b>	<b>360,515</b>	<b>346,693</b>
<b>Liabilities and shareholders' equity</b>			
Deposits from the public	144,703	160,740	148,049
Borrowing from the public	5,031	2,298	462
Due to financial institutions	73,053	45,740	55,506
Debt instruments outstanding	123,144	91,812	77,993
Other liabilities	35,153	31,854	35,859
Subordinated debt	11,048	10,662	10,174
Total liabilities	392,132	343,106	328,043
Shareholders' equity	21,530	17,409	18,650
<b>Total liabilities and shareholders' equity</b>	<b>413,662</b>	<b>360,515</b>	<b>346,693</b>

*In accordance with previous accounting principles*

SEK M	1995	1994	1993
<b>INCOME STATEMENTS</b>			
Net interest income	11,114	10,950	9,618
Commissions, fees and foreign exchange income	2,669	2,333	2,687
Other income	649	819	1,568
Total operating income	14,432	14,102	13,873
Personnel costs	- 2,947	- 2,700	- 2,177
Other operating costs	- 4,312	- 4,409	- 4,814
Total operating costs	- 7,259	- 7,109	- 6,991
Profit before loan losses	7,173	6,993	6,882
Loan losses	- 1,269	- 2,176	- 4,222
<b>Operating profit</b>	<b>5,904</b>	<b>4,817</b>	<b>2,660</b>
Minority interest	-	-	- 21
Appropriations, net	1,028	- 1,219	- 17
Taxes	- 1,795	- 595	71
<b>Net profit</b>	<b>5,137</b>	<b>3,003</b>	<b>2,693</b>
<b>BALANCE SHEETS</b>			
<b>Assets</b>			
Loans to the public	221,487	230,486	252,422
Banks and financial institutions	29,533	26,515	43,917
Interest bearing securities	62,439	64,534	76,366
Other assets	25,647	24,244	29,034
<b>Total assets</b>	<b>339,106</b>	<b>345,779</b>	<b>401,739</b>
<b>Liabilities and shareholders' equity</b>			
Deposits from the public	148,051	180,664	196,927
Banks and financial institutions	55,967	47,671	59,960
Other borrowing	88,148	84,004	101,210
Other liabilities	28,297	16,932	29,518
Total liabilities	320,463	329,271	387,615
Shareholders' equity	18,643	16,508	14,124
<b>Total liabilities and shareholders' equity</b>	<b>339,106</b>	<b>345,779</b>	<b>401,739</b>

<sup>1)</sup> Including changes in value of property taken over for protection of claims.

# Key Ratios

Per-share data is shown on page 96.

In accordance with previous accounting principles

	1997	1996	1995	1995	1994	1993
Return on shareholders' equity, %	26.0	27.8	26.8	23.7	23.4	15.1
Return on total capital, %	1.6	2.1	2.0	1.8	1.3	0.8
Overall interest margin, %	2.6	3.0	3.3	3.4	3.1	3.0
Net interest margin, %	2.8	3.3	3.8	3.7	3.2	3.2
Income-to-cost ratio before loan losses	1.9	2.2	2.2	2.0	2.0	2.0
Income-to-cost ratio after loan losses	1.8	2.0	1.8	1.7	1.5	1.2
Loan loss level, %	0.1	0.3	0.5	0.5	0.8	1.6
Nonperforming loans ratio, %	0.4	0.8	1.3	1.3	1.6	2.6
Risk-weighted amount, SEK bn	232.1	210.0	175.2	175.2	192.6	244.1
Capital base, SEK bn	25.8	24.7	25.3	25.3	26.4	23.6
Total capital ratio, %	11.1	11.8	14.4	14.4	13.7	9.7
Core capital ratio, %	7.1	7.4	9.7	9.7	8.0	5.5
Average number of employees	6,947	7,124	7,124	7,124	7,582	5,743
Number of full time equivalents, Dec. 31	6,254	6,291	6,465	6,465	6,631	7,422
Number of branch offices, Dec. 31	272	281	323	323	345	400
Dividend per share <sup>1)</sup>	1.50	9.50	7.50	7.50	4.65	2.75

1) The proposed dividend for 1997 pertains to Nordbanken Holding whereas earlier dividends pertain to Nordbanken AB.  
In the share exchange in 1997 owners were offered seven shares in Nordbanken Holding for each share in Nordbanken AB.

# Definitions and Glossary

**Adjusted shareholders' equity per share**

Shareholders' equity as shown in the balance sheet and the equity portion of the difference between market value and book value in holdings of financial instruments, divided by the number of shares outstanding at year-end.

**Capital base**

The capital base constitutes the numerator in calculating the total capital ratio. It consists of the sum of core capital (see separate definition) and supplementary capital (consisting of subordinated debenture loans), after deduction for unconsolidated ownership in excess of five percent in companies that conduct insurance or finance operations requiring a license issued by the Swedish Financial Supervisory Authority.

**Caps and floors**

Refers to contracts where the buyer of an cap or floor is compensated if and when the interest rate exceeds or is less than the level set in the contract.

**Core capital**

A part of the capital base (see separate definition). It consists of shareholders' equity, including the equity portion of untaxed reserves, reduced by goodwill.

**Core capital ratio**

Core capital as a percentage of risk-weighted amount.

**Credit scoring**

A statistical method for determining creditworthiness which takes into account the loan applicant's behavior and financial resources.

**Currency option**

A contract between the issuer of an option and a counterparty covering the right but not the obligation to exchange currencies at a set exchange rate at a future date. The buyer of the option pays a premium for the right to conduct the transaction.

**Direct yield per share**

Proposed dividend as a percentage of the market price of the shares at December 31.

**Duration**

The average weighted maturity of future payment flows expressed as the number of years.

**Forward transaction**

A contract to purchase or sell that is intended to be implemented on a predetermined future date at a price which is determined when the contract is made.

**FRA**

"Forward Rate Agreement." An agreement between two parties on a rate of interest on borrowing or lending transactions in the future; for example, a lending transaction covering six months and taking effect three months from the date of the agreement. The agreed rate is locked in at the beginning of the period and the difference between the agreed rate and actual market rate constitutes the resulting profit or loss.

**Income-to-cost ratio after loan losses**

Operating income in relation to operating costs, including loan losses.

**Income-to-cost ratio before loan losses**

Operating income in relation to operating costs.

**Interest-rate option**

A contract between a issuer of an option and a counterparty covering the right but not an obligation to buy or sell a bond at a predetermined price at a future date. The buyer of the option pays a premium for the right to conduct the transaction.

**Interest spread**

Difference between the average rate of interest on interest-bearing assets and the average rate of interest on interest-bearing liabilities.

**Interest-rate swap**

An agreement whereby two parties exchange interest-payment flows with each other without affecting the principal amount.

**Loan loss level**

Loan losses (including changes in the value of property taken over for protection of claims) as a percentage of loans to the public and to non-bank financial institutions, properties taken over and loan guarantees in the beginning of the year.

**Market value**

The price prevailing in a market, for example the price when buying or selling a bond at the current market interest rate.

**Net interest margin**

Net interest income as a percentage of average interest-bearing assets.

**Net profit per share**

Net profit divided by the number of shares at year-end.

**Nonperforming loans ratio**

Net nonperforming loans as a percentage of total loans to the public and to non-bank financial institutions.

**Off-balance-sheet items**

Obligations outside the balance sheet, e.g. interest-rate swaps, forward transactions, FRA's and options.

**Overall interest margin**

Net interest income as a percentage of average total assets.

**Price/Earnings (P/E) ratio**

The share price at December 31 relative to net profit per share.

**Repo**

"Repurchase Agreement." A financing arrangement involving a sale of securities linked with a future repurchase at a predetermined interest rate/price.

**Reserve ratio for nonperforming loans**

Reserve for possible loan losses as a percentage of gross nonperforming loans.

**Return on shareholders' equity**

Net profit as a percentage of average shareholders' equity. Average shareholders' equity is adjusted for new share issues and dividends, and includes minority interest in earnings.

**Return on total capital**

Pre-tax operating profit as a percentage of average total assets.

**Risk-weighted amount**

Total assets as shown in balance sheet and off-balance-sheet items valued on the basis of credit and market risks in accordance with Swedish regulations governing capital adequacy.

**Total capital ratio**

Capital base as a percentage of risk-weighted amount.

**VaR (Value-at-Risk)**

A risk measure for market risks. VaR is the most probable expected loss from unfavorable market movements over a specified time period.

## Report of the Directors

The terms "Norbanken" and "the Bank" are used throughout the Annual Report to designate the Nordbanken Group: Nordbanken AB (publ), with corporate registration no. 502010-5523, and subsidiaries.

# Markets

*The structural change in the Nordic financial market continued in 1997 with a number of mergers of various players.*

## ■ The Swedish economy

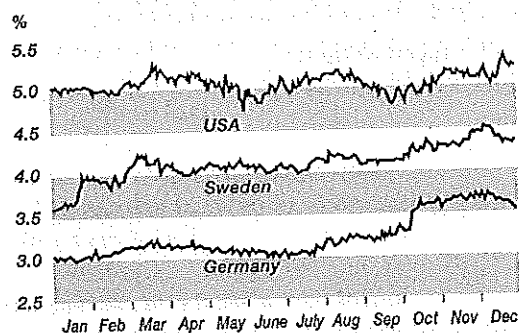
The socio-economic development in Sweden was relatively fragmented in 1997. On the one hand, the continuing decline in public-sector operations, the reduction of inventories and the low level of investing contributed to reducing growth in the economy. The rate of housing construction in 1997 is likely to be the lowest in this century. On the other hand, Swedish export companies were highly successful in a number of markets, not least in countries where there was a high rate of economic activity, such as the United States, Great Britain and our neighboring Nordic countries, but also in the rapidly growing markets outside the OECD area. Up to and including the third quarter exports rose very rapidly and, despite the negative effects of the Asian crisis toward the end of the year, double-digit increases in volume were recorded for the full year.

Private consumption also rose at a gradually more rapid rate during the year, parallel with increasingly optimistic expectations for the future. Rising prices of single-family homes and sharp upturns on both the Swedish and international stock exchanges in recent years have also resulted in a substantial increase in householders' disposable income. The overall savings ratio declined slightly and there were major

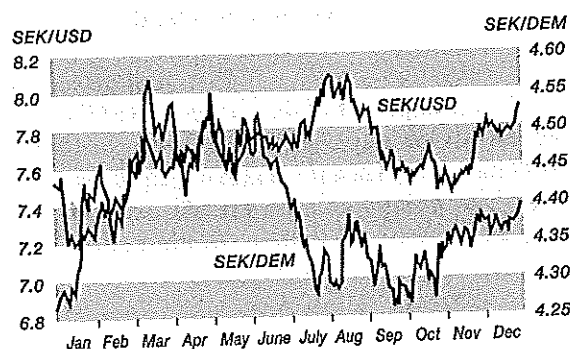
shifts in householders' savings—from bonds, National Public Savings and bank deposits to stocks, mutual funds and insurance savings plans. Along with their increased financial assets, householders also increased their borrowing where both mortgage loans and bank loans were involved.

Apart from a rebound in the beginning of the year, long-term bond interest rates continued to slide during the course of the year to levels that were low by Swedish standards, and the interest-rate differential

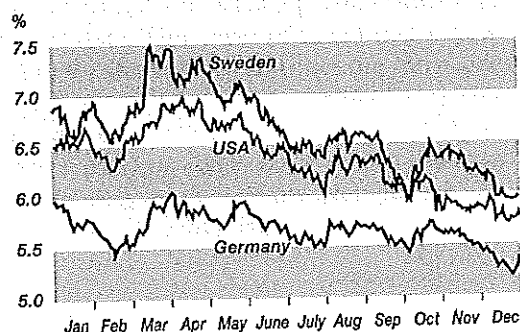
Short-term interest rates, 3-month Treasury bills



Exchange-rate trend



Bond rates, 10-year



relative to interest rates abroad shrank further. Householders' average interest costs for mortgage loans declined very sharply as older, high-rate loans were converted to mortgages with distinctly lower interest rates.

During the autumn the turmoil in the financial markets in connection with the Asian crisis was a dominant factor. Currencies, stocks and real estate properties in the Asian "crisis" countries quickly dropped in value, pulling with them stock exchange prices in large parts of the world. As a result, the exchange rate for the U.S. dollar, which had peaked during the late summer, rose again in November and December. A shift of investors away from stocks to

interest-bearing assets – which strengthened the decline in long-term interest rates at the end of the year – was another indirect effect of the Asian crisis. Where short-term rates in Europe were concerned, trends were characterized by the convergence of the potential EMU countries: lower rates in Italy, Spain and Portugal and higher rates in the DEM bloc in connection with the rate increase in Germany in October. In Sweden, the Central Bank did not implement the anticipated further decreases in the repo interest rate at the beginning of the year, but instead kept the rate at 4.10% until December, when it was raised to 4.35 %.

## ■ The Swedish finance market

Nordbanken is one of four commercial banks in Sweden with nationwide coverage, but it also competes with a number of local banks and with independent specialized firms such as finance companies, card companies, mortgage institutions and fundmanagement companies.

A number of niche banks owned by insurance companies, retail chains or other types of businesses have started operations in recent years.

Foreign banks are continuing to establish operations in the Swedish market but generally focus on special target groups, with an emphasis on corporate finance and stock and foreign exchange trading, for example. Other foreign financial corporations without formally established operations in Sweden are also competing for Swedish bank customers. This applies, in particular, to the sector of large corporations but also occurs in other areas such as fund management.

The demarcation between banking and insurance has become increasingly blurred in recent years. A consolidation to larger units is under way. The driving forces are the possibilities for cross-selling of

banking and insurance products, plus opportunities for cost synergies.

Competition is becoming more severe in all areas in which Nordbanken is active. To cope with this competition and maintain a high level of profitability, Nordbanken is attempting to do more business with existing customers. Customers who conduct most of their transactions through the Bank are generally more profitable than others. As a result, they can be offered better terms and service than customers who buy financial services from a number of institutions. Nordbanken has developed its own models for encouraging a full-service relationship. One objective is to apply equitable pricing that ensures that customers pay for the services they use.

Accessibility is also an important competitive factor in both the private and corporate markets. Access to the Bank should not be limited to hours when branch offices or post offices are open. Telephone services, automated teller machines (ATMs) and other automatic devices, credit and banking card services in shops, the Internet, direct links to customers'

Lending from Swedish financial institutions

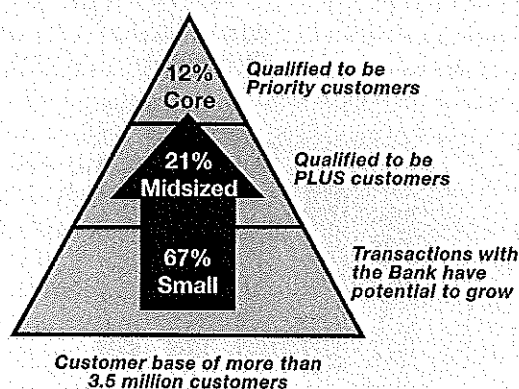
SEK Bn	1997 <sup>a</sup>	1996	1995	1994	1993
Banks <sup>1)</sup>	815	724	698	703	748
Finance companies <sup>1)</sup>	47	46	46	47	65
Mortgage institutions <sup>1)</sup>	1,016	1,016	989	972	984
Other financial institutions <sup>1)</sup>	111	106	99	101	104
Insurance companies and National Pensions Funds	53	51	64	62	64
Government credit Institutions	119	114	120	158	170
<b>Total</b>	<b>2,161</b>	<b>2,057</b>	<b>2,016</b>	<b>2,043</b>	<b>2,135</b>

<sup>1)</sup> Institutions in this category could be part of a bank group.

