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**Speakers:** Michael Wolf, President & CEO  
Göran Bronner, CFO  
Håkan Berg, CRO

**Call Duration:** 00:58:42



OPERATOR: Ladies and gentlemen, welcome to the Swedbank Interim Report, January-September 2011. Today I'm pleased to present Mr Michael Wolf, President and CEO. For the first part of this call, all participants will be in listen-only mode, and afterwards, there will be a question-and-answer session. Mr Michael Wolf, please begin.

MICHAEL WOLF: Thank you and good morning, and thanks for attending our third quarter result presentation. Despite significant uncertainties, we report stable results in the quarter. We have not seen any affects of the turmoil in the real economy yet, but in the capital markets related businesses and in asset management, the turmoil has affected the income to quite some extent.

As a result of the worsening situation in Europe and the debate around our share buy-back programme, we resolved to take a pause in this programme a week before the silent period in the quarter. We have, despite the fact of having done share buy-backs in the third quarter, been able to grow our Core Tier 1 ratio to 15.1% from 14.8% in the last quarter. We are also in a solid position funding and liquidity-wise.

The combination of high regulatory demands on banks, capital and liquidity and the economical uncertainty drives the cost in banking. On top of that, we have high interest rate sensitivity, hence we are focusing our efforts to ensure that we continue to protect our earnings capacity going forward. This is done in three areas. Starting with revenues, we are focusing a lot on relationship, enhancing business activities. In the mid and large corporate sector, we have a selective customer strategy and a re-pricing strategy which has resulted in deepened relationships and increased business volumes. In retail, 500,000 clients have signed up to our loyalty programmes, and we remain cautious in the mortgage segment, as we have done for the last 2½ years.

The activity level in the Baltic market is increasing, which we have benefited from. I am also pleased that our customer focus has been recognised in a study by TNS in Estonia, where we are perceived to be the most customer-friendly large company in the country.

Costs are flat year over year, despite the one-off charge relating to Ukraine and the cost increase due to Ektornet that we did not plan for. Our efforts in Retail to rotate resources from transaction handling to relationship activities are going according to plan. During September, we recorded record levels of customer meetings in Retail. In LC&I, we have started a process to adjust our cost base Investment Banking and Equities to reflect the declining activity level in this area. We are taking measures to enhance our cost focus, and we want cost to be down 2012 over 2011.

Capital efficiency and our focus on risk-adjusted returns have yielded good effects. We have still more room for improvement, which Håkan will talk more about in his presentation.

The balance sheet recession in Europe will have significant effects on the real economy for a longer period of time. It will also affect future growth rates and returns. It will therefore be most likely also that it affects people's savings patterns. I foresee more deposits and more amortisation. Already back in 2009, we resolved to build our capital with the aim to ensure access to the funding market in turbulent times. We have also reduced risk-weighted assets in the bank with more than 25% over the same period. This has assured us a strong ability to meet these turbulent times and still have resources to support our customers. With that, I would like to hand over to Göran, who will guide you through the results.

**GÖRAN BRONNER:** Okay, as Michael was saying initially there, I think we have been affected by the financial turmoil in the capital markets area and also in Robur, but otherwise I actually think that the quarter shows quite increased activity and there is solid asset

quality. We don't see effects on the business, really, or on the major part of the book.

Turning to Retail, then, being the biggest business area, representing almost 60% of the result, I think the quarter continued to see an improvement in the NII. Most of that is driven by a slight increase in the private mortgage margins. We have seen a slight decline of margins in the deposits, while corporate lending margins are basically flat during the quarter. We continued to see good asset quality, also good cost control, and the business area in general is continuing to work with what they call T2R, which stands for from transaction to relation, a programme that is really trying to increase the customer focus and also their efficiency and productivity within the business area. Looking ahead, I think, as you all are aware of, there is quite a high degree of interest rate sensitivity to the NII going forward.

Then, looking more at Large Corporates & Institutions, we can see here that we have been more affected by the turbulent market conditions, predominantly within capital markets-related incomes. We have been affected in the fixed income trading, also the equity trading, and also the generation of corporate finance fees has been lower than a normal quarter. As you can see from the numbers here, the result is actually a loss in the capital markets area after costs, which the management are currently addressing.

I think there are also a couple of good points as well. I think that overall the client activity in the capital markets area has been actually high, so the activity, turnover and also profitability driven by clients has been good within fixed income and FX, and that's promising. Also, I think, with regards to the lending portfolio, we are continuing to see the re-pricing kicking in in the NII, and we have also in the quarter actually seen an increase in volumes with almost 5 billion, which is of course good to see.

Then the last business I will go through for a little bit is just the Baltic Banking, which is very stable. We continue to have almost the same operating income. The

deleveraging and the shrinkage of the loan portfolio did continue in the quarter, even though, I would say, at a slower pace, and also we see some signs of actually a better pipeline. We continue to have recoveries according to plans, which is good to see, and we also have a positive rating migration taking place in the book.

