FINAL TRANSCRIPT

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PRESENTATION

Michael Wolf - *Swedbank AB - President & CEO*

Good morning everyone and thanks for attending our first quarter result presentation. This is the first time for me and Erkki and Goran, our CFO and CRO, to present the results.

I will start giving you some backdrop of our broader thinking, both in the short and longer term perspective. I will then hand over to Erkki who will go through the financials and Goran who will go over the asset quality and issues around that.

Normally a CEO has 100 days before he has to present his strategic ambitions, I got less than two weeks. I'm quite happy that I actually had three months' time to walk around and meet our employees, clients and other stakeholders, it gave me a pretty good picture of both strength and challenges of this Bank.

We're now facing a downturn of historical dimensions, visibility is low, and therefore a firm resolve to act is a prerequisite to manage your own destiny. And we need to address some areas of change in the Bank.

We have identified a lot of measures and I'm confident that we're off to a good start and therefore well prepared for the challenges that lies ahead. We're trying to establish a platform for a more traditional banking model where prudency and our clients' economical security is at the core focus for us. Our short-term focus has been to secure the credit quality and future earnings capacity.

In order to address the refinancing risk we have embarked on a journey to extend our maturity profile. As we have noted in the report, impaired loans are increasing rapidly, both in the Baltic and Ukrainian Banking operation. And to reflect this increase we have resolved to make collective provisioning and keep the same level as in Q4 last year.

We expect increase in impaired loans to drop off later during 2009 and historical data indicates that the provision level should range between 30% and 50% through a downturn like this. The present 64% is not going to remain.

In order to speed up the implementation of handling distressed debt, we have secured external and experienced competencies, both for our Baltic FR&R Unit and the Ukraine. We envisage to have 200 people in the Baltic by year end and 40 people in Ukraine by the end of this month.

One of the big challenges is to be ahead of the cycle in Sweden and we have initiated a number of reviews and tests and Goran will dwell more about that in his presentation.

What we're also doing is we're reviewing our key performance indicators and internal pricing to reflect the scarcity and increased cost of funds.

We're also confident that with these measures that we will be able to keep risk-weighted assets at present or lower levels going forward.

Further to that, we are also addressing some significant structure changes in the Organization to enhance our strategic capabilities and therefore also improve our operational efficiency.

We have significant and complex challenges ahead. The team will need to be well matched in order to meet these successfully. Each part of the Organization needs to enable the next in order to succeed and therefore on March 16 we announced the creation of new functions to strengthen risk management, corporate affairs and also to enable the common operational model in the four home markets.

The level of formalization will enhance through common process across the Group and this is to allow each store function to help the empowerment of the front line.

We will also focus more of duality, integrity and accountability and implement new committee structures both at Board level and at management level. Basically, the credit committee will be extended to include risk and capital, and the internal audit committee at the Board level will also include compliance going forward.

At the corresponding management levels we'll have an asset and liability committee and we will join the compliance risk function -- risk control and internal audit function.

We will also have to address structure changes due to these financial challenges.

We are today dependent on the state guarantee program in order to access funding, this is not our preferred solution. We have taken actions in order to improve the rating agencies' views on Swedbank. We have taken strong measures in the Baltic operation to protect our earnings; year-on-year costs are down 14%.

During the second quarter we will continue to perform reviews in order to ensure that the Bank's capacity is adjusted with the aim to protect earnings.

We have resolved to adjust our strategic ambitions in Ukraine and this will, of course, affect our long-term growth assumptions, and consequently the goodwill has been impaired and written off fully. We are, though, very committed to the Baltic Banking operation and their role as home markets.

The repositioning process has been initiated by these measures and we will now also start a process review of our vision, mission and values; our existing vision being the leading financial institution in our selected home markets. It's not a vision. It may be the result of a successful vision.

I feel very strongly that our heritage, unique market position, coverage in the home market and the committed staff that we have, therefore we have all the ingredients to create a more clear and differentiating brand promise going forward.

I will update you on this journey during the year but bear in mind a change journey like this will take three to five years to complete.

With this backdrop, I would now like to turn over and give my more overall views on the results for Q1 and then hand over to Erkki.

We have, pre one-time effects of provisioning and impaired goodwill, an underlying profit of SEK5.3 billion. This is a high level of profit and we will do everything to sustain that going forward. We have taken a one-off charge in Robur.

We have made reserves of SEK6.8 billion in total. The model driven ones are SEK3.1 billion and we are done doing an extra collective one of SEK3.7 billion to reflect the increased impaired loans. We, as mentioned, expect that to level off. So in total, SEK12.7 billion are already reserved in our books.

What is also interesting to note that the capital ratio is only shrinking with 0.3 bps so we have quite a resilient capital base. And the risk-weighted assets are kept flat.

We saw good earnings before impairment in Swedbank Robur, mainly supported by the trading result in Swedbank Markets and the good performance in the Swedish Banking Unit.

I do feel that we have good cost control in place and we will now focus on risk adjusted returns, capacity adjustments and other measures to improve the rating of the Group.

Looking at the different business units, we get a mixed picture. As mentioned, Sweden is continuing to perform well with a low level of impaired losses. We are focusing on activities to mitigate negative effects due to the recession in Sweden.