<sup>a</sup> September 30, 1997

Source: Statistics Sweden

Growth strategy, private market



personal computers and a number of other channels are helping to create increasingly greater accessibility.

### Private customers

Nordbanken's main competitors in the private customer area are the other Swedish commercial banks and local savings banks.

In the case of consumer-related loans, credit cards and deposits, Nordbanken has relatively stable market shares, despite competition from niche banks and finance companies in this field.

The mortgage subsidiaries of the other commercial banks are the major competitors in the mortgage market. Nordbanken's market share for private customers in this area is rising, and currently amounts to slightly more than 13%.

Nordbanken has more than 3.5 million private customers. Of this number, approximately 1.6 million have salary accounts and 0.6 million receive pension payments via accounts in the Bank. It is estimated that about half of these private customers have a deposit account in another bank and that half a million customers have mortgage loans provided by another bank or mortgage institution.

In order to increase the volume of business with its present customers, Nordbanken has developed two special "PLUS Customer" and "Priority Customer" packages. Customers who can use these product packages receive discounts on certain banking services. In addition, a Priority Customer also has access to a "Personal Banker" who gets to know his customers and their requirements, functioning as an adviser on investment and financial matters, and on routine legal problems. In all, there are more than 800 trained Personal Bankers in Nordbanken.

The number of Priority Customers increased by 137,000 to 499,000 during 1997. The new ones came primarily from the segment of PLUS Customers, who had been upgraded after they had broadened their relationship with Nordbanken.

With a view to improving profitability, the requirements for becoming Plus Customers and Priority Customers were tightened during the year. As a result, approximately 175,000 PLUS Customers who were no longer qualified were deregistered. Approximately 50,000 new PLUS customers were added during the year.

The significant change for PLUS customers was that the required volume of deposits and loans was increased to SEK 25,000. In the case of Priority Customers, the deposit requirement was increased from SEK 80,000 to SEK 125,000 per family.

A "home ownership" program launched in March 1997 helped to increase the number of Priority Customers. This program was directed to customers with own houses or with tenant-ownership rights and was designed to persuade them to transfer their mortgage loans to Nordbanken.

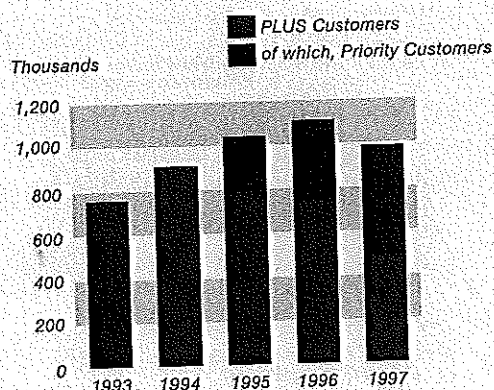
### Corporate market

Nordbanken's main competitors in the market for small and medium-sized companies are the other nationwide Swedish commercial banks. In the case of large companies and the public sector, competition is becoming increasingly global.

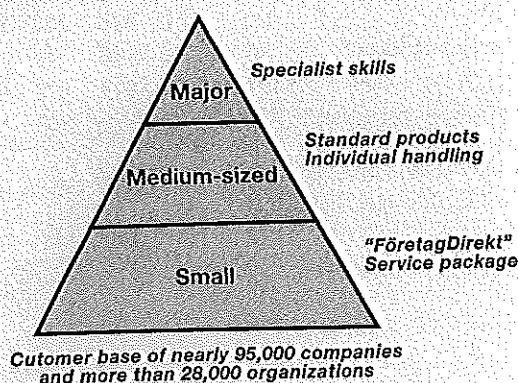
Today, Nordbanken's customer base includes nearly 95,000 small and medium-size companies, approximately 28,000 organizations, the greater part of Sweden's municipalities and county councils, and a number of selected large corporations. Nearly a quarter of all the small and medium-sized companies in Sweden are Nordbanken customers. In the public sector, Nordbanken's shares of the markets for lending and deposits are 19% and 29%, respectively.

These customers can be offered favorable terms and efficient service as a result of automation and packaging of products. Personal relationships with small and medium-size companies help to build closer customer relations. As a result, most corporate customers have a special banking contact at branch level.

Number of PLUS and Priority Customers



Growth strategy, corporate market



# Products

*Nordbanken offers a large number of products in such areas as Payments, Savings, and Financing. The Bank is a leader in Sweden in many product areas, in terms of both technological development and volume.*

## Payments

### ■ Payment products for private individuals

Nordbanken has a strong position in the segment involving payment transactions for private individuals. The Bank has one third of the total number of accounts of this type in the Swedish market. The most important payment flows to private individuals are wage and salary payments and pensions, and the Bank has had a strong position in this area for many years. As a result of these accounts, Nordbanken also has direct contacts with a large number of customers, which offers opportunities to develop additional banking transactions.

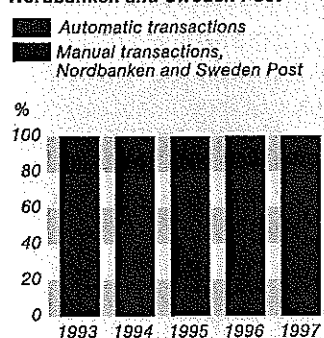
#### Increased automation

Nordbanken is making efforts to change the pattern of transactions from manual deposits and disbursements at branch offices and post offices to automatic withdrawals and payments, thereby offering customers better value in the form of improved access and convenience, while also reducing the Bank's costs.

Many customers have wage or salary accounts in Nordbanken but place their savings in another bank. Since it is reasonable to expect that customers who use costly services should pay for them, the Bank three years ago introduced special charges for checks and giro payments.

Further pricing adjustments have been implemented during the year. The NB Giro and Privatgiro products give Nordbanken a third of the payment services market for private individuals.

Manual and automatic transactions handled by Nordbanken and Sweden Post



NB Giro customers continue to receive a statement showing each post giro and bank giro transaction – the highest level of service in the industry.

#### Card products and ATMs

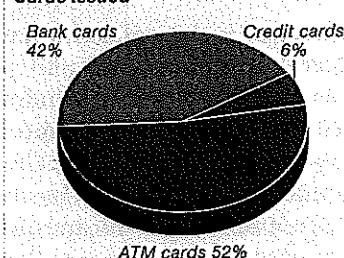
Nordbanken is one of the major issuers of cards in Sweden, and also measures up well by international standards. In all, the Bank has issued approximately 800,000 ATM cards, nearly 700,000 Bank cards and about 100,000 credit cards and charge cards to private individuals. Nordbanken issues both Master Cards and Visa Cards. All Bank cards, credit cards and charge cards issued by Nordbanken are linked to one of these systems. The number of Bank cards increased by more than 100,000 in 1997 and the number of card purchases also rose sharply.

The structural changes in the Swedish card market continued in 1997. Nordbanken took over the redemption of card transactions and the ledgers for credit cards and charge cards that had earlier been outsourced to Servo and Procord, respectively. The change resulted in cost reductions.

During the year Nordbanken, FöreningsSparbanken and S-E-Banken continued the introduction of the "Cash Card" in additional locations throughout Sweden. At year-end 1997 there were more than 6,000 Cash Terminals and more than 60,000 cards had been issued.

The program, which began in 1996, to replace old terminals with new ATM installations with much greater capacity continued during the year. This contributed to the

Cards Issued

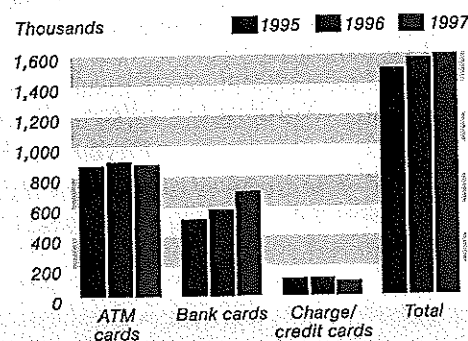


larger volume of withdrawals from Nordbanken's ATMs. The new machines will gradually be equipped with a voice function for the visually impaired.

### Travel currency

Demand for foreign currency notes remains stable, but sales of travelers' checks are declining in favor of increased use of cards. PLUS Customers and Priority Customers are offered discounted prices for foreign currency. Accessibility is excellent, since foreign currencies are stocked both by Nordbanken's branch offices and by 600 post offices.

**Trend of number of cards issued by Nordbanken, 1995-1997**



## ■ *Payment products for corporate customers*

The large Nordic banks' increased focus on the Nordic region as a domestic market represents an important strategic change. Most of the banks are making efforts to expand in other Nordic countries. As a result, the competition for customers in the Nordic banking market is becoming increasingly severe.

More and more banks are directing their efforts toward small and medium-size companies. The competition will be most difficult in the metropolitan regions that account for the greatest part of the corporate market. With the very rapid growth of the Internet, customers are making greater demands for the range of electronic banking services. Accessibility, user friendliness, security and support will play an important role in the continuing development of electronic banking services. Nordbanken is continuing to invest in cost-effective payment and information services via telephone and personal computers. During the year Nordbanken began the development of a new commercial system for corporate customers that will permit flexible product solutions and effective interaction between various cash-management services.

### New NB Axxess

NB Axxess is the collective name for Nordbanken's electronic information and payment products for companies. NB Axxess/Windows is a state-of-the-art product with solutions adapted to the needs of both large and small companies. Customers work in a local Windows environment in their own commercial systems and communicate via the Internet, which is regarded as a great asset in the market. By the end of

the year, following the first pilot introductions in the spring, the product had gained wide acceptance among both large and small companies. In all, 2,500 companies were linked to NB Axxess/Windows and the number of users is continuing to increase rapidly.

### FöretagDirekt - a product package for companies

FöretagDirekt is an example of a product package designed for a specific customer group. The service is designed primarily for companies with up to 20 employees.

For a "package price," customers are offered financing services, PC- or telephone-based services for payments and information, credit cards and payment services combined with custom-tailored banking advisory services.

FöretagDirekt is gradually being adapted to market requirements; during the year it became possible to be linked to NB Axxess at a reduced price. A third of the customers connected to FöretagDirekt use the Telephone Bank with a "smart card" reader or NB Axxess to make payments, etc.

### Preparations for introduction of the euro

One of the great challenges in the payments field is to develop products that will make it possible for the Bank's corporate customers to enjoy the benefits of the euro both inside and outside Sweden's borders. Within the framework of the development of a new commercial system, Nordbanken is making it possible to handle the interaction between the Swedish krona and the euro in a simple manner at the account level. Products are also being developed that will make it possible to handle the euro as an alternative to the

krona in connection with payments within Sweden if this involves a financial advantage for the Bank's customers.

The Bank's electronic products for payments via personal computers and telephone will play a key role in making it easier for the customers to handle the new currency.

### Wage and salary payments

Nordbanken is one of the large disburseurs of wages, salaries and pension payments in Sweden. The explicit objective is that customers who transmit payroll data should use electronic media or file transfers. The program of integrating customer data systems was intensified during the year.

Nordbanken has a "call-off" agreement with the National Audit Bureau (RRV), under which Nordbanken is exclusively entitled to supply administrative services (payment services and salary, wage and pension payments) to approximately 285 Government agencies. The agreement extends up to and including December 31, 1998, with RRV having an option to renew it. During the year, contacts were established with all Government agencies for the purpose of

concluding agreements pertaining to payments and other payment services.

Computer system support was strengthened during 1997 and the systems now provide better information on payroll disbursements and payroll accounts. The branch offices were thereby able to intensify their local marketing to wage and salary account customers for the purpose of making them PLUS Customers and Priority Customers.

### Foreign payments

As part of the Bank's efforts to increase the degree of self-service in payment transactions, it has been working with corporate customers to get them to make an increasing portion of their foreign payments electronically.

In April, Nordbanken became a member of the Euro Banking Association (EBA). The EBA will have a key role in the clearing of euro payments beginning January 1, 1999.

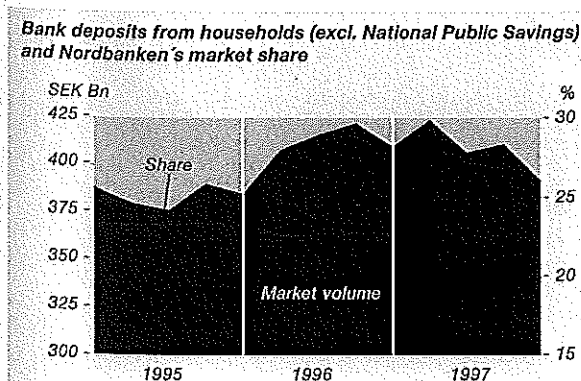
Nordbanken's application to be a clearing bank within the EBA was approved in December and the Bank thus will be involved in ECU-clearing together with 55 other leading banks that are active in Europe.

## Savings

### Savings by private individuals

#### Bank deposits

The growth in householders' bank deposits that occurred in 1996 turned to a small decrease in 1997, despite the fact that savings in retail bonds declined sharply. Underlying this trend were low interest rates, rising stock market prices during much of the year resulting in a shift from bank deposits to equity funds.



During 1997 the Bank also conducted a marketing program to encourage customers to increase their savings in mutual funds.

Nordbanken's share of the market for bank deposits declined by 0.3 percentage points in 1997. The competition for bank deposits came mainly from niche banks. The Bank continued to meet this competition with high interest rates on savings for customers in its telephone bank, Nordbanken Direkt.

Short-term market interest rates were largely unchanged during 1997, with the result that customer interest rates changed only marginally.

#### Mutual funds

Net savings in mutual funds in 1997 amounted to SEK 70.9 billion, an increase of SEK 55.4 billion compared with 1996. This was the result of low interest rates and increased interest in long-term savings, caused in part by uncertainty about future pension systems. Equity

**Household savings, SEK**  
December 31, 1997

	Total market SEK Bn	Nordbanken SEK Bn	%
Bank deposits	392	88	22.4
National Public Savings <sup>1)</sup>	32	7	21.9
Mutual funds	456	84	18.4
Retail bonds <sup>2)</sup>	103	10	9.7
<b>Total</b>	<b>983</b>	<b>189</b>	<b>19.2</b>

<sup>1)</sup> Total market volume as of November 30, 1997

<sup>2)</sup> Nominal amount

Source: Statistics Sweden, Svensk Fondstatistik AB and Bond Association

funds accounted for most of the increase. One out of every two Swedes is saving in some type of mutual fund. As a result in part of the strong trend in the stock market, total mutual fund assets increased by a full SEK 136.9 billion during the year. In terms of size, the value of total mutual fund savings thereby exceeded householders' bank deposits.

National Savings Funds are still the single most important product. Effective January 1, 1997, the tax on dividends and capital gains was raised to 30%, equal to the tax on other forms of savings. The National Savings Funds were then also made subject to essentially the same rules applying to other mutual funds. Despite the Swedish Parliament's decision to

eliminate the tax subsidy, National Savings Funds are still an attractive form of savings and are maintaining their position as the most important form of basic savings.