Overall, the activity, apart from the loan activity, has been increasing during the quarter, both in terms of the number of deposit clients being taken in, but also, for example, in payment transactions. So I think in general we are looking at the Baltic with a little bit of encouragement, then of course we don't know what the visibility is for general macro-development going forward.

Summarising this for the group result, the NII continued to trend upwards, which is positive. The positive effect, as I mentioned, is the private mortgage side on Retail, but also the re-pricing of the lending book in LC&I. While we have a sort of pressure from deposits and, to some degree, the capital markets area has been a drag on the NII as well. Treasury has contributed slightly more towards the NII in the quarter than what a normal quarter would constitute, though. Commission income, I think we have all expected to see slower fees coming from Corporate Finance and also Robur, but it's actually by mitigated by higher activity on the transaction side, so payment fees coupled with lending fees made the commission income actually in the quarter increase slightly. Lastly on the income side, I can just say that we are a bit slower this quarter on net gains and losses. Primarily, that is relating to the LC&I and the trading side, but we also have some revaluation effects in the Treasury area affecting the net gains and losses negatively for the quarter.

Cost-wise, I think as Michael said, we are actually on track. I think we are delivering the underlying cost decreases. We have in this quarter taken one-off cost increases in relation to the closing of the retail in Ukraine, but also we have seen a continuation of the cost increases in the Ektornet. But, stepping out from that, I think the various programmes and initiatives that are ongoing are actually starting to yield effect on the cost base, which is encouraging to see. Lastly, I just want to

highlight that we have seen a deposit growth basically in all business areas, whether it's LC&I, Retail or Baltic Banking. They have all grown their deposit-gathering, which is good in this environment.

Now, turning to funding briefly before I let Håkan comment on the risk side, I think the quarter has been good for us from a funding perspective, considering how turbulent the market has been, so we have actually issued more in the third quarter than we did in the second quarter. Also compared to the same quarter last year, we are issuing more, and we have seen good demand for our covered papers in all three markets that we really operate in. We were out last week of August issuing in dollars; we were out first week in September issuing in the euro area. We are continuing to issue in the domestic Swedish market, which is very good to see. Our short-term papers have also rendered much more demand as a consequence, I would say, of the financial crisis that we see in Europe. Nordic banks in general have received more attention and more funding in the short-term programmes. Dollar-wise, we continue to have quite a small asset book in dollar terms and we have covered that from a cash flow perspective more than a year at current state, so we feel very confident on the dollar side.

So, the quarter has been good from a funding perspective. Looking a bit ahead but also perhaps a little bit in the mirror, I think we can now see that the whole transformation of the liability side of the bank is actually coming to an end. With this page 10 you can see what the average issuance has been in predominantly covered bonds for us in the neighbourhood of 65-70 billion SEK per quarter for the seven last quarters, and we have really been very active in meeting maturities, substituting government debt that is maturing, substituting Riksbank repos that we had as a result of the financial crisis in 2008, but also in building long-term liquidity reserve, so it's been a very active and huge funding programme. At the same time, we have prolonged the maturity structure of this funding quite significantly and we are currently at 42 months in average maturity on the covered side.

Looking ahead, we still have a number of maturities on the government-guaranteed debt in December, March and April, and those maturities are basically already pre-funded, as we showed you on the liquidity side. But the main point I think I want to make with this picture is really that as of from now, when we have pre-funded those maturities, we will move into a completely different pace of issuance, since we have substituted a lot of funding sources with longer-dated covered bonds. So, going from a quarterly average issuance of 65-70 billion, we will now issue around 30 billion on a quarterly basis.

Then, turning to liquidity, since it's been a very central theme, of course, in light of the current crisis in Europe. I think it's important to understand what drives your liquidity needs in order to compare differences in liquidity levels, and of course the overall thing driving your need for liquidity is how your maturity structure looks, so if you have a lot of outstanding short-term programmes, your need for liquidity is of course a lot larger than it is if you don't have a lot of short-dated programmes. We can just conclude that our short-term programme has increased during this period, but at the same point we have substantially increased the amount of money we place with the central banks, so we don't really use our short-term programmes for funding the asset side of the balance sheet. It's really a tool for managing cash between different maturities.

Then the other point in terms of your liquidity is of course not only your short-term programmes. It's to what degree your longer-dated funding is maturing short-term, and here we can see that Swedbank has a rather big maturity structure in the coming 12 months, primarily as a result of the government guarantee programme coming into maturities. Of course, we are glad to see that we have now pre-funded that to a very large extent, and that feels good. As a result also you can say, when we now do amortise that kind of debt, the liquidity reserve will shrink as a consequence of that. Then you will come back to the real essence of the liquidity reserve, so it's really what kind of safety you need in order to withstand a complete

standstill in terms of access to funding, and there, I think, we feel very happy with the fact that we have prolonged the covered bonds financing to such a degree, and also that we run rather limited short-term programmes. But we will continue to maintain the liquidity reserve at almost the same level, even if we will shrink it somewhat we will continue to be very conservative in light of the very uncertain situation in Europe.