Our Russian Banking operation is doing well, even in this environment, and we're quite confident that the Lehman exposure is developing as we want it to do.

Swedbank Markets reported its best quarter ever, supported by the interest environment. We expect this environment to support earnings at least during the second quarter as well.

Asset management took just short of SEK480 million on the commission line, due to the mishap with the funds. But we were, of course, delighted that Lipper, for the third consecutive year, confirms the merits of our Robur Asset Management firm.

So all-in-all, I'm quite convinced that we have taken the correct measures and that we have started the process required in order to be well prepared for the challenges that lie ahead of us.

So with these words, I would now like to hand over to Erkki, who will go through the results in more detail.

Erkki Raasuke - *Swedbank AB - CFO*

Thank you, Michael. I will start off with a short income statement. Let's walk this through and then we will fill in, together with Goran also, the primary drivers behind that.

So as disclosed by Michael, we finished first quarter with net operating loss of SEK3.4 billion and this result reflects both the current challenges of our businesses but also proactive steps taken to shape our near-term future.

Net interest income was solid SEK5.8 billion, which is the highest level it has ever reached, and I will discuss it more in detail in the coming slides.

Net commission income was affected mostly by lower assets under management but, more importantly, as already said by Michael, one-off charge in Swedbank Robur.

Net gains and losses were reaching, due also to the all-time high, supported by very strong trading results and supporting market trends. Also I will open it up slightly later.

Total expenses were broadly flat with starting downward trend. And what we can say is that even together with one-off charge of Robur, we reached strong pre-provisioning profit of SEK4.8 billion and as said, it's actually significantly higher if that unfortunate charge would have not been in place.

Goodwill write-off was already commented by Michael, so I'm going in there any more.

Additional loan provisions were formed in the amount of SEK6.8 billion. And here I hand over then to Goran to comment.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Okay. Impaired loans have increased by SEK9.3 billion during the quarter. That is caused by the development in the Baltics and in Ukraine specifically.

What we see in Sweden is very little at this point in time; only SEK200 million in increased impaired, but we have signs of deteriorating credit quality coming through in the system.

Of the SEK9.3 billion in impaired loans for Baltics and Ukraine, to give you a little bit more information on that, I think 45% to 50% of that is real estate related. The increase has been rather evenly distributed during the quarter, so we do not see an accelerating trend towards the end of the quarter; rather small positive signs in the other direction, but nothing to dwell about.

The corporate exposure in the Baltics with regards to impaired has reached almost 10% at this point in time.

If we then move on to our provisioning, we have then taken the action to be somewhat more conservative in provisioning levels than in the past. We have added on a collective provisioning of SEK3.7 billion. That is to raise Ukraine to 100% impaired. With that, we don't think we will lose 100% of these specific impaired loans but we see the development in Ukraine as very negative.

In the Baltics we'll maintain the provisioning level of 50% plus. Right. And I think you should see this collective provision as being a way for us communicating that we see these impaired loans going up further in the second quarter; perhaps not with the same magnitude as the first quarter, but almost. Then we think that they will tail off, at least in the Baltic and Ukraine arena, while we are somewhat more pessimistic that they will increase in Sweden.

So the provisioning should be seen as a step for us of meeting this development that is coming.

Then we can have more discussion about what would be the right provisioning ratio over the cycle and there, as Michael has said, we see the right provisioning level being somewhere between 30% to 50%.

And that, I think, is a valid experience that we have drawn from earlier banking crisis; not only in Sweden but also in other parts of the world. And also considering that we have such a high degree of real estate impaired loans.

We have not done any specific provisioning with regards to Lehman. We have gone through Lehman and stress tested the home portfolio a third time and we deem it not necessary to have any specific provisioning.

Then I leave back to --

Erkki Raasuke - *Swedbank AB - CFO*

Yes, this is Erkki here again. And let us move on with earnings capacity, then. So we are on slide number 12. I said we had strong net interest income in the first quarter. The growth there was mostly contributed by the Swedish Banking.

In Sweden we have seen improved client lending margins and lower deposit margins. Sizeable contribution here also has been by the balance sheet hedge which is positioned to benefit from the lower interest rates and we have seen in the domestic market interest rates falling fast.

In the Baltics, NII has been falling and that is mostly due to the lower Euribor interest rates and due to the lower lending volumes. In the Baltic Banking we have more Euribor rate related assets than we have liabilities.

Also the lending portfolio in the Baltics is coming down from its high point in September 2008. By now it has been stepping back more than EUR1 billion and that is annual decline rate of between 10% to 12% what we're currently seeing there.

Also Swedbank Markets contributed well to the increased net interest income, but this we do not expect to be really repeated.

Understandably, net interest income is the primary source of our revenues and we're actually working hard to protect this source of revenues going forward. Economic environment has changed; the price of risk has changed and we are facing that in our everyday operations and we're also putting it forward towards our clients. So we are actively working to re-price some of the sub-segments of our businesses.

Also some of our lending products are currently under critical review. Most notably this concerns the mortgage product, which is the largest single lending product what we have. And we actually want also to bring more today's realities and limitations into the product structure of mortgage.