Nordbanken today has 18.4% of the Swedish fund market. Mixed funds, with total net savings of SEK 6.6 billion, accounted for more than half of the sales during the past year. Total net savings in Nordbanken's mutual funds amounted to SEK 11.6 billion and total mutual fund assets amounted to SEK 80.1 billion.

The number of monthly savers in Nordbanken funds increased substantially during the year.

There are currently 1.2 million fund accounts in Nordbanken and the potential for further expansion is deemed to be good, due to the large customer base and comprehensive distribution network, as well as the anticipated continuing long-term increase in householders' savings.

During the year efforts were made – in part by broadening the product line – to increase sales of mutual funds that require more advisory services. The Nordbanken Growth Company Fund and Nordbanken Latin America Fund were introduced during the year.

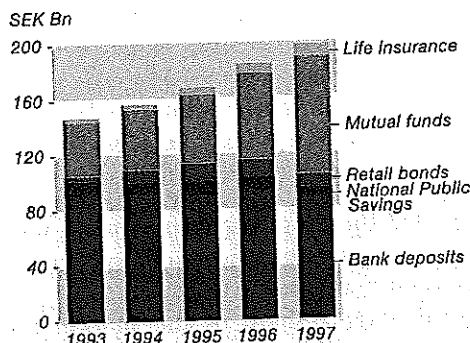
### Pension savings funds and life insurance

Nordbanken offers two forms of pension savings: individual pension savings plans (IPS) and pension insurance via its insurance company, Livförsäkringsaktiebolaget Livia. Customers are offered IPS in the form of deposit accounts, mutual funds or individual securities.

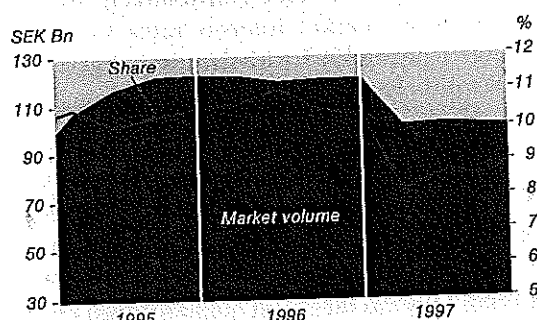
Pension savings via IPS started on January 1, 1994. At year-end 1997, Nordbanken had 55,200 pension savings accounts – approximately 10 % of the market – with a total volume of SEK 1,433 M.

Through its Livia subsidiary, Nordbanken offers pension insurance adapted to the needs of most customers. Livia provides simple and flexible insurance coverage which can also be combined with effective group life insurance with favorable survivor benefits.

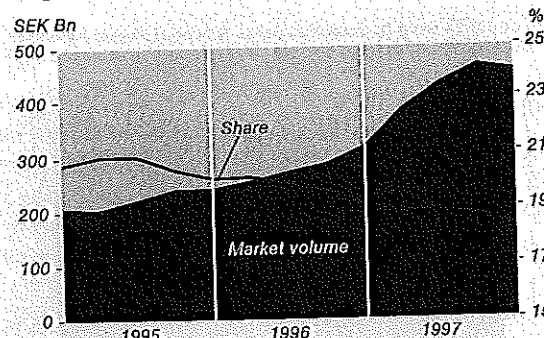
### Household savings in Nordbanken



### Retail bonds and Nordbanken's market share



### Savings in mutual funds and Nordbanken's market share



## Corporate investments

Deposits from companies, municipalities, associations and others consist in part of liquid funds used in their current operations and in part of investments of surplus cash for shorter or longer periods. The market is characterized by relatively large fluctuations in volume and substantial sensitivity to prices, pertaining mainly to fixed-term investments.

During 1997 there was an increase in total Swedish bank deposits by corporations and others. Deposits in Nordbanken, in contrast, declined during the year, mainly due to volatile volumes of business at relatively low margins, resulting in a smaller share of the market.

**Deposits from companies, in SEK and other currencies**  
September 30, 1997

	Total market SEK Bn	Nordbanken SEK Bn	%
Public sector	24	7	29.2
Companies	284	50	17.6
Foreign	171	1	0.1
<b>Total</b>	<b>479</b>	<b>58</b>	<b>12.1</b>

Source: Statistics Sweden

## Financing

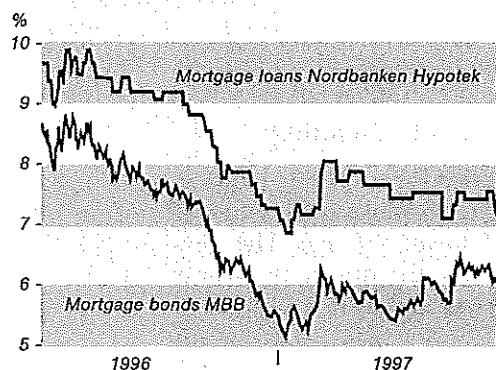
### Loans to private individuals

Nordbanken offers its customers a full range of loan products, for example for housing and the purchase of cars or other consumer durable goods.

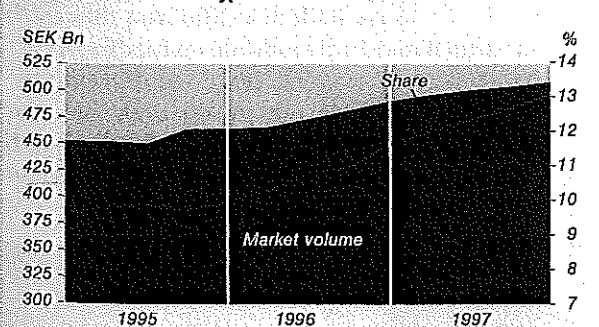
Demand for housing loans eased slightly in 1997. The market volume increased by 3.7%, compared with an increase of 5.6% in 1996.

Nordbanken further strengthened its position in this market and accounted for more than half of the growth in volume of mortgage loans during the year. The Bank's introduction of the Kloka Bolån ("Sensible Mortgage") program in the autumn of 1996 continued during 1997. Additional services have been added and the marketing was increased to include television advertising and telemarketing. Partly as a result of these activities, many customers who had all

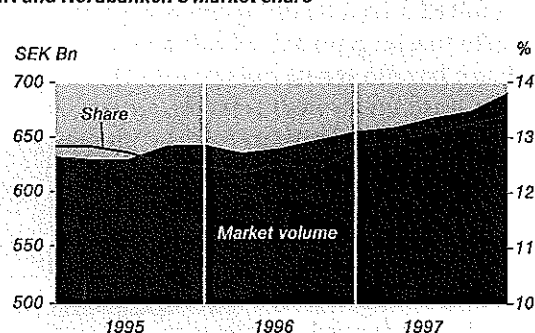
**Bond and mortgage interest rates**  
Five-years interest rates



**Lending to households (from mortgage institutions)**  
SEK and Nordbanken Hypotek's market share



**Lending to households (from banks and mortgage institutions)**  
SEK and Nordbanken's market share



or parts of their mortgages with other institutions have now decided to transfer them to Nordbanken. The Bank's PLUS Customer and Priority Customer concepts have contributed to this trend.

Total bank lending declined slightly in 1997, with the overall result that the market share for lending to households by banks and mortgage institutions increased from 12.9% to 13.4% during the year.

#### Lending to households, SEK

December 31, 1997

	Total market SEK Bn	Nordbanken SEK Bn	%
Banks	185	26	14.1
Mortgage institutions	508	67	13.2
<b>Total</b>	<b>693</b>	<b>93</b>	<b>13.4</b>

Source: Statistics Sweden and Central Bank of Sweden

## Corporate lending

An increase in household consumption, a high rate of activity in the export industry and stable interest rates contributed to a rising demand for loans.

#### Lending to corporate customers, SEK and other currencies

September 30, 1997

	Total market SEK Bn	Nordbanken SEK Bn	%
Public sector	69	13	18.8
Companies	989	149	15.1
Foreign	215	18	8.4
Leasing	48	6	12.5
<b>Total</b>	<b>1,321</b>	<b>186</b>	<b>14.1</b>

Source: Statistics Sweden

to be at a low level. Large volumes of mortgages in credit-market companies were restructured during the year and the Bank was successful both in holding existing volumes and obtaining new business. The low and stable rates favored the market and the level of activity rose. Competition was severe and margins were depressed.

#### Finance company products

Sales of the finance companies' products developed well. Local knowledge of customers, combined with a high degree of expertise in branch offices, yielded good results. The cooperation with companies that offer financing solutions for their customers continued to develop positively.

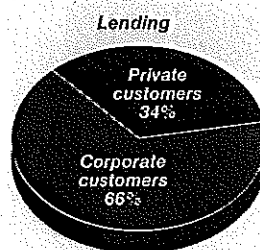
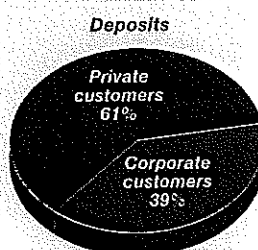
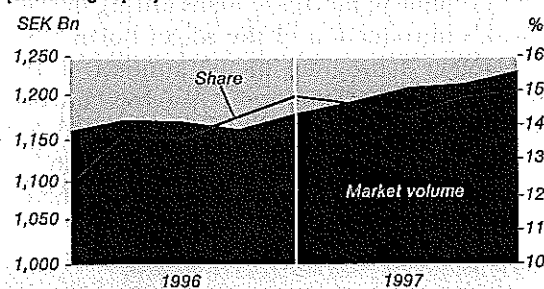
#### Strong trend of lending

The market for corporate lending, measured as total lending from banks and credit-market companies, increased during the year. The trend for Nordbanken was also positive during the year and its share of the market was slightly increased.

#### Real estate financing

Nordbanken finances a high percentage of Sweden's housing property. Housing construction continued

#### Lending to corporate customers in SEK and other currencies, (excluding repos) and Nordbanken's market share.



Distribution between Nordbanken's private and corporate customers.

# Distribution

*Nordbanken is Sweden's most accessible bank, with its own nationwide network of branch offices, Sweden Post's offices, the country's largest telephone bank, the Internet and other increasingly sophisticated forms of self-service.*

To offer superior service in close proximity to its customers, Nordbanken has several forms of distribution: branch offices that provide a full range of services to all customers; Sweden Post's offices, which increase accessibility, notably for private customers and the telephone bank, which can handle most banking transactions. ATMs and Bank cards provide additional self-service opportunities, improving the Bank's accessibility and the customer's freedom of choice. The volume of services offered via the Internet is increasing.

Nordbanken branch offices have total responsibility for profitability and customer relations in their geographical areas, regardless of which distribution form is used. This responsibility is intended to promote effective development of various customer services and optimal distribution for both customers and the Bank.

## Branch offices

As of December 31, 1997, Nordbanken's nationwide network of branch offices, comprised 272 branches. Branch offices provide all of the Group's products and services in their local markets and have principal responsibility for relations with all customers, except those handled by the Corporate Group and International units. Responsibilities of branch offices include promoting the use of Nordbanken Direkt's facilities and other forms of self-service by their customers. Every office comprises a separate profit center and has also responsibility for the development of its loan portfolio. The offices are also responsible for coordination of marketing programs and other activities with post offices in their areas.

Nordbanken monitors the branch office network continuously to obtain the most effective distribution possible. As a result, the total number of units is decreasing. But the objective is to be more accessible to clients and therefore new units are also being

opened. These branches will be located in stores and shopping centers with large customer flows and good parking facilities. Business hours will be adapted to the stores' schedules, including being open evenings and Saturdays and Sundays. The new units will serve private individuals exclusively.

The first office of this type was opened in Åhléns City in Stockholm, Sweden's largest department store that is visited by slightly more than 50,000 persons daily. Following the success in Åhléns, additional units are being planned in 1998.

## Post offices

Nordbanken has long had a comprehensive program of cooperation with Sweden Post. Post offices provide many of the Bank's products, including savings and salary accounts, pension savings products, loan processing, currency exchange services and other transactions for private individuals.

The Bank is responsible for all credit approvals and provides financing for the loans.

During 1997, the Bank's compensation to Sweden Post amounted to SEK 791 M for services rendered, including profit sharing.

Nordbanken is responsible for all Bank products marketed through Sweden Post under the "Nordbanken" and "Postbanken" brand names.

## Nordbanken Direkt

The Nordbanken Direkt telephone bank offers subscribers a full-service concept. Since it was started in 1990, Nordbanken Direkt has become Sweden's largest telephone bank, providing personal service 24 hours a day.

Nordbanken Direkt is an integral part of banking operations. Customers are always offered freedom of choice to select the most convenient form of service for their banking transactions. Nordbanken Direkt reduces the workload on branch offices, with resulting favorable effects on the levels of service and costs.

The accessibility of telephone bank services, combined with active concern for the customers, are creating long-term and profitable full-service customer relations. Customer surveys have shown that Nordbanken Direkt's subscribers are among the Bank's most satisfied customers.

**Nordbanken and Sweden Post, number of offices**

	1997	1996	1995	1994	1993
Branch offices	272	281	323	345	400
Post offices	1,075	1,177	1,290	1,341	1,473

Through applications of advanced technology, a high degree of self-service facilities and efficient processing of customer business transactions, Nordbanken Direkt is a highly cost-efficient supplier of financial services.

The number of customers amounted to 350,000, comprising approximately 330,000 private individuals and 20,000 companies. The latter group is offered FöretagDirekt, a package of services that enables corporate customers, using a "smart card" and scanner, to

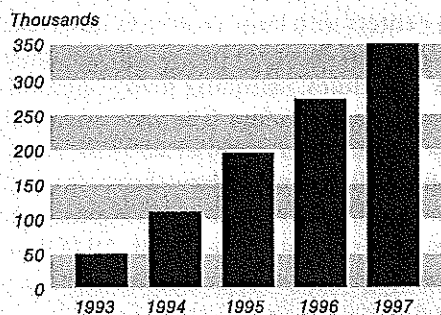
process several types of sophisticated transactions by telephone around the clock.

The Bank's objective for 1998 is to substantially increase the number of Nordbanken Direkt customers by further improving the level of services, through use of the Internet, among other means.

### Self-service

Nordbanken strives to provide its customers with ever-better access to self-service facilities. Nordbanken's customers have access to postal and bank giro payment services, for example. The Bank also owns 547 ATMs throughout Sweden. Through contracts with other commercial banks, customers have access to slightly more than 1,300 ATMs and, through an agreement with FöreningsSparbanken, to more than 1,000 "Minuten" ATMs. Approximately two-thirds of all cash withdrawals from salary and wage accounts are now made via ATMs. Self-service is convenient for the customers and efficient for the Bank since the service level can be increased and costs reduced.

Number of customers connected to Nordbanken Direkt



## ■ Nordbanken's cooperation with Sweden Post

Nordbanken has long had a joint venture with Sweden Post. The present agreement became effective April 1, 1996 and has a five-year notice-of-termination clause. However, during the period April 1 through September 30, 1999, Sweden Post may give notice of termination, to be effective March 31, 2001.

For Nordbanken, the agreement offers an opportunity to strengthen its market position despite increased competition. For Sweden Post, it offers the potential to improve financial results through increased sales. In addition it strengthens Sweden Post's ability to maintain nationwide service.