Leaving funding and liquidity, with a last picture on capital, I think Michael has mentioned capital and the reason for the buy-back stop. I think there's still a bit of uncertainty to what extent the regulatory regime will take us on the need for Core Tier 1. We don't really know how the different buffers will interact with each other, to what degree we can -- where do we want or where do we have to put our ICCAP buffer really in terms of capital? So, we need to still wait and see a bit in order to communicate further on capital targets, but we are of course very happy to have 15.1 per cent in Core Tier 1 ratio, being among the highest in Europe. Håkan will elaborate more on risk weights, but we acknowledge that there will be increased risk weights on mortgages, but in the same breath, we continue to rationalise capital usage in our corporate portfolio, like we have done in this quarter.

Lastly, from a Basel 3 perspective, the impact today is roughly 100 basis points. That is a little bit higher than what we have earlier communicated, and the main reason for that is actually the shrinkage of our risk-weighted asset base that brings the impact a little bit higher. Then we have some smaller changes as the regulation seems to come into effect a little bit different than expected. Otherwise, we are giving here the LCR and also the NFSR for the future regulatory requirements, more for information purposes. With that, I hand over to Håkan.

HÅKAN BERG:

Thank you, Göran. So far, we haven't seen any impact on the credit quality from the turbulence. On the contrary, we have positive trends from the previous quarter continuing in this quarter. Impaired loans continue to decrease. We have a positive

rating migration with more than twice the amount of upgrades to better risk classes compared to downgrades. Loan-to-value is improving in the Baltic countries, and that is primarily due to positive development in real estate prices. At the same time, there are signs that the economy is slowing down. After a long time of rising prices in Sweden, the house prices for the last 12 months are flat or slightly declining. Even if we have an increased lending in Sweden this quarter, we feel our customers are getting more cautious.

Recoveries this quarter is 441 million. The Baltic operations in all three countries are mainly contributing to that number. In Ukraine, we have scrutinised the mortgage portfolio and we are adding an impairment of approximately 100 million this quarter. Since we have recoveries in the corporate portfolio, we still net have a recovery in Ukraine of roughly 60 million. In Swedish Retail, we have an impairment of 106 million this quarter compared to 5 million last quarter. These are still very low levels and we can't really see any trend in this change. There are a few corporate clients from different segments that were already identified as risk loans that are contributing to this quarter credit impairments.

In connection with the Q2 report, we estimated that recoveries in the last two quarters would be between Q1 and Q2. This far, we don't see any reason to change that forecast for Q4. Considering the turbulent times, it's now even more important to have close contact with our customers. We are continuously doing portfolio and individual client reviews. We work proactively in order to as early as possible be able to identify and take actions together with the clients before possible problems emerge. We have previously commented on two portfolios where we have higher risks, and that is mortgage in Ukraine and in Latvia. We are further scrutinising these portfolios to better understand the possible outcome of a more stressed scenario, but we are also taking actions to reduce the risks in those portfolios. Our largest portfolio is the Swedish mortgage portfolio. We have this quarter renewed the stress-test of the portfolio, and we can conclude that even in a very

pessimistic scenario, the risks are quite limited. Looking at the last slide in my presentation on the covered bond pool, that also confirms the resilience of LTV structure.

We also continue to work on the risk-weighted assets. We have a continues work on law and order to secure that we apply correct risk weights in our portfolio. That can, for example, be securing that correct collateral is registered in our systems, or that our counterparty risk classes are timely updated. This quarter, the biggest impact comes from adjusting the definition of corporate size according to industry standard and to better align with FSA regulatory framework. When scrutinising the definitions of our model, it appears that we have been too conservative in our interpretation.

In addition to that, we are working on two projects that will need FSA approval before implementation. We aim to change our models for SMEs next year to better differentiate the risk in the portfolio, and we will also apply to use the Advanced IRB for primarily our Swedish corporate portfolio. At the same time, as Göran mentioned, there are discussions that risk weights for mortgages in Sweden are too low. Even if that is due to historically very low credit impairments, even in the Swedish financial crisis, the credit impairment on the mortgage portfolio was quite limited, but we agree that risk weights are too low. Internally, we have compensated for that by allocating more capital within our ICCAP. Exactly how the change in risk weights would impact on us is too early to say, depending on which model is chosen. One model that is discussed is to introduce contract floors. Just to give a flavour, if you would introduce a floor of roughly 10% that would increase the risk-weighted assets approximately to the same amount that we hope to gain from the different projects I mentioned before.

