



Final Transcript



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# Corporate Participants

**Michael Wolf**

**Erkki Raasuke**

**Goran Bronner**

**Jonas Erikson**

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# Presentation

## Operator

Thank you for standing by and welcome to the Swedbank Interim Report January to March 2010. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time if you wish to ask a question you will need to press star and one on your telephone. I would like to advise you this conference is being recorded today on Tuesday 27<sup>th</sup> April 2010. I would now like to hand the conference over to your speaker for today, Mr. Michael Wolf. Please go ahead, Mr. Wolf.

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## Michael Wolf

Good morning, everyone. The four consecutive quarters we've [unclear] numbers due to significant provisions for loan losses. I'm pleased to report a profit for the first quarter of 536 million kronor. Our strong focus on improving the bank's risk profile has continued. We fundamentally believe that the rotation towards a more traditional banking model will ensure our long-term competitiveness. The risk reduction has been supported by the general improvement in the economy but mainly driven by management actions. The Baltic countries continue to successfully address their imbalances and public support remains strong. The appreciation of these achievements have grown outside these countries and foreign investors start to re-enter the market. We're most probably seeing the bottom when it comes to real estate price drops and in Estonia, its own plan to enter the Eurozone as of January 1<sup>st</sup> 2011. During the period, we continued to reduce our exposure in the Central and Eastern European countries, with 16 billion kronor. Sweden continues to show resilience and Swedbank proved its strong credit culture when comparing losses among Swedish banks in 2009. The credit expansion among households are not sustainable and we welcome the SFSA's initiative to [cone] the market off. This will allow us to normalise our market shares. As we are the bank for the many we aim to have a market share, over time, of around 25%. Credit demand in the corporate segment remains low but re-pricing continues. We have also seen significant improvement in asset quality leading to a short reduction of credit losses, which should continue to improve during 2010. To conclude, the risk reduction has improved Swedbank's ability to fund itself and we could therefore, on April 9<sup>th</sup>, communicate our exit out of the state-guaranteed system. To illustrate the improvement of the bank's risk profile I've chosen to use this graph that shows the credit spread since March 2009. We will continue toward focus on further improving the risk level to enable us to close the gap.

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Once reaching that level we are firm in our belief that the traditional banking model will become a clear competitive advantage. We have now re-priced pretty much all of our liability side to reflect the current spreads in the market. We should be only months away from bottoming out from a net interest margin perspective. The credit demand has been disappointingly low. The interest environment in combination with the prevailing uncertainty about economical recovery will mean less banking activity. Hence we will continue to focus on cost efficiency measures. Medium term, Swedbank will be a bank with good growth opportunities in its four home markets. The Baltic countries, once in balance, should be able to grow significantly faster than more mature European countries. In Sweden we have clear growth opportunities in the retail banking area from improved service concepts both in the private and corporate retail segment, whilst in the mid corporate segment over longer term represents the most interesting growth opportunity. Our present market share in that segment is only 9%. The decentralised model implemented during 2009 in the branch network and further developments of relevant performance management should ensure that we increase our competitiveness as well to further improve cost efficiency and returns. In the newly established business area large corporates and institutions, focus is on improving risk adjusted returns by re-pricing and our ability to get our fair share of the ancillary business warranted by our 190 billion [loss] lending book. We have also announced that we, as of August 1<sup>st</sup> 2010, will create a new business area, group business support. We'll gather our product areas from Baltic banking and retail to announce delivery to the business of services and product solutions as well as synergies and operational excellence. The aim is to have this unit fully implemented as of January 1<sup>st</sup> 2011.

Let's turn to the financial performance in the different business units for the first quarter. Retail [form] of Swedish banking continues to show strength. Net commission developed above expectations and credit quality remained solid. Our new head, [Katrin Fransen], will take office on May 1<sup>st</sup>. Large corporate and institutions had a decent quarter and, as stated, will focus on improving risk adjusted returns. Baltic banking is stabilising and we're making good progress in the F & R area. Finally, it's good to see that Swedbank Robur shows a healthy profit again. With that, I will hand over to [Erkki].