### Continued service for Nordbanken customers

Nordbanken customers may continue to make full use of all post offices and mail carriers to carry out transactions involving Nordbanken's regular line of products. Certain limited services are also offered via the "Postal service in stores" concept.

### Postbanken

Postbanken is registered as a trademark and operates as a secondary name of Nordbanken. Bank products are marketed under this trademark by both parties through a jointly owned marketing company.

The product range comprises simple, standardized and packaged products sold under the following names:

- Live* - for customer payment services
- Save* - for customer savings requirements
- Borrow* - for customer financial needs

The range includes all self-service products, such as giro services, Bank cards, Datasvar (a voice response service) and others. A telephone bank service is also available for simple bank transactions.

Postbanken was launched in October 1996 at all post offices in Sweden and, by year-end 1997 slightly more than 183,000 private individuals had become customers of Postbanken, making Postbanken one of the major brand names in the Swedish niche bank market.

### Compensation to Sweden Post

The compensation model for cooperation between Nordbanken and Sweden Post places a premium on profitable sales and customer service by introducing a profit sharing model for the product ranges of Nordbanken and Postbanken. The model also includes a clause whereby Sweden Post is responsible for operating the ATMs located at or near post offices and formerly managed on behalf of Nordbanken.

# Regional Banks and Corporate Group

*The regional banks are responsible for development of banking activities in their respective geographical areas. The Corporate Group conducts business operations with selected large corporations.*

*The Bank has 272 branch offices in Sweden, divided among five regional banks with managements in Sundsvall, Uppsala, Stockholm, Gothenburg and Malmö.*

## Northern Sweden Regional Bank

The operating area of Northern Sweden Regional Bank extends from Gävle in the south to Kiruna in the north and covers 58% of Sweden's land area. The region comprises 54 municipalities, five county councils, 60,000 companies and 1.2 million inhabitants. Commerce and industry and the population base are developing at a modest rate. The corporate structure is characterized by a few large companies and many small ones that often are dependent on the large ones or active in trading and service. Compared with the rest of Sweden, the Norrland area is underrepresented in the medium-size-company category.

Nordbanken has business relationships with most of the municipalities, all the county councils and 20,000 companies. Half a million private individuals, or nearly one out of two persons in Norrland, has some form of customer relationship with the Bank. The growth market is located mainly in Norrland's coastal area and in a few inland areas. Nordbanken is well established in these areas and has relatively large offices. Accessibility to the Bank – through 35 branch

offices and 300 post offices – is high. Sweden Post is an important partner in providing good banking service in sparsely populated areas, among other locations.

The volumes of lending in both the private and corporate sector developed well during the year. There was initially strong growth in savings in mutual funds, but this leveled off toward the end of the year. The growth in fund savings has occurred in part at the expense of bank deposits with a low rate of interest.

Technological development and the great geographical distances in the region are factors motivating increased utilization of self-service products. Sales of such products have been strong for many years.

During 1997 the larger branch offices were linked to a regional teleservice unit. This has relieved the burden on office personnel, who were then able to develop their customer relationships.

The training of employees in the offices' Customer Service program has resulted in a distinct increase in sales.

## Central Sweden Regional Bank

The area covered by Central Sweden Regional Bank extends across the country, from Dalsland in the west to Gotland in the east, and borders on Dalarna to the north and Östergötland to the south. The region comprises 87 municipalities with 2.2 million inhabitants and approximately 100,000 companies. The provincial capitals, as well as Norrköping and Eskilstuna, account for nearly 50 percent of the region's total market.

The Bank is highly accessible through 67 of its own offices and 270 post offices. During the year many new customers were connected with Nordbanken Direkt and Företag Direkt, and this is reflected in a higher degree of customer satisfaction. The Regional bank experienced good growth in mortgage lending and long-term loans to the corporate and municipal sector. Sales of mutual funds were very strong during the year.

The trend toward an increasingly customer oriented method of working in the branch offices continued during the year. Purely advisory offices have been established in a number of locations. Manual transactions were reduced and the number of customer advisory projects and customer calls increased according to plan.

About 40% of the region's inhabitants have a customer relationship with Nordbanken. The corporate market is dominated by small and medium-size companies, a sector in which Nordbanken advanced its position in 1997. The Bank has customer relationships with 31,000 companies in the region. Nordbanken's strong position in the municipal sector is reflected in its customer relationships with 64 of the 87 municipalities.

## Stockholm Regional Bank

Stockholm Regional Bank comprises Stockholm County with the exception of Norrtälje municipality. Slightly more than 1.7 million persons live in the region and there are approximately 150,000 companies and 24 municipalities.

Nordbanken occupies a strong position in this market, with nearly one million private customers and a 40% share of the market for salary account customers. The regional bank has business relationships with 28,000 companies in the corporate market.

Lending was up sharply in both the corporate and householder market. The number of customers increased, notably in the corporate sector, and relations with a number of large customers were strengthened, resulting in substantial new transactions. Bank

deposits were sluggish but, as a result of the solid growth in mutual fund savings, total savings increased sharply.

There are 52 branch offices with an average of 16 employees in the region. The organizational structure of the offices is nonhierarchical; three sales units – Customer Service, Personal Banker and Customer Relations – cultivate different customer segments. As a result of such self-service products as Nordbanken Direkt and FöretagDirekt, as well as close cooperation with Sweden Post, the Bank is in a strong position in terms of accessibility and efficiency.

The various distribution channels will be utilized even more actively in order to meet customers' needs in the best possible manner, and to ensure the Bank's continuing strong position in the market.

## Western Sweden Regional Bank

The Western Sweden Regional Bank comprises the newly formed Västra Götaland County and Halland County. There are 55 municipalities and four county councils in the region. The population amounts to approximately 1.7 million persons and there are about 95,000 companies.

Western Sweden's industry and commerce are dominated by manufacturing, real estate and construction companies as well as by trading and transport. The region depends heavily on foreign trade and the economy in Western Sweden has turned upward as the European economy has improved. The strongest trends are in the industries producing transportation equipment and machinery. The trend of the Bank's business during the year was favorable in both the

corporate and private markets, with the strongest growth in mutual fund savings and housing financing.

Nordbanken occupies a strong position, with large shares of the market in southern Halland, Skaraborg and the Gothenburg area. The Bank has slightly more than 650,000 private customers and 24,000 corporate customers. With 63 branch offices, the Nordbanken Direkt telephone bank, plus the cooperation with Sweden Post's 140 offices, it is easy for customers to use the Bank's services. The establishment of joint facilities with Sweden Post to rationalize operations has been carried out successfully in a number of locations. The trend toward spending more time with customers and less on manual transactions continued at a rapid rate during the year.

## Southern Sweden Regional Bank

The Southern Sweden Regional Bank covers Skåne, Blekinge, Småland and the island of Öland. There are five counties with 71 municipalities in the region in which approximately two million people live. There are nearly 150,000 companies, of which about 1,400 have more than 50 employees. The Bank has just under 600,000 private customers and about 18,000 corporate customers.

The economy in Southern Sweden is dominated by companies that are active in agriculture and forestry, food processing, trading, the engineering industry, woodworking industry and transportation. Skåne is Sweden's most important agricultural county. Jönköping is the country's most industrialized county.

Hopes for greater growth in the southernmost part of Sweden are associated to a high degree with the linking of Malmö and Copenhagen via the Öresund Bridge.

The branch office network was reduced by one unit during the year and now amounts to 52 offices. Sweden Post has continued to implement its "Postal service in stores" concept, with the result that customers' accessibility to the Bank is still high. Many customers became subscribers to Nordbanken Direkt during the year.

The volume of lending in the regional bank rose substantially, with the corporate sector being primarily responsible for the increase. Demand for Nordbanken Finans' products continued to be high. The pri-

vate sector sought mainly loans for housing purposes, a field in which the region continued to show good growth.

The program to develop the existing customer base and create additional customer benefits continued during the year and will be pursued.

## Corporate Group

The Corporate Group deals with the special requirements large corporations impose on their banks. Its operations in 1997 were conducted through departments in Stockholm, Gothenburg and Malmö. The unit is responsible for customer relations with approximately 90 large corporate customers, and the Bank's shipping customers.

Corporate Group operations are conducted in market groups, each of which focuses on a particular industrial sector to meet demands for special expertise. It also includes groups for so-called structured financing (Special Financing), which concentrate on financ-

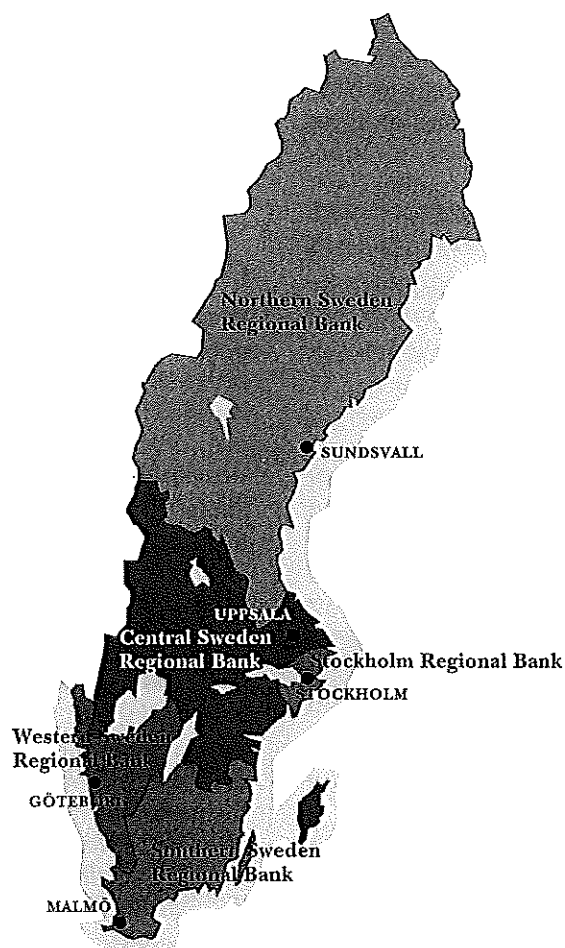
ing of infrastructure projects, primarily in the energy sector, where the unit is the market leader.

Working in cooperation with the Bank's specialists in cash management, securities, trading, international services, other specialized bank services and Nordbanken's IT technicians, the Corporate Group forms customer teams to meet the specific needs of individual customers.

Lending, including long-term commitments and guarantees, amounted to approximately SEK 75 billion. Particularly strong business growth was noted during 1997 in the energy, IT and shipping sectors.

Regional bank	Northern Sweden	Central Sweden	Stockholm	Western Sweden	Southern Sweden	Corporate Group	Total
Number of branch offices	35	67	52	63	52	3	272
Lending, SEK Bn	32	45	68	42	38	48	273
Deposits, SEK Bn	18	30	44	24	19	6	141
Employees (Number of positions)	580	901	894	908	625	91	3,999

Data as of December 31, 1997



# Other Operating Units

*These are specialized units that have a certain amount of responsibility for customer relations and operating results within their business areas.*

## Trading

The Trading unit conducts trading and offers advisory and financial services related to foreign exchange, fixed-income and capital markets. Operations in 1997 were divided into four major business areas: foreign exchange trading, money market trading, derivatives trading and capital markets (issues of interest-bearing securities).

In addition to providing customers with its products and services, Trading also takes positions in the fixed-income and foreign exchange markets within the framework of special risk mandates.

Trading' operations are conducted through a central unit in Stockholm with 100 employees and trading units in the five regional banks that have a total of 50 persons. The regional units provide marketing support to the branch offices within each regional bank. The central unit serves institutional customers and Corporate Group customers and manages Trading's own positions.

The competition continues to be strong in all of Trading's operating segments. Margins and commissions are being depressed as a result of the introduction of new information-handling and trading technologies—the Internet as one example—and by increasingly globalized trading. Advisory services and product specialization are being much more important competitive tools within both fixed-income and foreign exchange trading as well as capital market operations.

### Foreign exchange trading

Nordbanken specializes in trading in the Scandinavian currencies as well as in the U.S. dollar versus the German mark. Currency options trading is one area of

specialization that has assumed a more prominent role in the Bank's foreign exchange trading.

### Money market trading

Money market trading pertains to fixed-income securities issued by the Swedish Government and mortgage institutions and by the Bank's corporate customers. The money market group is also responsible for trading in Forward Rate Agreements (FRAs), Repurchase Agreements (repos) and currency forwards.

### Derivatives trading

As part of its product specialization, Nordbanken has created a separate unit to handle interest-rate derivatives. Typical products include interest-rate swaps, caps and floors, and interest-rate options. This is a product area that has gained in importance in traditional banking operations. The Bank has held a strong position in the Swedish interest-rate derivatives market in recent years.

### Capital markets

During 1997 the Bank strengthened its operations pertaining to issues of fixed-income securities. It was active for Swedish borrowers in a large number of issues. The issues involved mainly traditional bonds, commercial papers, Medium-Term Notes (MTN) and structured loans. The loans were handled as public loans and as private placements within the Nordic market.

## Nordbanken Equities

The primary objective of Nordbanken's equity operations is to meet the service needs of customers of the branch offices.

During 1997 Nordbanken Equities continued to expand its brokerage and analyst operations. It also participated in a number of stock market introduc-

tions of small and medium-size companies. The influx of new customers has been very good. The institutional equity operations, which are located in Stockholm, focus on Swedish institutional investors and on a small number of foreign customers.

Nordbanken's presence as one of the major

players participating in customer-driven trading on the Stockholm Stock Exchange was strengthened significantly during the year. The Bank's investment

in a system for placing orders for shares by means of a pushbutton telephone yielded results and the number of orders rose substantially.

## Corporate Finance

Nordbanken Corporate Finance serves small and medium-size companies and offers qualified advisory services related to the market for risk capital. The unit conducts risk-capital procurement operations, issues of shares and related instruments, ownership spreads,

stock market listings and consulting services in connection with acquisitions and mergers. Nordbanken Corporate Finance continued to expand and consolidate its market position during 1997.

## International

### Focus

Many of the Bank's commercial customers conduct business operations outside Sweden. Export and import activities are increasing, creating greater transaction volumes and, accordingly, a growing need for other financial services. A very significant part of International operations are conducted satisfactorily by the Bank's traditional customer service organization in Sweden, with the support of regional and central specialist units. This structure provides a basis for the focus of Nordbanken's international activities.

In certain cases, there is also a need for more local expertise, and Nordbanken has established specific forms of cooperation.

Customers are offered a broad range of products via the regular customer-service organization, supported by specialists in the International, Payments, Treasury and Trading units.

### International presence

Nordbanken has an international network of correspondent banks that offers cooperation with 2,500 banks and other financial institutions that help to implement customer transactions.

Close cooperation has also been established with local banks in ten major markets to provide customers with local expertise.

To facilitate customer contacts, Nordbanken also has representative offices and agents in 14 countries to serve Swedish industry in key export markets.

### Commercial financing

Commercial financing is a special unit responsible for development, market support and production of services to promote export and import operations of the Bank's corporate customers. Its operations are conducted through departments in Stockholm, Gothen-

burg and Malmö. A special department serves large export companies.