To summarise, overall we have low risk in the credit portfolio. We also have a strong position when it comes to capital and liquidity, so as the new CRO, I am

satisfied to conclude that we have a very good starting position, even if the economy will be more turbulent going forward.

MICHAEL WOLF: Thank you, Håkan, and then we open up for Q&As.

OPERATOR: Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad and you will enter a queue. After you are announced, please ask a question. Our first question comes from Mr Chintan Joshi from Nomura. Please go ahead. Our next question comes from Mr Johan Ekblom, Bank of America. Please go ahead.

JOHAN EKBLOM: Thank you, just two questions from me. First, on net interest income, it is quite clearly quite a positive result this quarter. There were two comments you made in the presentation. Number one is the positive impact of a lower government guarantee cost, and the second I think you commented was a higher yield on the liquidity portfolio. Can you just talk about how we should think about those two going forward? What is the guarantee cost that should fall out in the December, March and April maturities, and also, how sustainable do you think the yield on your liquidity portfolio is? Secondly, if you could just comment a bit more around the cost-cutting potential, you are guiding for falling cost, excluding variable pay and Ektornet. Should we expect a similar level of headcount reduction as we have seen in the last couple of quarters, or what is going to be the main driver of this, and can you quantify it at all?

MICHAEL WOLF: Hi Johan, and thanks for the questions. I'll take the last question first. We have executed in the last couple of years significant reductions, especially in the central and eastern European part of the bank. We were more than 22,000 people back in 2008 and we are slightly south of 17,000 today. We will continue to ensure

efficiency in the organisation. We have taken out quite a bit of staff, as I said. Of course, with lower economical activity also in Sweden, you should expect headcount to come down in Sweden as well as an Group staff functions, but we will guide more as we normally do in the fourth quarter result presentation on the specifics, but this is an ambition level that we have, bearing in mind that we have as our base scenario lower economical activity going forward.

**GÖRAN BRONNER:** On your NII comment there, I can only say that the Q3, from a liquidity portfolio point of view, is rather representative, so we don't expect any real impact there. With regards to your question around government guarantees, I think you were alluding to what kind of uplift we are getting on NII as a result of the maturities. I think we talked about around 100 basis points on that one for the maturing debt.

**JONAS ERIKSON:** This particular quarter was 12 million compared to Q2, I think.

**JOHAN EKBLÖM:** Excellent. Thank you very much.

**OPERATOR:** Our next question comes from Mr Dave Johnston from Macquarie. Please go ahead, sir.

**DAVE JOHNSTON:** Thanks. I just wanted to ask a quick question on the large corporate and financial institutions' NII within large corporate institutions. You found that quarter on quarter, there seems to be a significant increase, which you referenced earlier in the presentation. Do you think that's a sustainable level, or is there anything buoying that up this quarter that it might drop back down a little next quarter?

**GÖRAN BRONNER:** No, I think that's sustainable. Of course, we can't see the increase in the pace you're seeing there, but I think we have done a good job in actually being more capital-efficient in that area, so it's both an effect of rationalising your capital base

but also improving the pricing on the remaining part of the portfolio. I think that has been quite an achievement on the LC&I part. You can't draw a line out though.

DAVE JOHNSTON: Yeah, no, okay. I wouldn't. Okay, thank you.

OPERATOR: Our next question comes from Mr Andreas Håkansson from Exane. Please go ahead.

ANDREAS HÅKANSSON: Yes, hi, it's Andreas Håkansson from Exane BNP Paribas. I've a question for Göran. I read this morning from one of the local news agencies that you're saying that volume growth won't really drive NII going forward. Could you tell us a little bit about your outlook in each of the divisions on NII, because you have the volume impact mostly seen on the retail side and then you have some more volatile impacts in some of the other divisions. But could you tell us what you expected for next 12 months, please, if you can.

GÖRAN BRONNER: I think, to have a good picture what happens the next year, you need a little bit of a crystal ball but, if I try to give you a flavour where we are, I think the comment was -- we are really relating to that we have corporate credit demand that the Baltics have been rather sluggish in the past for Swedbank. And as we see, the mortgage market sort of cooling off, credit demand in that area is also coming down, so I think in the end we haven't really built our modelling around large sort of volume increases for driving our P&L going forward. And I think that has become even more valid in the last quarter, as results, of course, of the financial crisis taking place, it becomes more questionable and the visibility.

From an NII perspective in Retail, of course, we hope to see a continuation of the repricing of the mortgage part of the business as capital and liquidity buffers are increasing. And we have seen a good repricing taking place there, so that's an

encouraging sort of tail wind that we have there. And on the other hand, we are meeting more competition on the deposit side and there, of course, we will be more sort of affected if you see a cut in the short term interest rates. I'm not going to give you more. You can model the interest rate cuts yourself really and then -- rather than me trying to predict where interest rates are going.