Then let us move on into the net gains and losses, slide number 13. Also here we reached our all-time high and behind this result was mostly Swedbank Markets, which had the best ever single quarter performance on its existence.

Favorable market conditions provided good trading opportunities. There have been very strong trends in the markets and we have been positioning accordingly. It's also fair to say is that our risk mandate had been quite utilized during this period of the time, so we have been taking maximum out of the opportunity.

Swedish Banking, or more precisely, Swedbank Mortgage Funding and Hedging Operations, are expecting to bring volatility also in the future. Here we can see the drop from the fourth quarter of last year to the first quarter and this volatility is really coming broadly from the two sources.

One is that Swedbank Mortgage itself is having open interest rate risk position, which is also benefiting from the lower or reduced interest rates. And, on the opposite side, we have a fair value option accounting in place for our Swedbank Mortgage and while issuing now the new debt, this accounting arrangement actually is forcing us some headwinds in terms of immediate losses.

We are -- it has nothing to do with the cash flows and the hedging is sound behind there and we're looking over the second and third quarter actually to mitigate and adjust our accounting that it would more adequately reflect what we are really doing there. That would actually, going forward, that should actually reduce the volatility in there.

And thirdly also the Baltic Banking was contributing quite well, SEK285 million in first quarter. This has been a big bounce back from the low period of the last year so we have seen improved client margins but also then the valuing up of the liquidity portfolio.

Our medium term run rate in the Baltics has been more in the range of SEK200 million so this quarter was slightly stronger.

If we move on then, a lot of attention has been around our liquidity and funding and we have some positive developments that the first quarter we have improved our liquidity positions further through -- we have been using, to reach that we have been using the repurchase agreements with Riksbank as well as the state loan guarantee program.

It's, as said already by Michael, it's not our wanted position. We will use the program up to the moment when it is needed and we do look to actually get out of that as the circumstances would allow.

By today we have issued up from the guarantee SEK227 billion; overall the guarantee size, or guarantee window, for us is SEK450 billion so there is actually a lot still to be utilized if that would be our will.

During the first quarter we have issued a new long-term debt worth of SEK91 billion and we repurchased and there was a maturing worth of SEK88 billion.

So here I would actually hand it back to Goran to go on with the risk-weighted assets.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Okay. Looking at the capital management side of this and risk-weighted assets, we feel confident that risk-weighted assets will not increase going forward and we will try to steer to manage it down from here.

And why do we feel that? Partly, of course, that this Bank historically has been steered on volumes and now we are coming in and trying to guide the business areas on risk-weighted assets rather than volumes. That's a very sharp turn for many people in this Bank that will be very beneficial going forward.

So not only by introducing -- not introducing, but implementing and emphasizing more the risk element than the capital cost for our client teams and selling people, I think we will start to steer the risk-weighted assets down. That's very good.

We will also have declining volumes; we will make provisions. We don't see an increase in volumes short-term going forward.

We also have stress tested the methodology surrounding risk-weighted assets in different downturn scenarios and we feel confident that we will not have any risk migration that is worth mentioning.

So overall, a little bit of what is popularly called low hanging fruits in this area, I would say, that we can benefit from.

Moving on capital then and just the capital ratio, I just want to say one point there, basically. We've written off almost SEK7 billion in this quarter; we have had 30 bps impact on Core Tier 1 capital. I think that's a very positive conclusion and we now have in total almost SEK13 billion in provision in this Bank.

With that, I would like to hand over to Michael.

Michael Wolf - *Swedbank AB - President & CEO*

Goran, Erkki, thank you very much. To summarize I think, in light of the environment, I feel that the result represents prudency coupled with strong underlying earnings capacity. What is important for us is the development follows the scenario planning we did, together with the SFSA, in the ICAP scenario, so we are not seeing any strange behaviors in the portfolio. We're actually -- it's confidently supported by the scenarios we're planning coming out as we thought.

During the second quarter, we will have the same focus and work hard on our capacity to ensure that we implement risk-adjusted measures in the Organization, and that we continue to relentlessly focus on our way forward.

With that, we would like to open the floor for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). The first question is coming from the line of Johan Ekblom from Bank of America. Please go ahead.

Johan Ekblom - *Bank of America Merrill Lynch - Analyst*

Hi. It's Johan Ekblom from Bank of America Merrill Lynch. Just two questions, if I may. You talk about excess capacity and that you are going to try and right-size the Organization. I think you talked about 15% decline in costs, and that relates to the Baltics. Can you quantify the cost-saving potential in Sweden, which is arguably the larger cost base you have?

And also, in terms of credit quality, if I look at the level of impaired loans, it looks like Estonia, which is your biggest Baltic market, actually isn't that severe yet at 2.5%. Should we expect that to go to levels similar to that of Latvia and Lithuania?

Michael Wolf - *Swedbank AB - President & CEO*

Hi, Johan. Thanks for the questions. What I'm focusing on, throughout the Organization, is to right-size the Organization in terms of protecting the earnings capacity. We will now, during the second quarter, continue to do scenario plannings and see where will we end after this economical downturn. This is a long-term adjustment. It's not going to be a lot of small big banks. We will continuously work with efficiency measures, and also earnings improvement measures. So we will not only work on the cost side, as we always have done, but also on the income side, and ensure that we keep our earnings capacity on a high level.