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## **Erkki**

Thank you, Michael. Before I start to discuss close-up first quarter financial performance, I would like to use the opportunity and take a step back and establish some slightly longer contexts here. As well known, over the last four quarters we have been working with risk reduction, liquidity and funding, earnings capacity and capitalisation issues and as an outcome of that, our actions, we

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have now two visible trends which are sort of moving towards the opposite directions. Reduced volumes and more stable funding are putting pressure on our earnings from one side but lower risks are again reducing credit impairments and taking bank back to the profit from another side. During the last four quarters we have reduced our lending in the three Baltic countries, Russia and Ukraine by a total of 65 billion. This means portfolio the clients are between 11 to 47% and this has basically an important measure to take the risk levels down. At the same time, the bulk of this lending has also been with relatively wide margins and it has had its impact to the group and I [allow] that. During the same time we have also fought our way back to the stand-alone funding market. We have now decided to step out from the state guarantee programme and we have reduced borrowing from the central banks. We have significantly improved maturity profile of the funding and it's also clear that these steps have had a short-term impact to the group earnings. Speaking at the first quarter a year ago, credit impairments have now gradually reduced and we feel that we're through the worst in most of our difficult markets. Reaching back to the black numbers has been one of the most burning goals of itself, although not with a wide margin but we're very glad to report profit in the first quarter. The journey to that has brought also along some lower earnings and while we are further reducing risk levels and further replacing and prolonging [full sale] funding, we expect some pressure on earnings to continue but important here is to link the short-term actions to the medium-term goal which is closing the funding disadvantage that Swedbank has had over the past 18 months and getting fully back into the game. And, as I think Michael was also showing you in one of the previous slides, we aim quite convincingly towards to do that.

Moving on, then, to the, close-up to the first quarter results that we are reporting 4 billion [NII], which is about 680 million lower than quarter before. More than half of that drop is made up by temporary effects and/or seasonal effects. Funding maturity mismatch or nose and tail effects have taken quarter on quarter [NII] down by 208 million. As we speak right now, we are probably in the low point of that. We will see some of the small further decline in the second quarter and we expect a very strong bounce back in the third quarter and that's the effect of the maturing large benchmark bonds. Particular trading strategy chosen by our trading organisation has taken the NII down quarter on quarter by 145 million. The other side of this coin is that almost about the same amount also we are reporting the stronger net gains and losses so these few items should be seen in a combination and they cancelling each other out. Now moving forward is that the remaining parts of the NII pressure have come from the headlines we have been communicating already a number of quarters. Replacing full sale funding short-term central bank money with the long-term stable cover [of bonds] has taken the NII down quarter on quarter by about 120 and there is a bit more to go, as Michael already commented. Baltic banking, Russia and Ukraine, mostly due to the volume contractions, NII down by about 120. And then we also have the shorter

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quarter and also the NII and equity hedges slightly losing their effectiveness. As it was already said, we have been re-pricing most of the liability parts and we're expecting the bottoming out of the NII contraction over the later part of this year. And we also have disclosed is that our Government guarantee funding, which is starting to mature in 2011 and beyond, is actually issued at the average levels of 160 [over the Stybor]. I think we have established ourselves considerably lower funding levels today and we expect quite some positives then once when we're starting to replace this part of the funding.

Moving on to the net gains and losses, as already said, then we see the other side of the NII contraction partly here, where we are reporting quite a strong net gains in the area of large corporates and institutions or particularly in the trading area there. So 150 million is the other side of the NII contraction. Other than that, also first quarter was slightly more active than the fourth quarter last year. We saw some higher customer activities but also there has been quite a bit of the worries in the markets and broadly markets have moved sideways so I think we are slightly short here of our full potential. Russia and Ukraine, we did not see a major [FX] changes there so no really volatility from there. Then group treasury and other, which has been basically also of a high volatility previously, is also quite modest number here. I still want to highlight the area is that underneath we see continuous volatility there but during the first quarter it has had an offsetting effect so as long as we have not moved the remaining part of the fair value option treatment of our funding portfolio to the hedge accounting, which we expect to happen later part of this year, then there is some more volatility possible around that area. All in all, 600, close to 650 million net gains; considerably better than it was quarter earlier.