ANDREAS HÅKANSSON: Okay, fine, thanks.

OPERATOR: Our next question comes from Ms Claire Cane from Worldsbank Canada. Please go ahead.

CLAIRE KANE: Hi there, yeah, I have a couple of questions on NII as well. I was quite surprised the strong pick-up in the yield on the loan book, 17 bps quarter on quarter, and I know you mentioned the mortgage book. I was just wondering: are there any other areas you're expecting that repricing to continue?

And then on the funding costs, they've been quite stable quarter on quarter. I was just wondering: do you think the impact of the funding transformation has been seen or could we expect a kind of higher averaging to fall through.

And then just on your covered bonds funding strategy, do you have a kind of maximum level of funding from covered bonds that you'd be comfortable with?

Thank you.

GÖRAN BRONNER: If we start with the NII part and then Jonas can comment on the funding strategy. I think the NII improvement -- I think, actually, as a consequence of course of the increased capital and liquidity demands being put on all banks, it's fair to assume that margins will tend to widen, both on the corporate loan side, but also on the private mortgage and consumer credits, actually. And then we will see how the

margin development takes place, sort of, from a funding perspective, being either deposits.

And then I think Swedbank should have a good chance to lower our funding costs as we are through sort of the substitution of the balance sheet. And we should also be recognised from a funding perspective for sort of reducing the funding and liquidity risk.

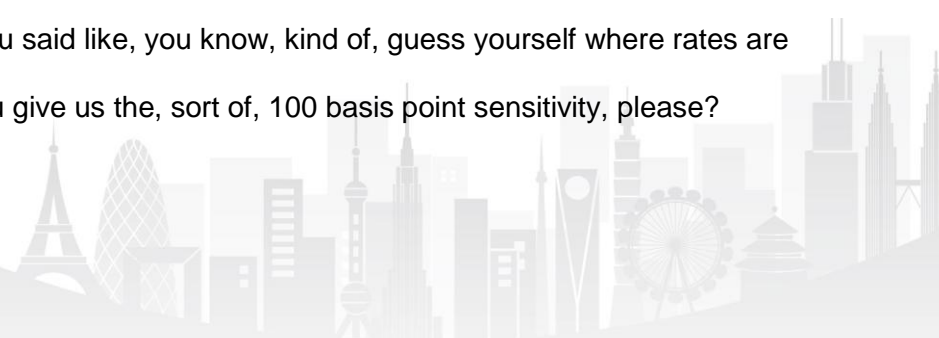
Then Jonas, if you can comment on the funding plan.

**JONAS ERIKSON:** Yeah, I mean, if you look at our current covered bonds outstanding, it's roughly a third of the balance sheet size of the group and we have, so far, not seen that as an issue. We have so far not had any pushback from neither credit investors nor regulators. I think the structural subordination issue, really, comes into play should we get a bail in the legislation which alters the ranking between the senior bond holders and deposit holders. That's when really the whole structural subordination topic becomes interesting. In that scenario, we have been quite clear in saying that, even if we would take some efforts currently, still we more or less have a choice whether to have senior funding outstanding or not. That is a relative strength, but obviously that would be altering the pricing of senior quite significantly.

**CLAIRE KANE:** Okay, thank you.

**OPERATOR:** Our next question comes from Mr Ronnie Rehn from KBW. Please go ahead.

**RONNY REHN:** Good morning, gentlemen. A few questions from my end as well. On the interest rate sensitivity, you said like, you know, kind of, guess yourself where rates are going, but can you give us the, sort of, 100 basis point sensitivity, please?



Second, on the capital side, you make a quite strong case that you feel yourself still kind of over-capitalised. Share buy-backs are off the agenda. What about dividends? Is that potentially an area where we could see an upside surprise? And lastly, on the Baltics, I just want to check how the auctions are going and, sort of in which markets you can sell the properties that you foreclose for third parties and where you still keep them mainly on your balance sheet. Thank you.

MICHAEL WOLF: I mean, we have clearly articulated the dividend policy and supported by the AGM and that stands.

Regarding NII sensitivity, the 100 basis points movement corresponds to 1.5 billion roughly depending on, and there is many moving parts, but if it's everything else equal, 1.5 billion approximately. And then Göran on the --

GÖRAN BRONNER: Ektornet, I think there are very big differences between the countries there. We continue, you could say Estonia, Lithuania, we are at the end of taking in things. In Estonia, we are selling things and we could -- I think we could basically sell the portfolio if we wanted to. In Latvia, things are different there. We continue to take in, primarily, granular assets in the mortgage -- relating to mortgage-lending, but also we have some things that are sort of being in the insolvency processes on the corporate side that will clear up during this year and early part of next year. But the area is, like Håkan were mentioning, the granular mortgage assets coming in from Latvia and Ukraine, to some degree, are the sort of risk areas from that part where we don't see any big positive change, really, in the marketplace.