So no more specific cost measures, it's in the focus areas, a broad capacity review that is being conducted. And I will hand over to Erkki and have him respond on the Estonian question.

Erkki Raasuke - *Swedbank AB - CFO*

Yes, on Estonia, I'm very confident that Estonia actually, relatively out of these three Baltics, will come best out of this downturn, and that is partly also reflected already. Secondly, Estonia was first to start with the downturn so there actually adjustment has reached further, and some of the adjustments were taken prior when the global crisis really was hit.

And thirdly, maybe even the most important thing is that we have been in Estonia for the last 10 years in position of actually losing slightly market shares. That we really had in some, for instance, transaction banking, back in '98, we had market shares in excess of 70%. So dip-by-dip we have been giving them away, and we have all the time been in a position of actually having a healthy flow of the credit in, and then to make the selection is what we take or what we don't take. So we haven't been actually really driving there to improve our positions.

So, yes, on the time select, that -- you can see a quite actually significant difference in performance.

Johan Ekblom - *Bank of America Merrill Lynch - Analyst*

Thank you.

Operator

Thank you. The next question is coming from the line of Peter Grabe, Handlesbanken. Please go ahead, Peter.

Peter Grabe - *Handlesbanken - Analyst*

Thank you. This is Peter Grabe at Handlesbanken. I have two questions. Firstly, when you talk about funding, and when you talk about improving your maturity profile, and you mentioned there that you want to comply it to the rating agencies' demands, I wonder if you can quantify what kind of average maturity profile you are looking at and what kind of demands you met from the rating agencies?

And the second question relates to the increased focus on risk-weighted assets rather than volumes. Does this mean any impacts on the targeted client base -- client bases? And in that case, in what regions would you see the most or the biggest change in the behavior of the sales people?

Erkki Raasuke - *Swedbank AB - CFO*

Alright. On the funding, this is Erkki, we have not set specific targets out, and also we actually have not received any specific demands also from the rating agencies per se. But I'm -- to remain and to be competitive in these markets, the best proxy for ourselves is actually our closest peers. So that covers both, our rating position, as well as the other, the maturity profile of our lending. So that is really the first goal to reach back to is that we will be at the same level with our peers. I hand over now to Goran.

Michael Wolf - *Swedbank AB - President & CEO*

Maybe before Goran comes in, on the risk-weighted assets, on a more longer term, of course, when we go through our vision and mission process, we will more clearly articulate where we will have our strongholds and where we will not compete as aggressively. So that's part of the more long-term picture.

In the shorter term, Goran will give you some replies on that question.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Short-term, I think we can expect a continued decline of volumes in Ukraine and the Baltics. That's one thing. In Sweden, we see also decline in the corporate segment. And the -- what we are doing for management now is pricing up the price of capital and try to smoke out the areas where we see sub-standard returns. And that's an ongoing process, and it will, of course, eventually lead into strategic discussion, but, as Michael is commenting, but that's too early. That will come at a later stage.

Peter Grabe - *Handlesbanken - Analyst*

Alright. Thank you very much.

Operator

Thank you. The next question is coming from the line of Geoff Dawes, FPK. Please go ahead, Geoff.

Geoff Dawes - *Fox-Pitt Kelton - Analyst*

Hi, good morning. Geoff Dawes here from Fox-Pitt Kelton. I've got two pretty quick questions. The first one, we've got very good disclosure on loan impairments, but you haven't given any disclosure on the restructuring of lending assets over the quarter. Can I just ask if that has been an important trend, particularly in Sweden, and the restructuring of mortgage assets to give clients more time to pay, or those kind of areas? And whether that is having any impact on margins in the Swedish business?

The second question is on the Baltics and rising, non-performing loans. Would it be fair to say that the areas where you're seeing NPLs increasing the most are the higher margin customer business areas? And if so, what is the impact that is causing on the net interest income in the Baltic business? Thank you.

Erkki Raasuke - *Swedbank AB - CFO*

Alright. Let me start off with the Baltic Banking where we see -- I think Goran was already commenting, that is about half of the impaired -- the flow of the impaired is provided by residential real estate business -- residential real estate development, sorry. It has had slightly better margins than the rest of the portfolio, but not really significantly. Obviously, the further increase in NPLs is putting the pressure to the net interest income in there. We see some of that results already.

What we actually also have done also internally, we have strengthened the accounting approach on that. For instance, in Lithuania, the domestic regulations will allow you to -- or you actually almost putting your further accrued interest for the [regular] loan for the coming 360 days. So we have brought it down that we do not accrue any more into the P&L the interest income at the day -- at the time when the loan has officially defaulted or actually at day 90.

But you are right. It is the headwind for ourselves and that is actually inside of our calculations as well. Now, to the restructuring.

Michael Wolf - *Swedbank AB - President & CEO*

Restructuring-wise, your question, I don't know if I really understood it but let's try to understand it. Of the impaired loans, most of the impaired loans have grown in the corporate segment. And if we talk restructuring in the Baltics, we now have sort of created a unit there internally that will focus much more -- be much more focused on the work that lies ahead on restructuring all these corporate loans.