If we then just sum up the income statement and we're reporting 4 billion NII. The other areas of the income were quite strong so, all in all, total income of 7.7 billion. Expense level were, in relative terms, lower than fourth quarter if we just eliminate the fact of the cancelling variable [there] in the fourth quarter. That takes us to the profit before impairments to close to 3.3 billion. Largest single change that has been in the credit impairments where we are coming down from 5 billion fourth quarter to 2.2 billion and [Goran] is going to open that up more in the detail. And as said, we're glad to report once again we ended the first quarter with a profit of 536 million. Net capital markets started [row] but they are in a very positive mode so we saw a sizable issuance during the first weeks of the 2010 and we also actively participated in that. Since that, some of the sovereign debt related worries started in Southern part of the Europe and that has kept capital markets with a, I would say, quite nervous state. Nevertheless, we have done, I think, quite well. We have issued another 100 billion of long-term debt during the first quarter and we have further extended maturities of our full sale funding at the total level to up to the 24 months and if we just look to the cover points then now we are [of our three year] with average maturities. And on the

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backdrop of that we have then decided to exit the state guarantee programme, all in all due, I think, part of the guarantee programme we have issued slightly more than 300 billion there, which is more than 100 now already matured and at the end of the first quarter there was 202 billion outstanding. Issuing larger volumes than actually has been maturing, that, we also have boosted further our liquidity buffers. It's well seen on the slide and it has a very short part but also then in the maturities beyond four months and going forward. By further extending maturities of the full sale funding and also building up additional liquidity buffers, we're also doing the small steps towards the new regulation, which impact we don't know yet but we know the direction and this is what we are getting ready for. The short-term liquidity has been invested very conservatively for time being without taking any of the market or credit risk which is also, has been itself a small headwind into the earnings but also when we improve our investment skills around that area so there is a potential up-tick waiting there. Let me then conclude with the capital. We ended the last year at the quarter [DR one] capital ratio of 12% because bank is profitable so we are generating additional equity and there has been a minor risk related assets reduction, mostly due to the FX changes, then this is further boosting the quality and capital and DR one capital and we ended first quarter at a ratio of 12.3%. With that, Goran, please, if you can go to the credit quality and asset quality.

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### **Goran**

Thank you very much, Erkki. Before coming to the details of the asset side I just wanted to start off with the highlights of the quarter, really. I think it's fair to say that the bank has been very positively affected that the macro-economic issues has improved so much. We have seen stabilised and also increasing property prices in the Baltic countries. We have also seen a really increased appetite for credits in the secondary market so I think all of these aspects have helped us very much in reducing the risk profile of the bank, not only on the liability side as Erkki said. We have prolonged the maturity and we have increased the liquidity buffer. It gives a very much better risk profile on that side. But moving on to the asset side, I think it's fair to say that we see a very limited number of new problems on the asset side at the same time as we are getting increasingly confident about all the known problem areas that we now have been working with for four quarters. Further, I think it's fair to say that looking through the whole asset portfolio of the bank, all anecdotal evidence are actually positive, all the way from sort of the interesting sector in bankruptcy auctions in the Baltics, all the way through to condominium sales in Miami. I think they're all positive signs and of course that's a great force that plays to our advantage. All in, the resilience of the bank has improved tremendously during this period and I think that even if we

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are seeing a double dip or have problems further on, I think the possibility for the bank to withstand more problems has really improved.

Now, moving on to more details on the asset side, starting with volumes. I think the quarter was very much as the previous quarters. We continued to see very weak corporate demand in Sweden while the demand on the private side was, continued to be quite healthy so we had a decrease of the corporate book of 11 billion. The private book increased by 4 billion. In the Eastern European part of the portfolio, it continued to contract, all in all with 16 billion during the quarter. Half of that is pure translation foreign exchange effect. Another two is provisions during the quarter and six billion is due to the fact that repayment and deleveraging continue in the region.

Turning to our most important indicator, going forward, of new problematic loans, it's very encouraging to see that overdues in this quarter came to a complete standstill and in many countries actually fell. We had a small up-tick in Lithuania and we also had a known up-tick in Russia. This is very positive. Another indicator is, of course, impaired loans, which also showed a decline, a small decline of a few hundred million kronor in the first quarter but, [in back] the currency translation effect we actually had an increase of roughly one-and-a-half billion SEK, still very modest. Otherwise I think the picture of impaired loans are more or less the same as it was in the fourth quarter, the problem area being the one we had reported previously.