RONNY REHN: Clear, understood, thanks for that.

OPERATOR: The next question comes from Chintan Joshi from Nomura. Please go ahead.

CHINTAN JOSHI: Hi, sorry I dropped off earlier, Chintan Joshi from Nomura. I have a few questions. Firstly, on deposit margins, I noticed some pressure in deposits. I'm just wondering what this is driven by. Your other peer that reported actually flagged improvement in deposit margins, so just wanted to get some clarity.

Second question on mortgages, there's a trend of continued repricing in Swedish mortgages. I just wonder where your ROI's for the mortgage divisions are currently on a Basel III basis. It's not clear from looking at the divisional reporting that you do, because the allocated capital tends to be different. I'm just wondering, in a Basel III world, if you can give us a rough idea of where current ROIs are.

And the third question, again, a continuation: where are front book mortgage margins versus back book for Swedbank?

And then finally, on the risk weights in mortgages, you mentioned floors as being one of the ways to introduce higher risk weights. I wonder how you see that strategically, because arguably some of your risk weighting is better than some of your peers. If a floor is introduced, that's probably negative for you relative to your peers. Shouldn't you argue for something else like buffers instead of floors? Thank you.

GÖRAN BRONNER: That was many questions at the same time, Chintan, but we try to take them one by one. Deposit margins, I mean, we see an increased behaviour from people moving from transaction accounts with higher margins into sort of interest-bearing accounts, savings accounts, and they are quite active in doing that. Households are becoming more cash management sensitive.

With regards to the sort of a Basel III return on equity of the mortgage business, I mean, we follow the retail business as such. You can say that we don't sort of strip out the mortgage as such, but of course, from a ROE perspective in the Basel II world, it's extremely profitable and it will remain being very profitable and being a

very core product in order to hook the client. So that's the ROE on the private mortgages.

Then we said that the current Basel II is not sort of currently reflecting the risk picture, so we like Håkan was stating, we have allocated more capital to the retail division that they otherwise would have according to sort of ICCAP, but also on top of the ICCAP we have made an extra capital injection in that division of 6 billion SEK in order to get the right steering compared to risk really.

Your question about floors, I think, you commented very validly. Of course, floors, if you have 90% or more of your portfolio concentrated in the risk weight area between 5% and 6% and you introduce a 10% floor, your whole ranking of your client disappears overnight, so the model is useless in order to rank your clients and steer on that. So that would be a negative effect. And I think what really is required in the mortgage market is more a model that ranks and differentiates much more clearly between higher and lower LTVs from a price perspective. I think the changed risk weights on mortgages is something that will come in the late part of 2012 or something and I will envisage that we will have more discussion and ongoing thoughts on this and how it will be best done together with the regulators. I think it's quite fair to say that the whole industry is not objecting to it in any sense. It's more how we can do it in order to get better risk-adjusted steering on the business really.

CHINTAN JOSHI: And front book versus back book margins.

GÖRAN BRONNER: Front book margin is new sales margins are better. Let's leave it there.

CHINTAN JOSHI: Okay, thank you.



OPERATOR: The next question comes from Mr Peter Grabe from Handelsbanken. Please go ahead.

PETER GRABE: Yeah, thank you. Two questions. Firstly, regarding the corporate loan growth outlook, you're expressing a fairly optimistic near-term view in terms of the corporate loan growth, both in the SME side and on the large corporate side. If you can give some more flavour as to when you expect significant slowdown to come, given what you see on the macro picture.

Then a second question, just regarding the liquidity buffer. You're increasing it quite a lot in terms of euro denominated liquidity buffers. If you can also elaborate a little bit about your reasoning here.

GÖRAN BRONNER: If we take the loan growth, Peter, I don't think we were sort of trying to be very optimistic on the outlook for loan growths. I think, on the contrary, we have been stating prior to this quarter that it's a rather subdued environment in terms of loan growth. What we're saying is this quarter has been okay. So it's been a good loan growth in this quarter. We expect loan growth to continue to be subdued considering the sort of backdrop of the economic environment.

Then with regards to the currency distribution of the liquidity, Jonas, if you can comment on that.

JONAS ERIKSON: I mean, that is mainly to plan for coming maturities, so if we have a lot of maturities in FX, then we try to hold more liquidity in FX. You will see that fluctuate over time a bit.

PETER GRABE: Okay, thank you very much.

OPERATOR: Our next question comes from Mr Jan Erik Gjerland from DnB. Please go ahead.

JAN-ERIK GJERLAND: Jan Erik Gjerland from DnB in Oslo. I have some questions on NII as well. The first one is the LC&I margin. You talk about an improved margin both for the SME and the large corporate sector. Can you give us some hints about the front book versus the back book on those as well?