Nordbanken has a strong position in commercial financing, with higher market shares than the Bank's share of the corporate market.

### Foreign markets

The Foreign Markets unit is responsible for coordination of Nordbanken's cooperation and business transactions with banks and financial institutions outside Sweden. The unit works mainly from Sweden, but operations are also conducted from some of the most attractive markets for Swedish foreign trade. The latter operations are carried out through the Bank's local representative offices and agents.

### International corporate services – bank services outside Sweden

Nordbanken's customers also need local bank services in countries where they conduct business operations. Services may include so-called collection accounts for export payments, normal business accounts, operating credit and other forms of financing and guarantees.

Nordbanken offers local bank services through its correspondent banks in all parts of the world. In some of the most important markets in the European Union – Germany and France – the Bank has established representative offices in its correspondent banks, Vereinsbank Group and Crédit du Nord. Nordbanken also has special cooperation arrangements in other countries that are important for Swedish industry and commerce.

### Inter-Alpha Group

Nordbanken is a member of the Inter-Alpha Group of Banks. The Group consists, in principle, of a leading bank from each of the European Union countries.

# Product and Service Units

*Nordbanken's Product and Service units are responsible –  
via the branch offices – for providing customers with competitive products,  
and for making services available to other Group units.  
Certain units have direct responsibility for relations with external customers.*

## Nordbanken Finans AB (publ)

Nordbanken Finans is responsible for finance company products within the Group. The products are marketed mainly through the Bank's branch office network and via suppliers and retailers who offer financing in connection with their sales. The company's principal products are leasing, hire-purchase loans, factoring, contract financing and credit cards. Nordbanken Finans had 212 employees at year-end 1997.

Most of the traditional finance company agreements are handled by branch office personnel with support from Nordbanken Finans. In contrast, the company's own market organization works more independently in handling agreements on supplier

cooperation, in the financing of primarily major investments such as railway cars, aircraft, telecommunications equipment and ships, and in agreements regarding selective credit cards for stores and retail chains.

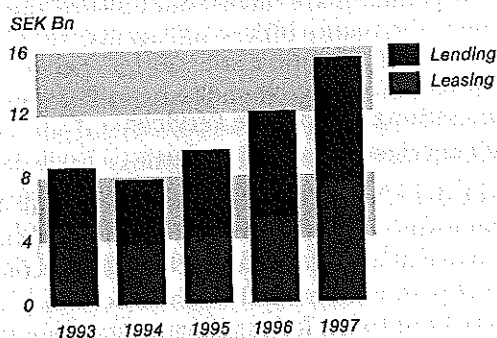
Nordbanken Finans is one of the leading finance companies in the Swedish market and the largest of those owned by banks. During 1997 it achieved an increase of 29% in volume. The growth was attributable primarily to continuing strong sales through the branch offices but Nordbanken Finans' Special Financing Department has also contributed good sales results for a number of years. Since Special Financing's agreements extend over long periods, they contribute substantially to the growth in volume. The focus on cooperation with suppliers began to yield results during the year, notably in the field of car dealerships.

A new charge card system is being placed in operation during the early part of 1998. Nordbanken Finans has also strengthened the marketing organization for cards by hiring additional personnel.

The company's operations are financed in part through borrowing in the open market, mainly through a commercial paper program, and in part by Nordbanken.

At year-end 1997 Nordbanken Finans had total assets of SEK 17 billion. The company's operating profit in 1997 was SEK 248 M.

**Nordbanken Finans, lending and leasing portfolio**



## Nordbanken Hypotek AB (publ)

Nordbanken Hypotek is a mortgage company that offers long-term loans for the financing of properties and tenant-owners' right for up to 75 or 60% of market value, respectively. The company's operations also include lending to municipalities and to private companies with guarantees provided by municipalities.

The company's products are marketed through Nordbanken's branch office network.

The favorable trend of business continued during 1997. Nordbanken Hypotek's share of the total market for lending from mortgage institutions rose by 1.4 percentage points, to 11.6%. In the segment per-

taining to mortgage loans to householders, the company's market share rose to 13.2%.

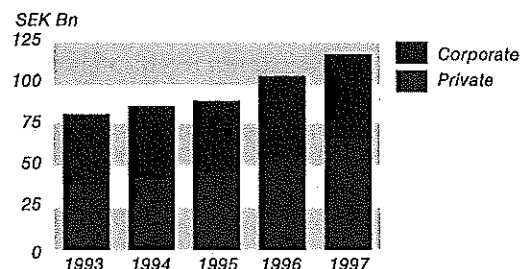
Lending by Nordbanken Hypotek increased during the year by SEK 13 billion, amounting at year-end to SEK 117 billion. Of the company's total volume of lending, 74% consisted of lending against collateral in residential property. Lending to municipalities – against municipal or national government guarantees – accounted for 23%, and other lending for 3%.

Borrowing is mainly through bond issues and commercial paper programs.

The company had 52 employees at year-end.

Operating profit amounted to SEK 1,093 M.

Nordbanken Hypotek lending



### Nordbanken Kommunlån AB (publ)

Nordbanken Kommunlån is a credit-market company that provides medium- and long-term loans exclusively to municipalities, county councils and legal entities backed by municipal guarantees. The company was formed in 1994 to establish a high degree of credit-worthiness, with resulting low financing costs, in order to deal with increasing stiffer competition for loans to municipalities. Operations began in 1995. To maintain its high credit rating, Nordbanken Kommunlån requires that its borrowers have stable finances and also make a deposit with the company. Nordbanken Kommunlån is the only company of this type in Sweden.

The company's high credit rating was confirmed in 1997 when Moody's, the rating institution, gave Nordbanken Kommunlån's EMTN program a long-term rating of Aa3 and a short-term rating of P-1. The company's long-term rating was thus higher than the parent company's.

Marketing is carried out primarily by the network of branch offices, with the necessary business support being provided by the company.

At year-end 1997 Nordbanken Kommunlån's loans outstanding amounted to slightly more than SEK 7 billion. Its operating profit for the year was SEK 15 M.

### AB Industrikredit (publ)

Industrikredit is a credit-market company that offers long-term loans in the corporate sector, excluding the financing of residential properties. Operations are focused mainly on small and medium-size companies. The loans normally finance the acquisition of buildings and equipment.

Industrikredit was acquired in the beginning of 1996, bringing the Nordbanken Group approximately 4,000 new customers. In 1997 responsibility for these customers was transferred to the respective Nordbanken offices, giving the customers access to the Bank's total line of products and services.

During the past year, as part of Nordbanken's focus on the agricultural sector, Industrikredit began to build up a qualified support organization in this area.

Industrikredit's financing takes place partly in the open market, through a commercial paper program, and in part through Nordbanken.

Industrikredit developed favorably during 1997. Lending increased, amounting year-end to SEK 20 billion, an increase by SEK 2 billion compared with 1996. The operating profit in 1997 amounted to SEK 285 M. The company had 52 employees at year-end.

### Nordbanken Kapitalförvaltning AB (publ)

Nordbanken Kapitalförvaltning is one of Sweden's largest asset managers. Operations consist of the management of mutual funds and investment portfolios.

The company had 79 employees in the end of 1997.

Householders' fund savings rose very substantially during the year. As a result of this trend, combined

with the favorable trend of stock exchange prices, total mutual fund assets exceeded householders' bank deposits for the first time. Nordbanken Kapitalförvaltning manages 35 funds. These include seven National Savings Funds, as well as ten Swedish-based and four Luxembourg-based equity funds. The others are money market funds, Swedish and foreign bond funds, and mixed funds of various types. The Nordbanken and Sweden Post office networks are of great strategic importance in connection with marketing of the funds.

At year-end 1997, Nordbanken Kapitalförvaltning had slightly more than SEK 110 billion in assets under management for more than a million private

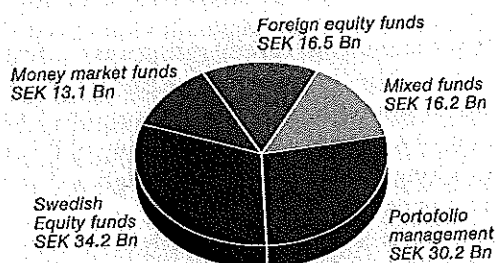
and institutional investors, an increase of SEK 26 billion, or 30%, during the year. Net deposits accounted for SEK 14 billion of the increase, with the remainder, SEK 12 billion, being attributable to higher values.

In all, SEK 80 billion was managed in various mutual funds, an increase of SEK 21 billion, or 36%.

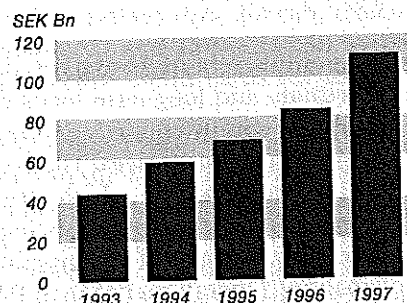
Portfolio management, of the so-called discretionary type, involves management of individual customers' securities. The customers are mainly corporations and institutions.

Discretionary management comprised assets totaling SEK 30 billion, an increase of SEK 5 billion, or 20%.

**Nordbanken Kapitalförvaltning**  
Assets under management, December 31, 1997



**Nordbanken Kapitalförvaltning**  
Assets under management



## Livförsäkringsaktiebolaget LIVIA (publ)

Nordbanken's wholly owned Livia subsidiary provides life and pension insurance programs.

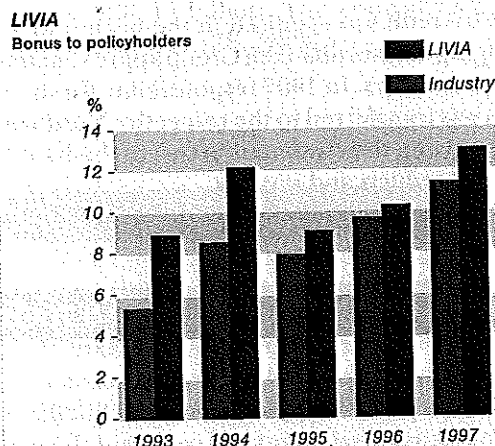
Livia's products are sold through Nordbanken's distribution network. Livia also launched its services on the Internet in 1997. Livia's products are characterized by their simplicity and cost-effectiveness, which is reflected in low operating costs. Nordbanken Kapitalförvaltning manages the company's investment assets on the basis of a market-level fee. Nordbanken's branch offices receive commissions for policies sold.

During the past few years, the tax rules for pension insurance programs have become less advantageous. As a result, the share of pension insurance programs in the total pension-savings market decreased. In 1997, in contrast, the market share for endowment insurance programs continued to grow substantially. Livia has increased its share of the market for private pension insurance, but it has lost ground in the total market for pension savings since it does not sell endowment insurance programs.

At year-end 1997, Livia had 254,000 policyholders. Livia was able to give its policyholders one of the high-

est bonuses in 1997 and since September 1 the highest bonus, 15%, in the market for new policies.

Any surplus earnings in Livia accrue to the policyholders in the form of bonuses, and thus cannot be disposed of by the parent company. As a result, the company is not consolidated in Nordbanken's accounts.

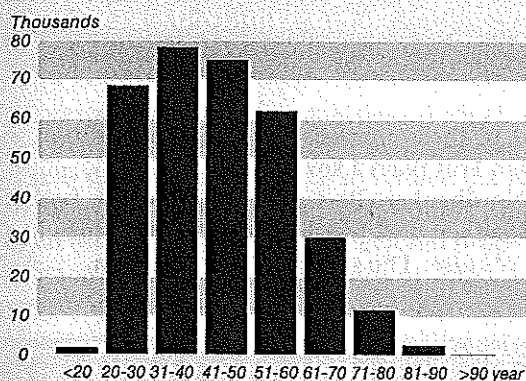


## Nordbanken Direkt

During the 1990s a large percentage of customers have chosen to use the telephone and Nordbanken Direkt in their contacts with the Bank. Recently, personal computers and the Internet have become increasingly common tools. Nordbanken Direkt is the unit that developed and produced the greater part of Nordbanken's systems for telephone and Internet service. Nordbanken Direkt contributes greatly to increasing the Bank's accessibility.

The Nordbanken telephone bank was established in 1990. It is the leading telephone bank in Sweden

**Nordbanken Direkt, age structure, private customers**  
December 31, 1997



offering personal service around the clock. Through Nordbanken Direkt, private customers are offered a full-service concept; nearly all of the customer's banking needs can be handled by the telephone bank. Since 1996, telephone bank customers have also had a range of services via the Internet.

The telephone bank is open daily throughout the year, has 80 employees, and is based in Uppsala. During 1997 the number of private customers increased by 80,000, to approximately 330,000 at the end of the year. The high rate of growth is expected to continue.

Specific services for private business owners are provided in Nordbanken FöretagDirekt, a "corporate concept." The telephone service that is part of the concept is available daily between 7:00 a.m. and 11:00 p.m. handled by ten employees located in Gothen-

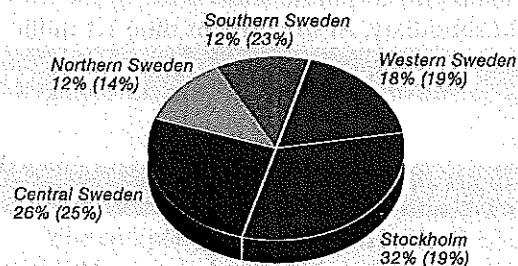
burg. The number of corporate subscribers increased by 3,000, to 20,000, during the year.

For customers who are particularly active in securities trading, a telephone-based service – Nordbanken Värdepapper Direkt – is available. The customer can place orders "manually" via personal service or "punch in" an order on a pushbutton telephone with the aid of telephone answering technology. The service attracted a great deal of attention and grew rapidly during the year. The number of customers increased by 10,000, to more than 14,000. This strong growth is also expected to continue.

Nordbanken Internet was introduced for private customers during the year. Customers of the telephone bank had earlier been able to make a choice of bank services via the Internet. With Nordbanken's new Internet pages, the number of services has been greatly increased and it is, among other things, possible to make payments. Nordbanken's security system which employs a "smart card" and a card reader is a solution that makes the Bank a leader in the use of modern technology for secure Internet communications.

Nordbanken Direkt reduces the workload of the branch offices, which has a positive effect on service and costs. Customers have full freedom to choose the channel by which they wish to conduct their business. In 1997 Nordbanken Direkt, Nordbanken FöretagDirekt and Nordbanken Värdepapper Direkt processed 9.1 million telephone calls, of which 700,000 were handled with personal service.

**Nordbanken Direkt, distribution of customers by region**  
(region's percentage of Sweden's population)



## Securities and Foreign Exchange Administration

Securities and Foreign Exchange Administration is responsible for the backoffice handling and custody of capital market products, such as equities, bonds, money market instruments and foreign exchange, as well as for handling the Bank's cash management

including Central Bank clearing. The unit is also responsible for the management of certain products, including retail bonds, in the Savings product area.

The Custody Department, which manages the custody of securities and the handling of settlements

of securities transactions, focuses on service to both Swedish and international customers. At year-end 1997 the Custody Department had custody of assets amounting to approximately SEK 250 billion.

A separate group that markets accounting and other administrative services to foundations was established in 1997.