Then moving on to credit impairments. There we saw a significant improvement during the quarter from 5 billion to 2.2 billion. Those are explained by still very low credit impairments in Sweden. During the quarter we only had 144 million. We actually saw lower impaired loans in Sweden and I would say overall the anecdotal evidence is that the asset quality has improved during the quarter so still very good, Sweden. The other big difference compared to the last quarter of 2009 is of course that we now have small recoveries in Russia and Ukraine and that gives us confidence to think that even though we have, by the macro, our knowledge and understanding of the portfolio is confirmed in numbers as well. More or less all credit impairments during the quarter 2.1 billion out of the 2.2, is relating to the Baltic countries and that has also showed a decreasing trend. I think there are still some rating migration in the worst part of the portfolio that causes some impairment and also we have some late effect with regards to revaluations of collateral that takes place all over the Baltic arena. But I think overall, the exposure has been helped by no new problems and also that the property prices are stabilising and increasing in some parts.

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Moving on to provisions, really nothing new to report in those numbers. I think overall provisions are roughly the same, 26 billion in the group. The provisioning level is more or less the same. I think one fact to highlight is that the portfolio provisions are continuing to decrease slightly while the individual goes up a little bit and it's a natural process but also confirms that the overall trend that the rating migration is coming to an end is confirmed in this, these figures. Before I conclude, then, just a few words about repossessed assets and the Ektornet. We continue to see a decline on repossession or transport-related vehicles while the property-related repossessions are, as expected, increasing. We have during the quarter increased the properties in Ektornet with roughly 240 million SEK. Most of that is actually out of the Swedish note credit in the Swedish operation, while we have, we expect to continue to increase up to 4 billion as of end of 2010, which is a little bit less than we expected earlier on. We have also reduced downwards our forecast or the interval of the forecast to five to ten billion between now and 2012 for Ektornet. It is still quite a slow process with regards to the intake of the assets as the bank actual proceedings or it's quite cumbersome and lengthy in the Baltics.

And lastly just a comment; as we are sort of getting more knowledge about the portfolio that we will eventually take over, it's sad to say that the portfolio is less cashflow generating than what was, for example, the case in Swedish crisis so we can expect to have a drag on the PNL in the bank of roughly two to 300 million per year this year and also for 2011. Then, of course, if becomes very much an issue where the market in general goes. To conclude, I think it's fair to say that the risk profile has improved significantly, both on the asset and the liability side. We've been helped by an economy that is gaining momentum. We have evidence of that especially on the asset side. There are still a number of concerns out there, not least on the macro, with regards to the exit strategy for central banks and how credit impairments will pan out when the interest rates go up. Also, of course, the fiscal consolidation that has to take place in macro-economic countries out there. There are, of course, a lot of unknowns for us but I think it's fair to say that our possibilities to withstand tougher times, whether they come in next quarter or in 2011, has really improved and we, as a last slide we really want to highlight that we feel more confident about Estonia and that we feel that they are on the road to Euro entry. And if we were to risk grade Estonia differently and sort of put them out of the Eastern bloc, we can conclude that our exposure towards that part of the world has significantly decreased over 18 months. So with that I would like to hand over to Michael.

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**Michael Wolf**

Thank you. To summarise, although we have made good progress in improving our risk profile there is still a lot of work remaining to reach the wanted position and we will take the necessary measures to get there as well as to improve on our business returns. So with that I will hand over now for Q&A.

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## Questions and Answers

**Operator**

Your first question comes from the line of Peter Grabe of Handels Bank. Please go ahead.

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**Peter Grabe – Handelsbanken**

Thank you. Yes, three questions, if I may. Firstly, when it comes to liquidity, you speak about some need to further extend the average funding profile. Can you say anything about where you consider yourself to be in terms of net stable funding ratio and what's a fair sort of matched funding period in longer term, in your view? The second thing relates to cost. If you can... You talk about potential cost-cutting potential. Can you say anything about what areas and also what kind of programmes and the size of potential cost-cutting you're forecasting? And the third then, finally, when it comes to the Baltics, if the economic outlook continues to be what you view it currently, what kind of scope do you see for continued recoveries and reversals of your [long] portfolio?