Secondly, how are the deposit margin is increasing or decreasing with these changes in behaviour from the household sector would be very interesting to hear about as well.

Thirdly, on then NII, if you could elaborate a little bit on your funding costs this quarter versus previous quarter and going forward, not just about the state guarantee fees which will be lower, but in general on your issuing of covered bonds. What have you seen in the quarter? How has the margin pickup been? How is the recent basis swaps changes in the euro versus Swedish krona developing in your view?

Finally, on the covered bond pools, if you could elaborate on this page 19 in your slide package where you have this over-collateralisation put in versus the loan to value ratio of 57% and a potential drop in the marketplace. How is this? That would be nice. Thank you.

GÖRAN BRONNER: Okay, let's start. It was the margin, front versus back book on the corporate sector. I think, if you take prior to August, I would say that sort of the front book margin has been declining for some time, but we were coming in, but at the same time we had a lot of back book repricing to do, but I think we were starting to get to a point where actually new margins and back book were meeting each other, so really the NII improvement that you see in the large corporate side in this result is sort of the history of the repricing area rather. Now I would say, considering what's happening in the marketplace and the closeness of funding and, sort of, capital and liquidity

issues, I think the visibility on the corporate sector is poorer, but I would suspect, actually, the margins sort of to come up a bit again.

On the deposit side, I think we were just stating here that we felt that we had a slight pressure on NII as a result of this exchange behaviour on the deposit side. It was not of any significant magnitude in terms of driving lower NII, but the big issue there is, of course, what happens to short-term interest rates.

Then I think you had a funding question. Jonas, you.

**JONAS ERIKSON:** Looking in the quarter, we've issued 60 billion long-term funding, so there's not much change to previous quarters and that also goes for the distribution between the various markets. We're down issuance both in Sweden and in the US and in euros. What we can see in this particular quarter though is the timing has been quite important for the pricing. So when we issued for instance our dollar covered bond, we were I think the first bank to issue for quite a few weeks. There, obviously, we came out at a certain level and then markets deteriorated a bit and a few other banks that issued only two or three weeks after us paid up 10 or 15 basis points, which is not to say we are necessarily a better creditor. It more has to do with the timing. So overall, I would say that the costs for funding issuance, if we just look at a typical five-year covered bond in this quarter, they have been somewhere between 95 and 100 basis points, I would say, for us. And the relative cost to our competition has remained at around four or five basis points in that part of the curve I would say.

**JAN-ERIK GJERLAND:** And going forward, what do you expect? What do you see in the market now in Q4 on the 95 to 100 basis points level?

JONAS ERIKSON: I mean, I don't think it's up to us to give outlooks for funding pricing. It's a bit like giving an outlook for the share price, so I'll leave that to you.

JAN-ERIK GJERLAND: Okay, thank you. And the final one on the covered bond pool, please.

GÖRAN BRONNER: If you come up the covered bond picture on page 19, it illustrates really we are currently operating at the end of this quarter at an OC of 24.5 and it really gives the sensitiveness of the OC to price house price declines. And you can see there that you have a quite -- since we have a good structure in the pool, I would say it's quite insensitive on the first 10 or 15 percentage points decline on mortgage prices and then in increases in correlation, of course, and you would hit sort of an OC at zero somewhere between 35% and 40% price decline. It's more for you to model sort of the OC requirement and the funding aspects and that kind of funding source as a result of what you think of the house prices.

JAN-ERIK GJERLAND: The questions I often get is: how much more mortgages could you really put in to the pool very quickly versus what you already have done and what kind of loan to value those assets have in terms of getting this over-collateralisation versus the loan to value levels.

JONAS: This is Jonas here. We have some further assets that we could put into the pool and we're working on to do so as well. They are not currently excluded because of LTV requirements not being sort of similar to what we otherwise have in the pool. They're currently not in there because there are certain sort of purely administrative aspects. We have a covered bond system that chooses certain assets from the balance sheet and that system is simplifying quite greatly the structure of the asset and collateral. So we're just developing that system a little bit

to be a little bit more granular. So there's no sort of quality difference of the assets that are on their way into the pool.

In terms of size, we have already included some 20 to 25 billion in the last year or so and I would expect roughly as much to coming in the next year.

JAN-ERIK GJERLAND: Okay, thank you very much.

MICHAEL WOLF: I would also say that, if there were to be slightly more significant house price drops, you will see a changed pattern among customers when it comes to amortisation, so there is a lot of moving targets here. (JONAS) The obviously, ultimately, this is a liquidity issue and this is also partly why we hold liquidity reserves. I'm sure that we at some point need it, even though looking at the graph it seems fairly unlikely. There should we, at some point, need further collateral, that's obviously what we have, you know, why the liquidity reserves are there for as well.