I think, by the end of late Autumn, by the end of the year, we will be 200 persons working in that group. And we have also brought in external help to see to it that we have the quality of people managing this part.

With regard to the Swedish side of the restructuring, there is none. We don't see, basically -- completely insignificant on the Swedish mortgage side of the business, at this point in time.

Erkki Raasuke - *Swedbank AB - CFO*

Maybe I can add also is that, in the Baltic part also, the true restructuring part of the portfolio is currently very small. I don't have the numbers on my -- I don't have my numbers in hand right now. But we can provide to you exactly that how many of the mortgage clients, as well as how many of the corporates, actually have been restructured up to this point of time.

Geoff Dawes - *Fox-Pitt Kelton - Analyst*

That would be great. And just to clarify, it's the performing part of the loan book I'm looking at in terms of restructured assets, so assets that have been restructured before they've turned non-performing and, therefore, remain performing because the loan repayment terms have been renegotiated.

Michael Wolf - *Swedbank AB - President & CEO*

Are you still talking about the Swedish mortgage portfolio here?

Geoff Dawes - *Fox-Pitt Kelton - Analyst*

For the whole Group. But I think Sweden in particular because, obviously, that is where the bulk of the mortgages are.

Michael Wolf - *Swedbank AB - President & CEO*

Sweden has been pretty much zero in that perspective.

Geoff Dawes - *Fox-Pitt Kelton - Analyst*

Okay, great. Thank you.

Operator

Thank you. The next question is coming from the line of Ronit Ghose from Citi. Please go ahead.

Ronit Ghose - *Citigroup - Analyst*

Great. Thank you. It's Ronit from Citi. Just a couple of questions on asset quality, to follow-up on -- from the questions asked already. Now, just looking at your Baltic business, the coverage ratio looks like it's stable at about 50%, 51% if I'm reading the numbers correctly. And you said in your introductory comments that you've, obviously, taken generic provisions or collective provisions looking ahead to the cycle. But I'm just wondering how do you see this progressing?

Do you think you can run this down much more below 50%? And in that case, are you really anticipating future problems or are you just keeping up with current problems?

And I'm curious to know what you think the evolution of NPLs will be? I appreciate that there's a lot of uncertainty and you can't give us exact numbers, but in terms of timing, is it going to be NPLs peaking this year, next year? A lot of economists, I think your own economics team, are now looking for at least Latvia to shrink again next year, as well as this year, so I would have expected NPLs maybe to be peaking sometime next year in the Baltics, if not, maybe towards the end of next year. Any comments and color on that would be great?

And a very small technical question. On the NII, you might have mentioned this already, in the Swedish Banking business, the quarter-on-quarter increase in NII seems to be completely driven by the other categories and not lending or deposits and within the Other category. Is this primarily hedging or are there other things in there, in that line item? Thank you.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Okay. Goran here. Well, you're asking a lot there. The visibility out there is, as you can imagine, very low. And the provisioning ratio, as Michael said in his opening statement, is that we think that we have -- that we believe, over the cycle, that we will have a provisioning ratio of somewhere between 30% and 50%. And today, we are at the high end of that, a little bit above in the Baltics. And we keep it there until we have more information on partly where impaired is going and partly what is the quality of the impaired coming in.

And so far, it's a very high degree real estate related, which gives us comfort. So that's -- more than that, I think, is tricky to say. We believe that, with the current macroeconomic situation, impaired will tail off second half of this year in the Baltics, while I think there will be a slight increase going forward in Sweden.

Erkki Raasuke - *Swedbank AB - CFO*

Okay. If we -- I actually already was mentioning that what is behind the net interest income developments in Swedish Banking. Yes, that there has been an increase in the lending margins, there has been a more sizeable decrease in the deposit margins. And then, which we have had in place from the year 2004 already is the structure of the balance sheet hedge, and we have been benefitting through now while interest rates have been falling. And this actually contributes most of that under the item Other.

Jonas Blomberg - *Swedbank AB - Head of Investor Relations*

And I think what's important -- sorry, Ronit, Jonas here. I think what's important to understand about that hedge as well, we had long discussions about this yesterday, it's not a hedge that has a fixed maturity and runs off in any quarter any time soon. But this is something that we have in place to take us through this period of low interest rates.

Ronit Ghose - *Citigroup - Analyst*

Thanks. I get the NII point now. But just getting back to NPL point, I guess I'm just looking at the NPL ratio as you report it, and I can appreciate you are keeping your coverage stable when NPLs are going up, and many banks run it down. You're at 4.87%, or close to 5%, in the Baltics and I know every country is different, you can see that in your numbers for the different Baltic countries. When I look at other emerging market crises, that number can easily go to 20% to 30%. So I'm just curious to know to what extent -- whether you can give any kind of guidance on the outlook on the evolution, whether you think it's this year we peak. Is it next year you would peak?

Michael Wolf - *Swedbank AB - President & CEO*

I think the best guidance we can give is that it actually follows our own scenario planning in this type of scenario. And the reason why impaired is increasing right now is that we see a contraction in the Baltic state and a depreciation of the grivna in Ukraine. That pushes it into the first quarter. So that is a natural evolution, development of what they are doing locally in the country. And that's why we are also believing that it will flatten out during the second half of 2009, with the data we have today.