The Issues Department was responsible for the administrative aspects of the exchange of Nordbanken shares for Nordbanken Holding shares, and for handling the shares sold by the Swedish Government in connection with this transaction.

The Securities and Foreign Exchange Administration unit has 104 employees.

## Computer Systems

The Computer Systems unit is responsible for ensuring – by means of coordinated strategy, development and production – that the Group's computer support is of the highest quality competitively and in terms of cost. The unit supports the business operations.

The unit has 532 employees and also retains a number of external consultants.

The development of the computer operations is described in greater detail in the section on "Information Technology" on page 41.

## Nordbanken Post

The Nordbanken Post unit is responsible for Nordbanken's cooperation with Sweden Post and for monitoring the agreements in effect with Sweden Post.

The unit's task is to ensure that the Bank's market positions, competitiveness and profitability are deve-

loped in those markets in which cooperation with Sweden Post plays a key role.

Nordbanken Post is responsible for both the Nordbanken and Sweden Post brand names in the joint venture. The unit has five employees.

## Nordbanken Furunäset

Nordbanken Furunäset is a Group service unit. It consists of three departments: Central Vault, "Medlemslåneservice" (Member Loan Service) and Employee Loans.

Nordbanken Furunäset performs a central vault service for all loan files relating to Nordbanken's private loans and corporate loans made by the Industri kredit subsidiary. At the present time 1.1 million files are being managed and stored. During the year there were 1.2 million transactions involving the

insertion and withdrawal of files in the vault. The processing is based on modern data technology

"Medlemslåneservice" is responsible for meeting customers' loan requirements through simple procedures – quickly, in a cost-effective manner and with quality service. During 1997 the unit handled 41,900 loan applications.

Nordbanken Furunäset also handles all loans to employees within Nordbanken.

The unit has 110 employees.

## Nordbanken Fastigheter AB

Nordbanken Fastigheter owns and manages buildings used in the Bank's operations. The composition of the company's real-estate holdings is determined by the Bank's need for buildings for its operations in various locations in Sweden.

Changes in the Bank's operations cause restructuring of the real estate portfolio and the renovation of existing buildings, and this affected the activities of Nordbanken Fastigheter to a great extent in both 1996 and 1997.

During 1997 the company sold 15 properties for a total of SEK 179 M, realizing a capital gain of SEK 42 M.

Renovation operations during the year were sub-

stantial. The renovation of the Bank's head office building on Hamngatan in Stockholm continued, as did the renovation of the building on the corner of Mäster Samuelsgatan and Regeringsgatan. A new business galleria was inaugurated on the ground floor of the latter building in November and Nordbanken units gradually moved into offices on the floors above as they were completed during the year. In Malmö, a new branch office on Södergatan was completed and inaugurated, and the comprehensive rebuilding of the branch office in Vängåvan in Sundsvall was completed. Investments in rebuilding projects amounted to SEK 265 M, in addition to which income was

charged with SEK 93 M for regular maintenance. Net operating income for the year was affected negatively by the abnormally high maintenance costs. The direct yield on the company's properties amounted to 6.4%. A long-term average maintenance charge of SEK 120 per square meter corresponds to an adjusted direct yield of 7.3%.

The company's occupancy rate improved slightly during the year, from 94.3% to 94.6%.

Nordbanken Fastigheter also manages properties owned by the Nordbanken pension fund, Livia and Fastighets AB Stämjärnet. At year-end 1997, including its own buildings, the company was managing a total of 182 properties, with rentable space of 483,756 square meters.

**Nordbanken Fastigheter AB**  
December 31, 1997

Rentable space, m <sup>2</sup>	266,092
of which, external tenants	106,797
• Offices, %	58
• Stores, %	21
• Residential, %	7
• Other, %	14
Rented space, m <sup>2</sup>	251,599
Occupancy rate, %	95
Rental revenue, SEK M	372
of which, from external tenants	92
Direct yield, %	6.4
Book value <sup>1)</sup> , SEK M	3,059
Estimated market value, SEK M	4,390
Tax value, SEK M	1,844

<sup>1)</sup> Book value in Group balance sheet SEK 2,844 M.

### Fastighets AB Stämjärnet

The company takes over properties on which mortgages have been foreclosed and manages, develops and sells them. The purpose is to reduce the Bank's loan losses to a level lower than they would have been with an immediate sale of the foreclosed property.

Stämjärnet began operations in 1993 and is currently scaled down following a buildup of activities that continued until midyear 1996. During 1997 Stämjärnet sold 70 properties for a total of SEK 525 M, resulting in a capital gain of SEK 48 M. In addition, contracts covering the sale of properties valued at SEK 64 M, with the new owners scheduled to take possession in 1998, were signed during the year. The remaining holdings in Sweden are expected to be liquidated during 1998.

The company's occupancy ratio rose from 79.6%

to 81.1% during the year. The company has no employees; it is managed by Nordbanken Fastigheter AB, a sister company.

**Fastighets AB Stämjärnet**  
December 31, 1997

Rentable space, m <sup>2</sup>	168,387	Rental revenue, SEK M	126
of which,		of which,	
outside Sweden	24,278	outside Sweden	26
• Offices, %	37	Direct yield, %	4.9
• Stores, %	16	Book value, SEK M	853
• Residential, %	20	of which,	
• Other, %	27	outside Sweden	267
Rented space, m <sup>2</sup>	136,560	Estimated market	
of which,		value, SEK M	856
outside Sweden	13,207	of which, outside Sweden	269
Occupancy rate, %	81	Tax value	
of which, outside Sweden	52	In Sweden, SEK M	439

### Nordbanken Inkasso AB (publ)

Nordbanken Inkasso, a Nordbanken Group service company, is responsible for handling the formal collection process for the Group's operating units as cost-effectively as possible.

The company manages all forms of nonperforming loans and overdrawn accounts.

The company, whose office is in Gothenburg, has 15 employees.

Nordbanken Large subsidiaries (SEK M)	Total assets	Loans to the public	Shareholders' equity	Operating profit	No. of full-time positions
Nordbanken Finans	17,198	15,453	2,449	248	212
Nordbanken Hypotek	119,015	117,092	4,760	1,093	52
Nordbanken Kommunlån	7,610	7,234	107	15	2
Industrikredit	21,116	19,129	2,276	285	52
Nordbanken Kapitalförvaltning	304	—	82	94	79
Livförsäkringsaktiebolaget LIVIA	8,758	—	80	191	23
Nordbanken Fastigheter	3,926	—	1,800	- 30	48
Fastighets AB Stämjärnet	1,059	—	128	- 17	— <sup>1)</sup>

<sup>1)</sup> Operations coordinated with Nordbanken Fastigheter.

The above subsidiaries publish their own annual reports which can be ordered from each company or from Nordbanken, Group Staff Information.

# Closely Related Company

## Nordisk Renting AB (publ)

Nordbanken owns shares in Nordisk Renting AB corresponding to 5% of the voting rights and nearly 20% of the share capital and intends to remain a long-term owner. Nordbanken can also ensure a stable ownership structure through options on the company's other shares. The ownership is being restructured in early 1998, in part with Merita Bank as a new owner.

Financing of and cooperation with Nordisk Renting enables Nordbanken to offer customers capital for strategic real estate investments.

Nordisk Renting's business concept is based on acquiring the properties of privately owned companies, municipalities and other public sector organizations, thus enabling them to increase their liquid capital. The properties, which are then owned by a number of Nordisk Renting subsidiaries, are leased back via long-term contracts, often in combination with the right to buy back the property at a later date on terms agreed in advance.

Nordisk Renting's tenants and business partners are mainly major corporations and municipalities which, combined, account for 90% of the revenues.

Contracted rents produce a direct yield that fully

covers capital costs and depreciation. Contracted rents are currently generating a positive cash flow of more than SEK 300 M on an annual basis. The number of employees amounted to 27 at year-end 1997.

Together with the National Pension Fund Boards (1-3), Nordisk Renting is an equal owner of Svenskt Fastighetskapital AB, which combines property acquisitions with long-term leasing in the public sector. The National Pension Fund is the primary financier. Nordisk Renting is responsible for management and administration of the properties. At year-end 1997, Svenskt Fastighetskapital owned properties valued at SEK 5 billion.

SEK M	1997	1996
Revenues	1,582	1,508
Operating profit	267	137
Shareholders' equity	828 <sup>1)</sup>	778
Total assets	11,577	12,311
<i>1) After dividend during the year of SEK 200 M</i>		

# Personnel

*Continuing investments in new technology for both administrative and customer-related systems are making it possible to devote more time to active selling and customer relations. The need for employees handling routine operations is decreasing. This trend will continue and will affect the number of employees in the Bank.*

At year-end 1997, Nordbanken had 7,354 employees, of whom 4,336 were women and 3,018 were men. This number was the equivalent of 6,254 full-time employees, compared with 6,291 a year earlier.

Project New Start, which was begun in 1996, was completed during 1997. Of the 272 employees who began various activities, 253 have obtained new jobs, have started their own businesses or have otherwise gotten a new start in working life.

According to the original plan prepared in 1995, the number of full-time jobs would have decreased by approximately 600, to 5,860, at the end of 1997. Instead, the Bank had 6,254 positions, with the difference being due in part to the acquisition of Industri-kredit. In addition, the redemption and issuance of cards are now being handled by a department within Nordbanken. Earlier, these tasks had been handled by contractors. In addition, the growth in number of customers of Nordbanken Direkt has required more employees. Moreover, the Bank's preparations of computer systems to the EMU and the year 2000 have intensified, resulting in a larger number of employees.

## Skills development

Two important and comprehensive efforts to strengthen Nordbanken's basic orientation, corporate culture and business operations were made during the year.

A strategic program was carried out for the purpose of documenting the role of employees, their skills, orientation and objectives in order to integrate the continuing development of expertise and growth in business. The program was also designed to make clear the individual's responsibility for his or her development.

The second project deals with performance in customer relationships and consists of a CD-ROM-based program that is carried out in the workplace. "Meet the customer" is an interactive program that illustrates the relationships the Bank has with its customers.

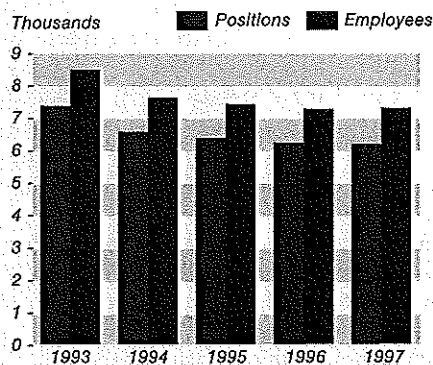
In addition, 4,345 employees began the internal information technology training that is scheduled to be completed during 1998. All employees are linked via the Internet to an internal server for information,

tests, exchanges of experience, etc. The training is designed to provide the expertise equivalent to that required for the European Computer Driver's License (ECDL).

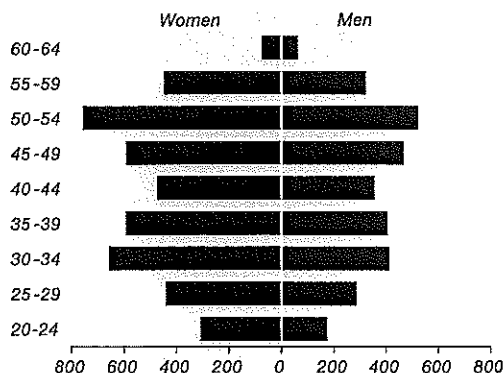
During 1997 another 40 Personal Bankers were graduated after having participated in a training program extending over a six-month period. As a result, the Bank now has nearly 850 Personal Bankers. Another 100 employees began the program during the autumn.

The continuing programs to upgrade lending skills continued according to plan and approximately 850 employees took part in training related to both the private and corporate sectors.

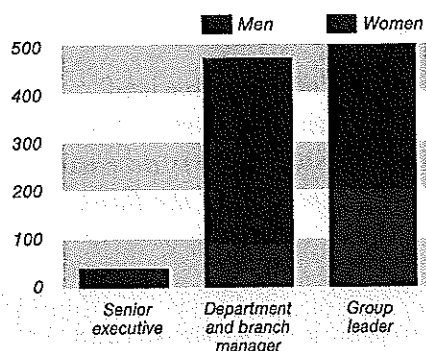
Numbers of full-time positions and employees in Nordbanken  
December 31 each year



Distribution of Nordbanken employees, by age groups  
December 31, 1997



**Managers in Nordbanken – distribution of men and women**  
December 31, 1997



A program to promote expertise in selling and knowledge of the Bank's products was carried out for service personnel in all of the regional banks. The objective is to improve service and financial advice available to private customers in particular.

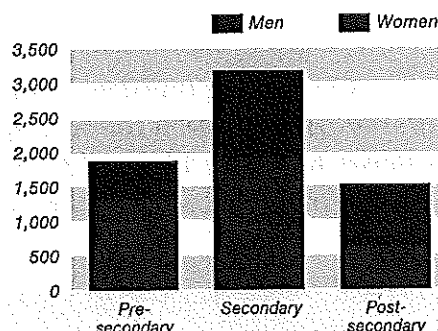
Improved advisory service, more customer contacts and better relations with small and medium-size companies are objectives of the program in which customer relations personnel in the corporate sector participated.

### Profit-sharing foundation

A decision by Nordbanken's owners at the 1992 Annual General Meeting enabled employees to become part-owners of the Bank via a profit-sharing foundation.

An allocation is made to the foundation in years when the return on shareholders' equity exceeds a target which is established for each year by the Board of Directors. These funds are used to purchase Nordbanken shares. Employee participations in the foundation

**Nordbanken employee level of education**  
December 31, 1997



Executive development and the development of employees' careers are a priority area within Nordbanken. They consist of systematic evaluation of performance, estimates of future potentials and work-related training programs. Career planning for managerial candidates, a special career program for women and career planning for experienced managers are designed to produce greater managerial "mobility" and increased competition for senior positions when they become vacant.

dation are funded for periods of at least five years. The first appropriation to the profit-sharing foundation was made in the accounts for 1994. The sum of SEK 117 M, equivalent to approximately SEK 18,150 per full-time employee before deduction of wage tax, was appropriated for 1997. At year-end 1997, the Foundation held 15,619,800 Nordbanken Holding shares, equal to approximately 1.2% of the total outstanding. The value of these shares was SEK 701 M.

# Information Technology

*Nordbanken's computer operations have special strategic importance for its level of service, accessibility and cost-effectiveness. In today's competitive market, with large elements of information technology in products and services, there is a demand for accessibility to systems 24 hours a day, seven days a week. Increasing amounts of information also have to be transmitted between employees, which in turn leads to demands for more powerful personal computers.*

## Increased capacity

The information technology field was characterized in 1997 by an increase in computer-support capacity, the development of new products and the major tasks of adapting systems to handle data in the year 2000 and the planned new euro currency.

The capacity of the Bank's central data facility and communications network has been increased and approximately 4,000 personal computers purchased in 1992 have been replaced with modern machines with Pentium processors. Installation work for the replacement of 300 old Automatic Teller Machines was begun at the end of the year; the new machines will provide faster ATM service and increased service for the visually impaired.

## New, improved system

A new system for handling the issuance and redemption of card transaction in Nordbanken has been placed in service. These operations were earlier assigned to contractors.