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**Jonas**

Hi, Peter, [Jonas] here. In terms of the liquidity profile, I mean, I think it's fair to say that we are pretty much where we want to be from, in terms of Swedbank's own risk appetite in terms of liquidity risk at the moment. With the maturity profile we have, I think it's the best we've had in many years at this bank. I mean, we've chosen not to comment on, let's say, the funding ratio. Let's see what comes out of that and what the regulator says, taking into account all the feedback

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from banks and I think there are also probably a lot of discussions that need to take place on a European level before we'll see the next update proposal on that so its hard to say and we have very little visibility of how we are also in relative terms. But given the improvements that we have seen in the last 18 months I would be surprised if we were sort of lagging behind our peer group but that's all we want to say about that for now.

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### **Erkki**

Commenting on expenses, I would have a few comments there is that, firstly, is that that's the overall continuous work of the, around efficiency and we have a lot to take out but it's also take some time and also some of the initial investments from our cross-border banking operations. That's also partly connected to what Michael was commenting, establishing the new area [group] business support. But the other part or other side of the comment is that we're looking very much to the volume outlook and obviously if, I mean, the deleveraging in our home markets is going to be steeper or longer than we have been expecting so far then we need to take the necessary measures in our capacity.

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### **Michael Wolf**

Okay. Before commenting on the asset quality in the Baltics just responding on the cost is that with regards to their foreign FR&R activities, of course, that there's been a huge build-up of cost during the last five quarters and that will gradually be winded down as the portfolio become better of course. With regard to prediction about the credit environment in the Baltics, I think we are humble there. It has turned. I think we will of course see a continued improvement. To what speed and to what extent we'll leave to the analysts to figure out. We don't know. I mean, it will all be related very much towards the macro, I think, as well.

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### **Chintin Joshi - Nomura**

Hi, good morning. I have a few questions on that interesting comment one on asset quality. In terms of net interest income, you mentioned that 110 billion will be replaced and rolled in 2010. I just wanted to understand the sensitivity to NII from this action. In terms of short-term liquidity, you said as your investment skills improve you may see an uplift from there. If you could just give

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us some quantitative sensitivities, that would be helpful. Third question on NII, if you can just highlight the margin developments in Sweden and the Baltics, that will be helpful. And fourth, on NII, normalised NII. I mean, currently we see a lot of one-off effects or seasonal effects in the, in your first quarter results. I would like to understand how you think a kind of a normalised level of NII is, excluding the impact of increasing interest rates, which you've already highlighted in the past. And then finally on asset quality, just want to know what you are seeing in Russia and Ukraine. Obviously we saw recoveries there this quarter. I'm just wondering what the underlying trends are and how much of the write-offs relate to Russia and Ukraine. Thank you.

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### **Jonas**

Okay, let me start on the first issue there. I mean, we've done a lot of issuance during the first quarter, about 100 billion SEK of term funding. When we entered this year we had, in total, 141 billion of maturities, 110 of those remain still. But, you know, as I said, the pre-funding obviously makes the NII impact slightly lower than you would expect. It's also important to remember that we currently have about 120 billion SEK of covered bonds still outstanding that haven't been issued under the so-called pre-crisis credit levels. Those are almost entirely linked to fixed mortgage lending at an average spread towards the client of about 40, 45 basis points so even though that has been issued under very positive market conditions from a credit perspective, we don't expect a margin deterioration coming from replacing those so when Michael was saying that we've now replaced pretty much all of the funding to reflect the current spreads in the markets, that is the sort of net impact from the liability costs on the NII. So I wouldn't expect that to have sensitivity to the NII over and above the short-term pressure that Erkki mentioned, and that is essentially coming from the issuance done in Q1 not being fully impacting in Q1's NII and that would be around 90, 100 million or so in Q2 and then flat thereafter, starting to improve next year as we start replacing the long-term government guarantee debt.