Ronit Ghose - *Citigroup - Analyst*

Okay. Thanks for that.

Operator

Thank you. The next question is coming from the line of Chintan from Nomura. Please go ahead.

Chintan Joshi - *Nomura Securities - Analyst*

Hi, good morning. This is Chintan Joshi from Nomura. I just had a question on the long-term prospects of pre-provision profits in Swedish Banking. We have seen that pre-provision profits as a percentage of total loans has come down quite a bit, especially in the last three years, from about 1.7% to about 1.3%. I just want to get an idea of where do you see pre-provision profits moving over the cycle, as well as in the future, not only for Swedbank but for the sector as a whole?

And the second question is more of a detailed question. I see that the 60-day overdue loan in Latvia has increased from 3.2% to almost 10% this quarter. And I remember Bloomberg reporting that the 90-day overdue loan in Latvia was at 7.1%. So there's a slide, 32, which shows that the overdue loans for Swedbank are slightly better than the market, but the numbers are not adding up, if you can just clarify that fact. Thank you.

Erkki Raasuke - *Swedbank AB - CFO*

Yes, starting from the end, I guess there is a -- if I get it right then there is a difference between 60 and 90 days. And talking about the 90 days, and also we -- this is -- that's the number which, basically, exposures do not move out of that, so the 90, this is there and where we're going to see also the numbers cumulating up. But I think that the Bloomberg report was really about the 90 days because, by my knowledge, that is what is the official data is available in Latvia, and we were reporting the 60 days bracket. So that should explain that one.

What comes to looking to the earnings capacity -- sorry, net interest income, I guess, was the question in Sweden, yes?

Chintan Joshi - *Nomura Securities - Analyst*

Yes. Just looking at the long-term prospects of not only net interest income but generally pre-provision profitability, because that's the most important factor to take losses throughout a credit cycle. It's quite compressed for the Swedish banks over the last two to three years. I'm just wondering where the long-term prospects lie. Do we see an expansion back to a 10-year average, or will the Swedish banks continue competing and keep margins at stable levels?

Erkki Raasuke - *Swedbank AB - CFO*

Firstly, it is a bit premature to really estimate where we will eventually end up. And what we have here, we have two forces at the same time. We have increased funding cost for all of the participants in the market. I think what we have also increased -- on the same side we also have the increased willingness actually to lengthen the maturity profile and reduce the maturity gap between the lending and funding. So that is -- all-in-all is going to cost more.

What I'm looking quite optimistically towards too is still the re-pricing of the credit throughout of the Swedish market. And here we are actually very much still at the beginning of the process, as the recession hasn't hit yet into the magnitude which would allow the much wider scale re-pricing of the portfolios. So without really putting the [finger] is that will we see it up and down, down's [very easy] in actually balancing these two forces, going forward. And I would say that is what comes into the other quarterly pricing, the risk, there is a long way to go.

Chintan Joshi - *Nomura Securities - Analyst*

Right. Thank you.

Operator

Thank you. The next question is coming from the line of Aaron Ibbotson from Goldman Sachs. Please go ahead Aaron.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Hi there. Good morning. Most of my questions have been answered. But I'll ask one general and one clarification. First on deposits. Basically first of all I'm trying to tie together the numbers you give in your fact book and the number you give in the presentation here on slide 19. It seems to me that deposits on the face of the balance sheet has gone down by 7% and even in the fact book you have them down 2% or so. So what is driving this, is this corporate deposits in Sweden primarily or is there some FX effect that I'm missing?

Secondly, if I look at the total funding of your balance sheet, your deposits are now down to 25%, 26%. Are you happy with that level or do you want to continue to increase it or try to increase it upwards 30%, 40%?

And finally, just on the hedge effect that was asked before, I'm not sure if you actually mentioned. But what was the increase in the benefit of the hedge Q1 versus Q4 in Swedish Banking. Is it possible to get that number?

Many thanks.

Erkki Raasuke - *Swedbank AB - CFO*

Okay, if we take the deposit issue. Yes, well we have fluctuation and that's quite normal between the corporate, the quarters are on the corporate sector. We're doing well on the private individual sector, especially in Sweden. We don't run the business on the loan to deposit basis, but we will do what we can to improve deposit position. But there is a market out there and we will not do unprofitable business either. So it depends a little bit where competitors are, but we know what we want to achieve and if we can do that profitably we'll do it.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Alright when it comes to the deposits to the assets, absolutely. The willingness to improve this ratio and here also the answer lies actually on both sides. It is in the size of the deposits, it's also in the size of the assets. So we are -- we're actually in a process of moving both of them to the right direction.

Thirdly there was a question what was the -- was it Q4 to the Q1 change in the hedge?

Aaron Ibbotson - *Goldman Sachs - Analyst*

Yes, basically just to get a -- your net interest income on face value was up very strongly in Swedish Banking but you mentioned that --

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Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

That contribution is slightly more than SEK300 million with Q4 to the Q1.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay and would you expect the level to be roughly maintained or would it shrink back as interest rates don't. I assume that the hedge works when the interest rates are moving rather than being stable at low level?

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

In a short run it keeps supporting us when the trend ends, then it's going to level off. Basically to answer you correctly that would make me -- to take a guess now on exact movement of the interest rates.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay thank you.