JAN-ERIK GJERLAND: Perfect, thank you.

OPERATOR: Our next question comes from Mr Nick Davey from UBS. Please go ahead.

NICK DAVEY: Yes, good morning, everyone. Nick Davey from UBS. Just three remaining questions, if I may. The first, on the net stable funding ratio, which you now helpfully supplied, 92%, could you please talk a little bit around that number? It sounds like your strategy for upcoming maturities of government guarantees is just for the large part to let liquidity reserves roll off. So could you talk us through the impacts from that process on the NFSR and, again, how you expect to bridge the gap from around 90% towards 100% and over what time horizon.

The second, please, on management change within LC&I and First Securities, you had a release out yesterday. You talk about adapting the organisation to changing market conditions. If you could maybe just flesh that out a little bit as well.

And thirdly and finally, just on market shares, it looks to me like your front book market share in domestic mortgage lending is still well below your back book share. You talked about the market repricing up. You talked about lending standards belatedly coming towards a standard that you've had for a few years now, so could you please just talk us through what's happening on the front book and why your market share on the front book is still below your back book? Thank you.

**MICHAEL WOLF:** Hi Nick. Let's start with the LC&I question. Quite simply, the activity within investment banking and equity areas has been subdued and we are adjusting our structure to that. Also Magnus Geeber is the new CEO of that business area and he wants to put his flavour to his management team, so that is the backdrop to those announcements of yesterday.

**GÖRAN BRONNER:** On the NFSR, I think we can say that we give you the measure just to say where we are. We don't have a short-term intention to bring that above 100% until we have a clearer regulatory picture what will happen really with the NFSR. We feel very confident that we have prolonged sort of the covered maturities up to 42 months on average, so really we don't see at this point in time that we need to push us above 100 here before we have more clear signals.

Right, what was the last question? Ah that was back book versus front book on the mortgage side. I think, in general, we introduced somewhat tougher lending criterias by the end of last year and I would say that we continue to run lower market share than our back book, but I think the competitive environment is actually adapting slowly towards our lending standard actually and most of our competitors have adapted. There is one particular competitor that is gaining a very large proportion of the market currently. The standard that has been most difficult for us

to push has been that we introduce really amortisation above 75%. That has been sort of, from a cultural point of view, really difficult to get clients to accept that one, but we have continued to hold on to that one since we really believe in it.

NICK DAVEY: Okay, thank you.

OPERATOR: Our next question comes from Mr Masih Yazdi from Credit Suisse. Please go ahead.

MASIH YAZDI: Yes, hi, three questions for you. The first one is on your corporate lending growth. It was about 6 billion during the quarter where about 4 billion was in shipping. Can you just comment on that, given the uncertainty in that market segment, why you've chosen to increase that lending.

And also I guess, two questions to Håkan, given it's his first press conference. The first one on LTV in Latvia is about 158%. Could you just give me a number there for the unsecured part, how well provisioned you are for that part? And also on the positive rating migrations in your IRB model, you were saying during the heat of the financial crisis that you were using portfolio PDs and, therefore, that migration shouldn't impact the risk weighted assets, but now you're having positive migrations there each quarter. Can you comment on that please? Have you changed your models?

GÖRAN BRONNER: With regard to the volumes there, I think part of the shipping group is actually on a currency translation effect, so I think the volume growth in shipping has been 2 billion or something.

On the risk weight, the model has not changed. We have not done anything to the model. The release of the risk weighted asset in this quarter is relating to sort of a definition of what constitutes a large corporate that has enabled us to risk weight a certain part as SME corporates rather than the large corporates, since we've been

overly conservative in putting a large number of primarily property related corporates in a too harsh risk category really. That's sort of the reason of the 8 billion in the quarter, but otherwise we haven't done anything relating to the PDs.

HÅKAN BERG: Correct. Talking on the LTV in Latvia, I mean, we have an unsecured part that is actually, that is actually slightly decreasing also in Latvia this quarter. Whether we are sufficiently provided when it comes to provisions, well, we are of course continuously looking into that and the current opinion is we are sufficiently provided when it comes to provisions. Obviously, this will very much depend on real estate prices going forward. We have a large intake of assets that Göran was mentioning and depending on prices going up or going down, that will have an impact.

MASIH YAZDI: Okay, thank you. Can you give me a number on the provisioning there for the on screen part?

HÅKAN BERG: On Latvia?

MASIH YAZDI: Yeah

MICHAEL WOLF: We can come back with that one. We can give you that later when we have it at hand, the exact number.

MASIH YAZDI: Okay, thanks.

OPERATOR: There are no further from the telephone. Please go ahead speakers.

MICHAEL WOLF: Then I thank you for so actively putting questions to us and look forward to seeing you around in the next few days or at the next quarterly result presentation. Thank you.