In terms of the investments, I don't want to give any forecasts. I mean, we are still some work to do there but it's quite clear that the issuance of term funding has been quite a lot quicker than we would have expected and we're lagging a little bit in terms of putting this money to work in terms of putting it out on the [curve] and taking interest rate and credit risk in our liquidities and portfolios. The risk utilisation in the treasury department is extremely low at the moment and we have quite large amounts sitting only in central bank certificates at extremely low spreads at the moment.

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**Erkki**

Moving on, then, the margin development is that, I think it's needless to say that the margins are always too low but if we look to the new origination then on the floating portfolio in Sweden, which is about half of that, is that now for the last four, five months or so, basically the back book has reached pretty much the new origination level and has been replaced up there and we don't see any big changes there so the new origination is quite collected to the back book. What partly already Jonas commented also is that there is ongoing re-pricing on the fixed portfolio when it matures but there are some of the funding side to offset that so they are offsetting each other. More of the opportunity is actually sitting with the corporate portfolio, I think. Also Michael made a comment on that. It's a large corporate portfolio of 200 or close to 200 billion outstanding there which, at least part of that does require some serious re-pricing. But just a contractual agreement's what we have in place, it takes some longer time so we would expect this part of the portfolio margins to climb further. If we look to the Baltics, then, there hasn't been actually any major change over there, over the new issuance margins. There has been a very tiny part of the new issuance in general but this has been quite flat now also, I would say, over the last two quarters and then, you know, the more moving parts have been the amount, and actually the overall interest rate level, which has been bottoming out. A very important theme in the Baltics' NII also has been pricing our deposits, which now basically within the last six months from the level of seven and 8% of the deposit rates for the twelve month term deposit have gained down in Estonia for less than 2% and actually in Latvia less than 4% and this is now re-pricing over the next two quarters in our Baltic operations and that actually is giving some, or putting some bottom for generally downward trends due to the general volume declines. You asked also about the normalised NII and what can I say in addition? Well, also Jonas already mentioned it, that there is some of the leftovers also to the second quarter due to the funding replacement of the first quarter. In terms of nose and tail also is that, as we speak now at end of April, we are probably at the lowest point of the year and over the second quarter we expect to report additional small negative on nose and tail. And then in that third quarter it should actually quite strongly bounce back. Just to give you some more numbers around it, at the end of the first quarter, we were around 165 million below our annual equilibrium level so that gives you... I mean, if we fall further from here, that also then gives you the indication of basically that the bounce-back, which will happen over the third quarter and then it's starting to slide down again over the fourth quarter. When it comes to the trading strategy, we still maintained these positions which were there, so basically it's that this is, itself, if also keeping the NII partly pressurised and, I mean, if these positions will be... Well, I mean, we are taking the gains on our gains and losses side. So if this position will be moved, and I can't comment when it's going to be moved, so then it's also some

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of the NII on, of the market's operations is going to return but consequently then the net gains will be lower. I guess that's about the normalised NII and I think it was question that asked for it.

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### **Goran**

Russia and Ukraine; I think it's fair to say that the macro has improved in both countries as you will know. I think the portfolios are well... we know them quite well and even better after this quarter and we have seen small recoveries, which we are glad to see. You asked, then, a specific question, I think, was how much of the actual write-offs in the quarter related to Russia and Ukraine? And the answer; I don't have the exact number here but the answer is very little.

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### **Nick Davey - UBS**

Yes, good morning, everyone. Three quick questions from me, please. Just to build on the last question, actually, on normalised NII, I think you flagged up the last quarter and we discussed it in some detail, about the one-off boost from the so-called hedge in domestic retail. I think you quantified it at about 430 million SEK for the quarter. I know this from slide seven but you quantify NII and equity hedge roll-off at about 37 million so should we read that the contribution from that so-called hedge in retail is about 400 million for the quarter? That's the first question. The second question is linked. You quantified sensitivity to 100 basis points of rate hikes at about 1.7 billion SEK, I believe. Could you just let us know again, please, is that... or what that's based off, if that includes, I guess, the roll-off of that so-called hedge. And then finally, please, Michael, I think you mentioned in your introduction a sort of long-term target of 25% market share in domestic mortgage lending. I think you're at about 28% currently. Could you talk us through, I guess, the motivation for continuing to lose market share? Thank you.