Routines and models for "data mining" have been developed. These make it possible, by processing large quantities of data, to analyze patterns in customers' use of the Bank's services. The project will provide valuable support for marketing.

The Internet has become an important distribution channel; a new service package containing information on Nordbanken's services and customer transactions with the Bank has been introduced. It enables Internet users to purchase Bank services, settle accounts, transfer funds, etc. The security system in the Internet service is based on the use of a "smart card" for secure identification of the customer.

The intranet – an internal Internet with e-mail – has been placed in service. The first large application involved making the Bank's instructions available in the network.

The work of adapting systems to handle transactions in the year 2000 as well as the launching of the EMU is proceeding according to plan. The organization to handle these tasks was built up during the year, plans were developed, and the work of adaptation was intensified.

# The Environment

*While bank operations are not generally associated with environmental impact, Nordbanken believes that consistent long-term programs to increase environmental awareness will lead to both environmental gains and cost-savings.*

General awareness of the significance of environmental issues has increased sharply in recent years. Growing numbers of persons have appreciated that both private individuals and corporations must adapt to a long-term sustainable program to protect and improve the environment. Even in the case of banks, a carefully developed environmental profile has begun to be a competitive factor, and one that is important for their commercial success.

## Total concept

During 1996, the Bank formulated its "Guidelines for Nordbanken's Environmental Work" to establish more integrated environmental management in the Group. The document, which sets forth the Bank's ambitions in the environmental area, is intended to serve as a point of departure for local environmental improvement measures. During 1997 most of Nordbanken's employees participated in an educational program to improve their knowledge of environmental issues. In addition to strengthening general knowledge of connections and conditions in the environmental area, the program documented environmental aspects of each workplace. In the planning program for each workplace the results of this documentation have been used in making decisions on improvements that will affect energy consumption, purchasing decisions, waste handling and transports.

## Low risk for future demands

Active environmental work should be based on the commitment of all employees, on customer demands and on the Bank's financial growth as well as laws and regulations governing environmental concerns. Within this framework, it is only natural for Nordbanken to accept responsibility for the environmental impact of its operations. Nordbanken should act in such a manner that the Bank has little or no risk of being exposed to future demands arising from the environmental impact of its operations. Environmental responsibility should be reflected in the management of resources and the manner of handling energy. It should also involve consideration for environmental concerns when developing new services and products to be offered customers.

## Environmental risk evaluation for loans

Where corporate lending is concerned, environmental risks may play a greater role in the borrowers' ability to repay. For this reason, environmental risk evaluations must be included in the loan process and be incorporated in Nordbanken's loan policy in a constructive manner. A checklist for evaluating environmental risks was prepared in 1997 and included in the routines for credit approval.

# Economic and Monetary Union (EMU)

*Developments during 1997 indicate that a common currency, the euro, will be introduced on schedule on January 1, 1999 and that as many as eleven*

*European Union countries may participate from the start.*

*The Swedish Parliament decided in December 1997 that Sweden*

*will not participate from the inception of the EMU.*

*Intensive preparatory work for the euro is under way within Nordbanken.*

The third phase in the European Union's Economic and Monetary Union (EMU) will start, as planned, on January 1, 1999. On that date the currencies of the countries that are participating in the EMU from its inception will be replaced by a common currency, the euro.

The likelihood that many EU members will participate from the start increased in 1997 since the efforts of member countries to meet the criteria for membership have yielded results. It is now estimated that as many as eleven countries will join from the start. Only Great Britain, Denmark, Greece and Sweden are certain to stay outside of the currency union when it comes into effect.

The heads of state and governments in EU countries will decide in May 1998 which countries are to participate in the currency union from the start. The European Central Bank, which will be responsible for monetary policy for the euro, will be established prior to July 1, 1998. Not later than January 1, 1999, the exchange rates between the currencies of the participating countries and the euro will be "locked" irrevocably. During a transition period comprising the years 1999-2001 the euro and the national currencies of the participating countries can be used in parallel. Bills and coins denominated in euro will be introduced January 1, 2002. The transition to the euro will then be complete in the countries that have been part of the EMU from the start.

## The euro in Sweden

In December 1997 the Parliament (Riksdag) decided that Sweden will not participate in the currency union from the start. The greatest possible freedom of action for a later Swedish entry is to be preserved. Possible later participation in the currency union is to be preceded by submitting the issue to the Swedish electorate.

Although Sweden will not be participating in the

EMU from its inception, the euro will be highly important. If the currency union is formed with eleven members – Germany, France, the Benelux countries, Austria, Finland, Ireland, Spain, Portugal and Italy – approximately 40% of Sweden's exports will be going to countries that have the euro as their currency, and about 50% of Sweden's imports will be coming from those countries.

The Swedish Central Bank will arrange for domestic clearing of payments in euro and the Stockholm Stock Exchange is planning for trading of the most active Swedish stocks in euro. The euro will have a separate position among foreign currencies in the Swedish financial system.

## Nordbanken's preparations

Preparations for the euro have been under way in Nordbanken since 1996. This work was intensified in 1997. It is based on the assumption that the pricing of a number of products will be demanded in euro, despite Sweden not being a member of the EMU in the beginning. Comprehensive information-technology preparations for the euro are being made in the Bank. In a number of cases, these measures also mean that the Bank's general ability to manage foreign currencies is being improved. Some preparations that are part of the Bank's euro project were completed during 1997.

Internal information and training programs dealing with the EMU and the euro were begun during the year, together with information for Nordbanken's customers. These activities will be stepped up substantially during 1998.

The sum of SEK 120 M was allocated in the 1996 accounts for the Bank's preparations for the currency union – for approved and contracted information technology projects. This amount was estimated to represent a minimum cost level up to the end of 1998.

# Profit and Profitability

*Return on equity still at high level.*

## Return on equity: 26%

Net result from financial transactions was down substantially during 1997 compared with a year earlier, which was characterized by sharply falling interest rates with a resulting upturn in bond rates. Net interest income also developed somewhat weaker, which was partially offset by a significant increase in net commission income and continued declining loan losses. Operating costs rose somewhat after the year-earlier decline. In total, *operating profit* for 1997 declined by 19%, to SEK 6,029 M.

*Net profit for the year* amounted to SEK 4,862 M (5,375), corresponding to a return on average equity of 26.0% (27.8).

## Profits strongly linked to interest rates

Limited credit demand in recent years has resulted in a substantial surplus of liquidity invested in interest-bearing securities. Consequently, operating profit has become more volatile since changes in market interest rates affect the value of bond holdings. The impact of price changes on holdings classified as current assets is reported within net result from financial operations. During 1996, market rates declined mostly continually during the entire year. This provided the external conditions that contributed to net result from financial operations nearly doubling to SEK 1,427 M during the year.

The situation in 1997 was different. The year opened with an interest rate increase, which was partly neutralized during the second quarter. The trend in the third and fourth quarters was fragmented, with a continued decline in long-term bond rates, while the two-year rate rose.

Financial operations in the first quarter resulted in a loss of SEK 128 M, while a profit of SEK 163 M was posted in the second quarter, mainly due to a positive trend for the bond portfolio within financial current assets. The SEK 174 M gain in the third quarter was largely a result of realized share gains, but bond performance was also positive, despite rising interest rates in certain term segments. In the fourth quarter, however, the continued hikes in the two-year rate impacted on earnings performance. The loss in that quarter was SEK 172 million, whereby net result from financial operations for the year was limited to SEK 37 M, compared with SEK 1,427 M a year earlier.

## Income

Total operating income declined 11%, due mainly to the sharp fall in net result from financial operations. *Net interest income* declined 8% to SEK 9,835 M, despite average total assets being 10% higher than a year earlier. Moreover, net interest income was affected positively by early debt extinguishment during 1996. Margins stabilized in 1997 after a considerable weakening in 1996. Credit demand rose toward the end of 1997, but the competitive situation was intense and the volume increases could not fully offset the lower margins. Net interest income was also affected adversely by the repayment of shareholders' equity of SEK 5 billion which occurred in conjunction with the share redemption in October 1996 and by the increased fee for the government deposit guarantee, which nearly doubled to SEK 440 M.

*Net commission income* rose 19% compared with a year earlier. Commission income was up 15% due mainly to sharp growth in mutual fund savings. Commissions from equity trading and payment transfers also contributed to the increase. Commission expense was unchanged.

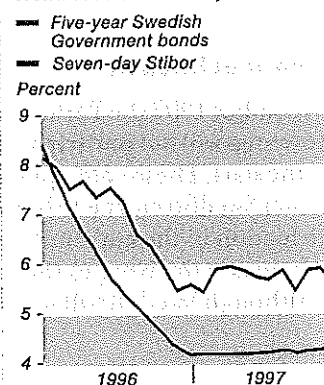
*Net result from financial operations* amounted to the aforementioned SEK 37 M (1,427). Realized and unrealized gains and losses on interest-bearing financial current assets netted at a loss of SEK 292 M (gain: 1,740), while equity-related assets yielded a profit of SEK 144 M (-). Foreign exchange gains amounted to SEK 202 M, compared with SEK 282 M a year earlier. The costs for debt extinguishment – which arises mainly through the purchase of subsidiary bonds – was limited to SEK 17 M (595).

*Other income* rose 34% due to higher share dividends, including a dividend of SEK 200 M from Nordisk Renting.

## Costs

Operating costs amounted to SEK 6,905 M, up 2%. *Personnel costs* increased by 3% to SEK 2,937 M. Increased remuneration levels resulted in a 2.5% increase in salaries and fees.

**Trend of interest rates, 1996-1997**

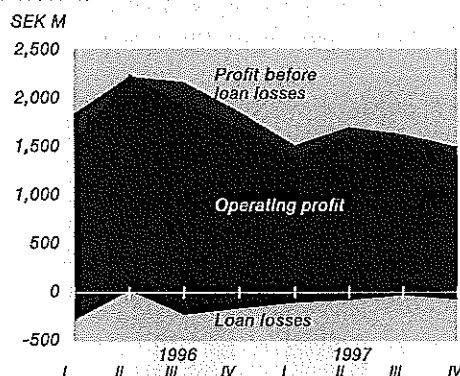


Nordbanken/Condensed income statement SEK M			Change percent	4th Q 1997	3rd Q 1997	2nd Q 1997	1st Q 1997
Net interest income	9,835	10,655	- 8	2,445	2,466	2,431	2,493
Net commission income	2,607	2,188	19	746	641	667	553
Net result from financial operations	Note 1 37	1,427	- 97	- 172	174	163	-128
Other operating income	758	565	34	386	43	161	168
<b>Total operating income</b>	<b>13,237</b>	<b>14,835</b>	<b>- 11</b>	<b>3,405</b>	<b>3,324</b>	<b>3,422</b>	<b>3,086</b>
Personnel costs	- 2,937	- 2,846	3	- 772	-727	-730	-708
Other operating costs	- 3,968	- 3,906	2	- 1,137	-971	-994	-866
<b>Total operating costs</b>	<b>- 6,905</b>	<b>- 6,752</b>	<b>2</b>	<b>- 1,909</b>	<b>-1,698</b>	<b>-1,724</b>	<b>-1,574</b>
<b>Profit before loan losses</b>	<b>6,332</b>	<b>8,083</b>	<b>- 22</b>	<b>1,496</b>	<b>1,626</b>	<b>1,698</b>	<b>1,512</b>
Loan losses <sup>1)</sup>	- 303	-651	- 53	- 78	-31	-84	-110
<b>Operating profit</b>	<b>6,029</b>	<b>7,432</b>	<b>- 19</b>	<b>1,418</b>	<b>1,595</b>	<b>1,614</b>	<b>1,402</b>
Pension adjustment	155	- 172		58	34	107	-44
Taxes <sup>2)</sup>	-1,322	- 1,885	- 30	- 316	- 348	- 368	- 290
<b>Net profit for the period</b>	<b>4,862</b>	<b>5,375</b>	<b>- 10</b>	<b>1,160</b>	<b>1,281</b>	<b>1,353</b>	<b>1,068</b>
<b>Note 1</b>							
<b>Net result from financial operations</b>							
Debt extinguishment	-17	- 595		-	-	-5	-12
Other realized gains/losses	730	858		33	184	113	400
Unrealized gains/losses	- 878	882		- 249	-73	12	-568
Foreign exchange gains/losses	202	282		44	63	43	52
	37	1,427		- 172	174	163	-128

<sup>1)</sup> Including changes in value of property taken over for protection of claims.

<sup>2)</sup> Taxes per quarter have been adjusted to reflect actual tax for the full year.

#### Trend of results



The number of full-time employees declined during the course of the year by slightly less than 1% and overtime also declined somewhat. The rise in *Other costs* was related mainly to increased investments in the IT field and higher marketing costs, particularly in the fourth quarter.

#### Loan losses

Loan losses declined 53% to SEK 303 M. Excluding value changes in property taken over to protect claims (SEK 11 M, net), the total of incurred losses, net, plus provisions for possible losses fell 21% to SEK 1,475 M. Concurrently, recoveries and reversals of provisions declined 4% covering 79% of the losses compared with 65% a year earlier.

Net loan losses in the private individual sector amounted to SEK 151 M, of which SEK 17 M pertained to losses in mortgage loans. The comparable figures for 1996 were SEK 328 M and SEK 78 M, respectively.

Net losses in the corporate sector amounted to SEK 152 M (323). The Transport and Trading & service industries accounted for SEK 104 M and SEK 121 M, respectively, of the losses, while the outcome for the remainder of the corporate sector was a net covey of SEK 73 M.

#### Pension adjustment and taxes

There has been a substantial increase in the assets of the Bank's pension fund in recent years. Accordingly, during 1997 the Bank received a contribution from the fund to cover costs for pensions paid and insurance premiums. The contribution amounted to SEK 274 M, net, after minor provisions from subsidiaries. Thereafter, the surplus in the pension fund amounted to SEK 1,656 M.

As a result of the contribution, the pension adjustment amounted to a surplus of SEK 155 M (deficit: 172). Profit before taxes amounted to SEK 6,184 M (7,260) and the tax expense was SEK 1,322 M (1,885), corresponding to a tax rate of 21.4%. The relatively low level is due primarily to certain real estate holdings being restructured during the year whereby tax loss carryforwards were released. Net profit for the year was SEK 4,862 M (5,375).

# Financial Structure

## Focus and levels of risk

At December 31, 1997, Nordbanken's assets amounted to SEK 414 billion, of which SEK 289 billion, or 70%, pertained to loans.

Of the total lending, 55%, or SEK 159 billion, consisted largely of long-term loans made via subsidiaries. Most of this lending is financed through borrowing in the open market, mainly in the form of bonds and commercial paper. The borrowing is structured in such a way that it matches lending in terms of currencies and repricing periods. Market risks are thereby kept at a very low level. In those cases in which the Parent Company purchases subsidiaries' securities, the market risks are managed by the Parent Company.

Of the other lending – SEK 130 billion (45%) in the Parent Company – SEK 30 billion consisted of loans in foreign currencies. These loans were also financed through matching borrowing. Lending in Swedish kronor of SEK 100 billion is financed through deposits amounting to SEK 139 billion.

## Surplus deposits

Surplus deposits combined with the subordinated debt and equity capital constitute the financial platform for the long-term and short-term investment activity.