Operator

Thank you. The next question is coming from the line of Fridtjof Berents, Arctic Securities. Please go ahead.

Fridtjof Berents - *Arctic Securities - Analyst*

Hi there, good morning. Fridtjof Berents, Arctic Securities. I've got two questions and one small clarification. The clarification issue to what you said through your rising provisions, also through Q2 but maybe not at the same pace if I understood it correctly. Was that both individual and collective provisioning?

And my second question is related to has there been any contact with the FSA and Swedish Banks during this quarter relating to increasing Group provisions as we saw in Norway at the end of Q4 last year?

And my third and last question is related to consumer financing and credit cards. Can you specify any of your exposure there in the Baltics, Sweden, how much you have and how do you see the trend developing on this?

Okay, thank you.

Erkki Raasuke - *Swedbank AB - CFO*

On the question regarding SFSA, no such contacts. We have a good dialogue with them throughout the quarters and keep each other updated. But no other thing than the normal contact.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

With regards to second quarter I think we're -- what we're saying now is that we believe the growth of impaired loans to be in the region that we saw in the first quarter. And with regards to provisions that we expect to be doing then, we don't have any view at this point in time where that would end. It all depends on how the development within the quarter looks, on the speed of impaired loans and also about what we are gradually finding out through our workouts. What the value and the securities on our collateral looks like.

Erkki Raasuke - *Swedbank AB - CFO*

When it comes to the consumer finance I don't have immediately on hand again, we should follow up the exact sizes of the portfolio. In the Baltics we are -- we do this business, credit cards as well and installment loans, we do them in the Bank. In Sweden and Norway we do it through our JV with Barclays Barclaycard. On both bases and this is also the unexpected development of the current downturn, is that the consumer finance portfolio has stayed actually incredibly resistant -- resilient. And up to this very point of the time when we are here, this is actually the best performing portfolio in relative terms in the Baltics. Its impairments have -- they are higher than they are in the mortgage portfolio, but not so much as to eat away the high returns what this portfolio actually has been generating. Because the headline rates there are between 15% to 20%.

When it comes to the business we do in Sweden. Here it's a healthy and good business right now because their actual impairments have not occurred yet. But I should be back to you again with the exact sizes of the portfolio. The portfolio itself is actually fairly small.

Fridtjof Berents - *Arctic Securities - Analyst*

Thank you.

Operator

Thank you. We currently have no questions coming through.

(Operator Instructions).

We have a question from the line of Henrik Schmidt from KBW. Please go ahead.

Henrik Schmidt - *KBW - Analyst*

Yes good morning, this is Henrik Schmidt of KBW. I just have a clarification. I think you said early on that you expected RWA's to stay relatively stable. Could you just elaborate a little bit on that?

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

What we said we -- the risk-weighted assets will not go up and we intend to drive them downwards and we think the macro economic development will also drive them downwards. And there were a number of reasons for that but perhaps if I just summarize it very punchy, I would say that this Bank has been steered on volumes rather than on risk-weighted assets. And also not least that we stress tested the methodology with regards to TTC and we feel very confident that we don't -- will have any risk migration of any significance.

Henrik Schmidt - *KBW - Analyst*

Is that comment for this year or for next year? The comment about risk yes, or rating migration.

Jonas Blomberg - *Swedbank AB - Head of Investor Relations*

Can I just, this is Jonas here. I can just let you in a little bit of the stress test that we've done on the rating migration. There's been a lot of discussion about this in the market. What we've done is basically we've taken the worst year in our history from a loan loss perspective, and that's 1992. We took that loan loss level and assumed that's going to be the case for 2009 and 2010. And then we've doubled that loan loss level and put it in as a stress test for the Baltics. So in total we have a much worse Group scenario than we saw in the early '90s, and that gives a total risk-weighted asset increase of roughly 3% to 4%. And that's before you've seen any loans coming out of the portfolio as a result of the economic downturn and impairment.

Henrik Schmidt - *KBW - Analyst*

Okay that's great. That's very clear.

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

The point is we have [PDs] with cushions and if you compare that with other Swedish banks you can even ask the question, are we getting rewarded for having that by the market? No, because people mistrust us instead of seeing that we are prudent.

Henrik Schmidt - *KBW - Analyst*

Okay and also on the expected increase in impaired loans in Sweden. What sectors are you speaking about then?

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Some suppliers to certain segments or over the manufacturing sectors, what we are doing from a more proactive point of view is that we are simulating and stress testing certain parts of the portfolio that we think is prudent to do at this point in time.

Jonas Blomberg - *Swedbank AB - Head of Investor Relations*

Can I just add to that as well? I think it's quite -- we need to be clear on one thing and that's the low interest rates do help certain parts of the Swedish portfolio. And from [maybe] the mortgage portfolio where 80% to 90% of the portfolio is invariable rate but also the commercial real estate portfolio. And looking at that -- looking at the scenario that we'll go into with low interest rates that's going to be a more long-term issue to deal with. Whereas what we see short-term, because of the slump in demand in manufacturing sectors, that's where our focus needs to be. So basically low margin business with higher volatility revenue streams. It's our current focus. 29.29

Henrik Schmidt - *KBW - Analyst*

Thank you.