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### **Michael**

If I start, then, we took a view mid-last year that the behaviour in the Swedish mortgage market was not normal. We saw a GDP decline in Sweden of 4% while the credit expansion in Sweden in that segment was around 10 plus percent and we saw a house price inflation of 14% in Sweden last year. In the prevailing economy we felt that that warranted a more cautious behaviour among our consumers so that we wanted them to advertise and be slightly more cautious. And if you ask

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that in the Swedish market, and no-one else does, you lose market share but we did it in the best interests of our clients and the view we had on risk. With the new regulation coming out from the SFSA we don't have the final structure of that but we know that they will limit the [LTVs] under the mortgage lending. Then the market will have to behave as we have behaved in the past. Bearing in mind that we are, then, the bank for the many, it's quite natural for us to have a market share round 25% so that's the logic behind our past behaviour and why we believe that we can re-climb in the market share going forward. It's not going to be overnight but it will be directionally be that direction.

### **Erkki**

If I move on, then, back to the NII question and H. When we have been talking to the, of the total contribution of the so-called NII and equity hedges is that then previously we have quantified that between taking the cost level of central bank repo rate and then the income level covered bond yields. We actually have been, during the past quarter now, that we have been slightly reassessing that, which is, which we think is an adequate thing to do. But this is actually more of an internal measurement so my point here is that this 400 is probably, with the approach that we had in the past, is probably just over-elevated number. What is more relevant here is that what this construction is, or how does this construction support? Is actually changing quarter on quarter basis and this is now what we have in a quite detailed way quantified and it is running down currently with the rate what we're also reporting. And basically if we see no changes there so over the next two to three quarters you should expect about the same negative effect coming over the hedges losing part of their effectiveness. Going back to, or further than the second question about NII sensitivity with one rate hike, this is a very static exercise there. There is, the world doesn't operate or change in the way and this is, it's very much a requirement of to report this sensitivity. We are, we, as any retail bank, we are exposed to the interest rate levels due to that we have a part of deposits which carry very low or no interest at all. This proportion is particularly large in our Baltic banking operations. Proportionately it's slightly smaller in Sweden and when interest rates are starting to raise then we will see that the gradual re-pricing of our assets were by some of the liabilities will remain their current zero cost. Having said that, also it's that on the next day after the rate hike is to report and to look to the dynamics is that some of the deposits, actually, there will be a timing effect. Some of the deposits will re-price almost on the next morning whereby it takes subject to the length of the now fixing rate, anything between what, three to five months in Sweden and four to eight months in the Baltics of higher interest rates actually rolling in into the lending portfolio. So there will be a small timing lag in there but nevertheless, I do reiterate this, that we are positioned to gain strongly from the higher interest rates.

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**Hampus Broden - SEB**

Yes, hi. Thank you. I was just wondering if you could give us perhaps a bit more detailed discussion about the effect from re-pricing Government guaranteed debt with market funding? What volumes are we talking in 2011? How much cheaper could it get and what could be the eventual effect on the NII?

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**Jonas**

We have a bit more than 170 billion SEK of term funding under the guarantee outstanding and when I say term funding, that is what has been issued with the 83 basis point fee to the Government. Looking at the total cost for those 170, 175 billion it's around 160 basis over five or three months, including the Government fee and that should either be compared to covered bonds of what, 80 basis points, 100 basis points lower than that. Our senior three-year trade that we did a few weeks ago is now quoted around or just below 90 basis points, just to give you sort of a comparison. That is then being rolled off over the next three, four years, with half of the volume rolling off next year.

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**Hampus Broden - SEB**

As a follow-up question, then, the maturing Government debt is roughly similar to the unutilised covered bond issues room that you have. What proportion of the Government debt will be replaced by covered bonds, do you estimate?

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**Jonas**

I think we'll need to see a little bit more of where sort of over-collateralisation requirements go and new regulations etc but at least half, I would say, probably more.

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**Hampus Broden** - *SEB*

So it's [fair to something] in our time on an annualised basis, a significant impact, possible impact on NII from those volumes rolling over?

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**Jonas**

Yes.

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**Hampus Broden** - *SEB*

Thank you.