Excluding Trading's holdings of SEK 11 billion, holding of interest-bearing securities amounted to SEK 52 M, equal to 13% of total assets. Securities in the long-term portion of the portfolio are held to maturity and classified as financial fixed assets. Surplus deposits are generally used for medium- and short-term investments so that they will be available for expansion of the Bank's lending operations. These investments are accounted for as financial current assets.

## Benchmark for risk levels

Losses in the loan portfolio over a business cycle should not on average exceed 0.5% of lending, which at year-end 1997 corresponded to about SEK 1.4 billion, or slightly more than 20% of operating profit before loan losses, or to about a 5% return on equity. Nor

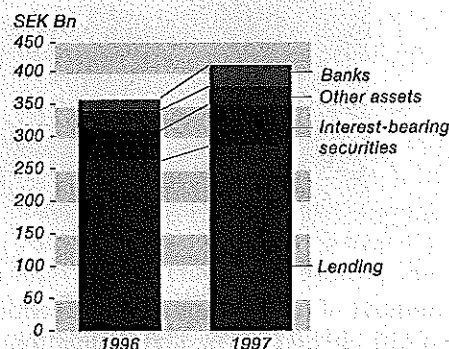
should the risk exposure in the securities portfolio normally exceed this level under normal market conditions.

At year-end, the risk limit (price risk) on the securities portfolio amounted to SEK 1.2 billion, calculated in accordance with the Bank's VaR model (see page 55). The limit for foreign exchange risk amounted to SEK 0.3 billion.

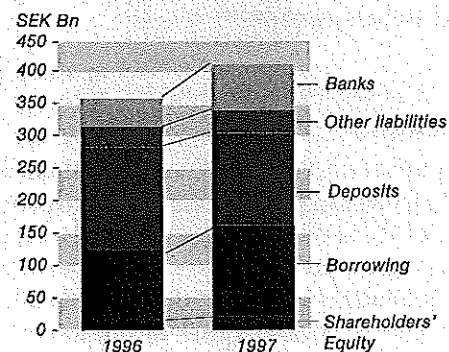
## Expansion is possible

To summarize, lending to companies and private individuals, together with the securities portfolios, totaled approximately 85% of total assets. Nordbanken's substantial surplus deposits and strong capital base will permit a significant increase in lending.

Balance sheet  
Assets



Balance sheet  
Liabilities and shareholders' equity



## Assets

### Lending

The volume of lending, excluding reverse repos, increased by 9% during 1997.

#### Customer structure of loan portfolio<sup>1)</sup>

Dec. 31, SEK Bn	1997	%	1996	%
Corporate	178.4	61.7	164.1	61.7
Private individuals	96.7	33.5	85.8	32.3
Public sector	13.0	4.5	9.8	3.7
Securum/Retriva	-	-	5.8	2.2
	288.1	99.7	265.5	99.9
Reverse repos	0.9	0.3	0.3	0.1
<b>Total</b>	<b>289.0</b>	<b>100.0</b>	<b>265.8</b>	<b>100.0</b>

<sup>1)</sup> Loans comprise loans to the public and financial institutions other than banks. Loans also include loans through so called reverse repos: spot purchases of securities linked with sales on forward contracts. This constitutes a short-term trading product and is shown separately in the table.

#### Lending to households

Dec. 31, SEK Bn	1997	%	1996	%
Mortgage loans	79.0	81.7	71.0	82.8
Loans secured by other collateral	5.5	5.7	3.7	4.3
Sureties and unsecured loans	12.2	12.6	11.1	12.9
<b>Total</b>	<b>96.7</b>	<b>100.0</b>	<b>85.8</b>	<b>100.0</b>

#### Lending to the public sector

Dec. 31, SEK Bn	1997	1996	1995
Municipalities	12.3	9.2	8.5
Swedish Government	0.2	0.1	0.1
Other public institutions	0.5	0.5	0.8
<b>Total</b>	<b>13.0</b>	<b>9.8</b>	<b>9.4</b>

#### Distribution of corporate customers, by industry

Dec. 31, SEK Bn	1997	%	1996	%
Real estate management <sup>1)</sup>	66.4	37.2	52.8	32.2
Construction <sup>1)</sup>	17.3	9.7	19.1	11.6
Transport	19.4	10.9	15.9	9.7
Trading and service	15.7	8.8	16.9	10.3
Manufacturing	22.5	12.6	22.4	13.7
Financial operations	13.8	7.7	11.3	6.9
Renting, consulting and other company services	18.4	10.3	18.9	11.5
Other companies	4.9	2.8	6.8	4.1
<b>Total</b>	<b>178.4</b>	<b>100.0</b>	<b>164.1</b>	<b>100.0</b>

<sup>1)</sup> Of which, State and municipal companies 39.1 21.9 32.3 19.7

### Corporate market

Lending to the corporate market, including State and municipal companies, rose by 9% in 1997. Loan volume rose in four industries. Real estate management was up 26% and Financial operations and Transport each increased 22%. Approximately 40% of lending to the Real estate management sector was to State and municipal companies.

### Households

Lending to households increased 13%. Mortgage loans accounted for slightly more than 70% of the increase. Accordingly, this lending retained its share of slightly more than 80% of all household lending.

### Public sector

Lending to the public sector increased by slightly more than 30% during the year. Municipalities accounted for the entire increase.

## Credit risks

### Risk-classified commitments

For each customer, there is a specific unit responsible for granting credit and dealing with those undertakings which become problem loans.

In cases where the unit judges that there is a risk of future loss, the customer undertaking is evaluated and classified. Such a risk classification is carried out for company commitments and for large loans to private individuals. Accordingly, the greater part of loans to private households are not classified individually.

Risk-classified commitments				
Dec. 31, SEK M	1997	%	1996	%
Class 1	4,306	34	6,219	37
Class 2	3,395	27	4,510	27
Class 3	4,974	39	5,897	36
<b>Total</b>	<b>12,675</b>	<b>100</b>	<b>16,626</b>	<b>100</b>

Loans that require special attention are placed in *Class 1*. The closer monitoring should result in measures to eliminate or reduce the risk.

A loan that a borrower is still handling well but where the customer's earnings and/or liquidity are weak, and there is a risk of significant deterioration in financial condition, is designated a *Class 2* risk. The responsible unit must prepare a plan of action for commitments of this type.

If a company or corporate group, or a private individual, can no longer fulfill their respective obligations, or if other circumstances (an application to suspend payments or bankruptcy, for example) cause uncertainty with respect to repayment, the commitment is designated a *Class 3* risk. A reserve is established for such commitments. To reduce the risk of loss, the responsible unit must prepare a plan for action to restructure or liquidate the loan.

The total volume of risk-classified commitments declined by 24% in 1997. Volume declined in all risk classes. Volumes in Risk Class 2 and 3 were down 20%.

Risk class 2 and 3 by size of commitment, corporate				
Dec. 31, 1997, SEK M interval	Number	%	Commitment	%
< 1	2,005	66	815	10
1 - 5	725	24	1,554	19
5 - 25	228	8	2,378	28
25 - 100	47	2	2,027	24
> 100	8	0	1,595	19
<b>Total</b>	<b>3,013</b>	<b>100</b>	<b>8,369</b>	<b>100</b>

A smaller number of large commitments are responsible for much of the volume of risk-classified commitments; 10% of the number of Class 2 and 3 commitments accounted for 71% of the volume.

Distribution of the risk-classified volume in Classes 2 and 3 by industry show only minor shifts between industries during 1997, except for Real estate management, whose share fell 5 percentage points and for Transport, whose share was up 4 percentage points. Real estate management continues to dominate, with more than half of the volume.

Distribution of Class 2 and 3 risks, by industry		
Dec. 31, SEK M	Total Class 2 & 3 risk	%
Real estate management	4,344	52
Construction	446	5
Transport	582	7
Trading and service	973	12
Manufacturing	638	7
Financial operations	228	3
Renting, consulting and other company services	187	2
Other companies <sup>1)</sup>	971	12
<b>Total</b>	<b>8,369</b>	<b>100</b>

<sup>1)</sup> Other companies includes some household loans

### Problem loans and property taken over

Problem loans, include – in addition to net nonperforming loans (that is, after deducting for reserves) – loans with interest deferments. The total volume of problem loans declined by 47% during the year.

After having increased for several years, the volume of property taken over for protection of claims declined by 34%.

Problem loans and property taken over		
Dec. 31, SEK M	1997	1996
Nonperforming loans, gross	5,763	7,359
Reserve for possible loan losses	- 4,491	- 5,128
Net nonperforming loans	1,272	2,231
Loans with interest deferments	383	889
<b>Total problem loans</b>	<b>1,655</b>	<b>3,120</b>
Reserve as percentage of gross nonperforming loans	78	70
Net nonperforming loans as percentage of lending	0.4	0.8
Property taken over for protection of claims	975	1,477

## Nonperforming loans

Nonperforming loans are loans on which payments of interest or principal are more than 60 days overdue, or where other circumstances cause uncertainty as to repayment of the loan, and the value of the collateral does not cover the principal and accrued interest by an adequate margin.

The gross volume of nonperforming loans declined 22% and at year-end amounted to SEK 5,763 M.

An analysis by industry of the volume of nonperforming loans in corporate lending shows that the

Nonperforming loans and reserves			
December 31, SEK M	1997	1996	
<i>Corporate</i>			
Nonperforming loans, gross	3,935	4,981	
Reserves for possible loan losses	- 3,185	- 3,621	
Nonperforming loans, net	750	1,360	
<i>Private individuals</i>			
Nonperforming loans, gross	1,828	2,378	
Reserves for possible loan losses	- 1,307	- 1,507	
Nonperforming loans, net	521	871	

Nonperforming loans, corporate, by industry				
December 31, SEK M	1997	% of lending	1996	% of lending
Real estate management	1,831	2.7	2,386	4.1
Construction	106	0.6	258	1.4
Transport	334	1.7	262	1.7
Trading and service	682	4.2	782	4.5
Manufacturing	431	1.9	415	1.8
Financial operations	247	1.8	396	2.7
Renting, consulting and other company services	136	0.7	195	1.0
Other companies	168	2.4	287	4.1
<b>Total</b>	<b>3,935</b>	<b>2.1</b>	<b>4,981</b>	<b>2.9</b>

Real estate management share fell sharply. Nonperforming loans as a percentage of lending declined in all industries except Transport and Manufacturing. Trade & service remained at a high level.

Nonperforming loans in the Household sector are distributed in the table below into three categories: mortgage loans, loans with other collateral as well as sureties and unsecured loans. The table shows that risk-taking is considerably lower in granting housing mortgages than other loans. Nonperforming loans in mortgage lending fell sharply during the year.

In the case of nonperforming loans, a loss reserve is established in an amount equal to the amount that

Nonperforming loans, households				
December 31, SEK M	1997	% of lending	1996	% of lending
Mortgage loans	638	0.8	1,057	1.5
Loans against other collateral	97	1.7	51	1.1
Sureties and unsecured loans	1,093	8.9	1,270	10.3
<b>Total</b>	<b>1,828</b>	<b>1.9</b>	<b>2,378</b>	<b>2.7</b>

it is estimated would not be covered by the collateral if the loan was liquidated. Individual evaluations are made of commitments to corporations and large loans to private individuals. The total credit risk is estimated statistically for each category of household nonperforming loans.

The reserve for corporate commitments was reduced during the year as a result of a decline in nonperforming loans. This portion of the total reserve at year-end amounted to SEK 3,185 M, corresponding to a reserve ratio of 81%. The reserve for nonperforming loans to households was also reduced in nominal figures, amounting at year-end to SEK 1,307 M. The reserve ratio rose to 72%.

The table below illustrates how the volume of nonperforming loans changed during the year.

Nonperforming loans, additions and reductions gross, in 1997			
SEK Bn	Corporate	Private	Total
<b>Additions</b>	1.2	0.4	1.6
<b>Reductions</b>	- 1.7	- 0.9	- 2.6
Change in remaining balance	- 0.6	- 0.1	- 0.7

## Interest-bearing securities

### Current assets

The greater part of Nordbanken's interest-bearing financial current assets are distributed among two portfolios, with short-term and medium-term investment horizons. In the trading portfolio readily marketable positions are handled to capitalize on short-term interest-rate movements.

The limits for interest-rate exposures established by the Board of Directors are divided mainly between these portfolios.

The investment portfolios consists mainly listed Government and mortgage bonds and Treasury bills, but also such off-balance-sheet items as interest-rate swaps, futures and forward rate agreements (FRAs).

As of December 31, 1997, the holdings of securities in the investment portfolios amounted to SEK 26.3 billion. The average maturity of the investment portfolios was 3.1 years, with an average duration of 2.6 years. The direct yield (effective annual rate of interest) was 6.20%.

The yield on the investment portfolio was higher than the return according to the comparable Stockholm Stock Exchange bond index.

### Financial fixed assets

Holdings of interest-bearing securities intended to be held until maturity are reported as financial fixed assets.

The portfolio consists mainly of listed Government bonds and mortgage bonds.

## Other assets

Other assets totaled SEK 62.0 billion (47.1) including positive value adjustments related to derivatives, accrued income, receivables from banks, company buildings and those taken over for protection of claims. Assets in the form of equity holdings and equipment were small.

### Interest-bearing securities

Group Dec. 31, 1997, SEK Bn	Amortized cost	Book value	Market value
<b>Current assets</b>			
Investment portfolios	26.0	26.3	26.3
Trading portfolio	11.4	11.4	11.4
Hedging portfolios	1.0	1.0	1.0
<b>Total current assets (December 31, 1996)</b>	<b>38.4 (29.1)</b>	<b>38.7 (30.2)</b>	<b>38.7 (30.3)</b>
<b>Financial fixed assets (December 31, 1996)</b>	<b>24.0 (17.4)</b>	<b>24.0 (17.4)</b>	<b>24.4 (18.2)</b>
<b>Total securities holdings (December 31, 1996)</b>	<b>62.4 (46.5)</b>	<b>62.7 (47.6)</b>	<b>63.1 (48.5)</b>

Securities classified as current assets are reported at market value to the extent they are not included in hedge accounting. The change in unrealized results is reported in operating results under the item Net result from financial operations. Securities classified as financial fixed assets are reported at amortized cost. Valuation of interest-bearing derivative instruments is not included in the table above but is reported under Other assets and/or Other liabilities in the balance sheet.

The holdings amounted to SEK 24.0 billion. The average maturity of the portfolio was 2.7 years, with an average duration of 2.4 years. The yield (effective annual rate of interest) on the portfolio was 6.58%.

The year 1997 was characterized by low short-term interest rates, which created a high net interest income from the portfolio. The surplus value, that is the difference between market value and amortized cost, amounted to SEK 442 M, compared with SEK 845 M in 1996. The decline is attributable mainly to the fact that the difference between market value and amortized cost declines at successively shorter remaining time to maturity.

### Other assets

Dec. 31, SEK Bn	1997	1996
Receivables from banks	32.3	15.9
Derivative instruments	12.9	14.8
Accrued income and prepaid expenses	5.2	5.2
Bank buildings and equipment	3.5	3.2
Property taken over for protection of claims	0.9	1.4
Equities	0.6	0.5
Other assets	6.6	6.1
<b>Total</b>	<b>62.0</b>	<b>47.1</b>