Operator

Thank you. The next question is coming from the line of Per Lofgren, Morgan Stanley. Please go ahead.

Per Lofgren - *Morgan Stanley - Analyst*

Good morning. Thank you. I have one question and I guess it ties to just the previous one. You report a nice SEK1.2 billion gain in Swedbank Markets due to favorable market conditions in the fixed income space as you say. Could you tell me what opportunities did you see in the beginning of the quarter and how did you go about to grab these opportunities?

And could you also please tie this discussion because what I'm trying to figure out what is going to be going forward, how will you use your balance sheet in this phase? Thank you.

Erkki Raasuke - *Swedbank AB - CFO*

Okay. On Swedbank Markets there -- the result was primarily done in the area of money markets and fixed income trading. So what I already said is that there has been a -- apparently very clean trend is that the short interest rates will drop further and that actually has been as simple as that and that has been mostly the basis for positioning really. About 35% of this result out of the markets we actually have got from client margins which have been increasing very well. There is less competition now as some of the foreign players have retreated. And then the 65% actually has been coming from the direct or active positioning.

What comes now to the balance sheet and that we actually already covered under the -- talking under the hedge. I think that going forward there it is, again we should make a very strong assumption now, right now here about where the interest rates will move further and if there is no such a strong trend anticipated, then there is going to be a lesser position taking and apparently also the lower returns out of that.

Per Lofgren - *Morgan Stanley - Analyst*

Excellent. That's clear, thanks.

Operator

Thank you. The next question is coming from the line of Hampus Broden, EB. Please go ahead.

Hampus Broden - *Enskilda Securities - Analyst*

Hi there. I was just wondering if you could be a bit clearer perhaps on the net gains [enactments] at fair value which is due to value changes because in the notes it says that it's SEK1.2 billion out of the SEK1.7 billion is due to valuation changes. Should I interpret this -- your previous answer as that is a result of basically better on short-term -- falling short-term interest rates or is there something else?

The reason why it's a bit difficult to follow is that I believe that the total write-downs over the course of the last couple of years in Swedbank is actually below that figure SEK1.2 billion, so narrowing of spreads couldn't catch up that much. So what else it is that has generated that large value changes, if it's possible to discuss that more -- in slight more detail? Thank you very much.

Erkki Raasuke - *Swedbank AB - CFO*

I would -- actually I have a really detailed disclosure about that in hand. I think that that will go beyond this meeting and I [would have] to open all of them. It actually consists of close to 10 different areas and contributors, what we have done exactly with what products. And inside of the money market and fixed income. But broadly I stay with my statement where I say that there has been a strong trend and we have been positioning that one-third of that again was client margins. Basically take one-third off and then [10-year] out of that amount and it remain two-thirds and then you get what we made out of the positioning through a number of the different positions. It's not only in the Swedish krone, we have been positioning also in euros and in US dollars.

Hampus Broden - *Enskilda Securities - Analyst*

Alright, but is it right to interpret it as pure position taking which would have meant that the result could have been something different if the market trends would have developed differently?

Jonas Blomberg - *Swedbank AB - Head of Investor Relations*

Hampus, it is Jonas here, you know how the trading department works, it was not one big bet that is made by Michael Wolf or anyone else.

Hampus Broden - *Enskilda Securities - Analyst*

No, sure.

Jonas Blomberg - *Swedbank AB - Head of Investor Relations*

I mean this is a trading operation and when you have great volatility, I assume that there's quite a large P&L swing also in the equity department over in Enskilda in times like these. So in the times of volatility there are many small bets, it is not one large one. I would say that the average position taking is a matter of hours not a matter of quarters in that type of business.

Hampus Broden - *Enskilda Securities - Analyst*

I understand, thank you very much.

Operator

Thank you. The next question is coming from the line of [Martin Durell, PC Investors]. Please go ahead.

Martin Durell - *PC Investors - Analyst*

Just a question on Swedbank's exposure to private equity, if you quantify it as a percentage of your loan book?

And what kind of loan losses should I expect in that sector over the next two years?

Goran Bronner - *Swedbank AB - Group Chief Risk Officer*

Right, the exposure if I, just moving around in my papers here, on the private equity it's roughly SEK15 billion. We've gone through that exposure and divided it up in three different packets, red, yellow and green and the vast majority of that ends up in the green. Then we have a couple of things that we think will come into covenant breaches and some minor restructuring. But we don't at this point in time see a big loss risk in this portfolio.

Operator

Thank you. Ladies and gentlemen we have no questions coming through. I'll hand you back to your speaker to wrap up today's call.

Michael Wolf - *Swedbank AB - President & CEO*

Okay thank you for listening to this call. So in light of the environment, I just want to reiterate that we feel that we have done a prudent result in this quarter, coupled with strong underlying. I want to once again say that the scenarios that we plan for in -- together with the SFSA in the ICAP, is now happening as we have modeled them. And we will continue to focus our efforts in Q2 to look at future capacity, risk adjustment returns and try to do the right -- take the right measures also going forward.

So with that I would like to wrap up and thank you all for participating.

Operator

Thank you for joining today's conference. You may now replace your handsets.