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**Andreas Hakansson** - *Credit Suisse*

Yes, hi. Sorry, I get disconnected before and I think the question I wanted to ask just someone else asked it so Erkki has completed the answer. So I'm back to the hedge because I think I remember you said that the positive impact in 2009 was 1.6 billion and I think you said that it's going to be rolling off by 15 to 20% per quarter which means that it should be roughly a billion less of effect in 2010 and that this quarter, I think you said the impact was 37 billion. Could you just give me the numbers on how much we should expect for the rest of the year? Thanks.

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**Erkki**

Once again, what we're reporting is that the magnitude, what the impact of the hedge has been reduced quarter on quarter. It is quite arbitrary to calculate the total impact of that and what we have done in the past, we have calculated that, once again I'm repeating, with the expense leg of repo rate and then the income side with the covered bond part. I mean, if we would basically exclude the covered bond margins here from the picture and take it as a kind of risk-free picture, then we should, on the income side we should rather use the Government debt interest rate levels to calculate the overall impact of that. What we can say with the whole construction

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because it really relates into our retail business is that while so far, while getting the higher benefits so-called from the hedge, then the retail has actually got the smaller benefit from the deposits. Now if we just adjust the internal measurement, which we are in the process of doing that, so I think that we have it more transparent and closer to the market rate.

Back to your initial question now is that what I already said I just reiterate, is that everything else being the same, the effectiveness of the support of the hedge itself is basically on the similar magnitude. It's currently running down over the few coming quarters.

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**Aaron Ibbotson** - *Goldman Sachs*

Yes, hi, there. Just a very quick question, actually. If you could follow up on what type of demand you see for corporate lending in Sweden specifically. It seems to me that your corporate loan book in Sweden, sort of the non-mortgage bit, non-commercial real estate bit, is declining by around three, 4% per quarter. I would have expected it to sort of flatten out this quarter. If you could just give me an update on the environment you see. Thank you.

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**Jonas**

I mean, as I stated, the demand is disappointingly low in Sweden and the only thing we can see is that we defend our market share in that segment so it's something that's affecting the whole market and we are just keeping market share so hopefully the market will be more willing to lend again but I guess it's a reflection of the uncertainty out there and that you will have a lag until you see credit demand coming back. So the total effect of that is that we get a negative product mix effect from more lending in the private segment and less lending in the corporate segment.

Goran, do you want to add anything?

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**Goran**

Sorry. No, I think that corporates are still very much in sort of a little bit of a wait-and-see mood and they have ideal capacity so they don't need to invest at this point in time but, of course, as the recovery gains momentum that will eventually change. When that will happen, I... it might still be a couple of quarters out.

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**Aaron Ibbotson** - *Goldman Sachs*

Well, can I just follow up then quickly? Because if I look at, for instance, corporate debt issuance, it's at record high levels, you know, both in relation to the outstanding corporate book and in absolute terms. So I realise maybe you're a bit more focused on the smaller corporates but do you see a trend towards sort of banking disintermediation or larger focus for at least the large/mid corporates and the large corporates to go directly to the market? Is this something that concerns you at all?

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**Jonas**

No, I think that is a reflection of where the market was in 2009 and it's a backlog so no.

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**Aaron Ibbotson** - *Goldman Sachs*

So you think that the first quarter issuance we've seen is more of a backlog from last year rather than a trend [shift]?

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**Erkki**

Yes.

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**Aaron Ibbotson** - *Goldman Sachs*

Yes, that's good to hear. Thank you.

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**Hampus Broden - SEB**

Yes, I was just wondering if I could add a question on the NII. You mentioned earlier that risk utilisation in the treasury department was really low and that you hadn't had time to invest all the long-term funding during this quarter in credit risk and (inaudible). I was just wondering if you could elaborate a bit on how much potential uplift we could get in the NII from taking modest risk instead of serial risk.

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**Jonas**

I don't want to go into any details there so all I can say is that we have been extremely conservative in the past in this bank in terms of utilising risk in the treasury department and as we now build up the liquidity buffers this obviously need to change, not to have a too costly liquidity strategy and it will change.

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**Michael Wolf**

Then I thank everyone for attending and see you next quarter. Thank you.

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