

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to your Swedbank Q3 interim report 2006. [OPERATOR INSTRUCTIONS] I'll now hand over to the management team to begin today's conference call. Thank you.

Jan Liden - *Swedbank AB - President and CEO*

Well, thank you very much. This is Jan Liden speaking from Swedbank. I have with me Mr. Erkki Raasuke, who is CEO of Hansabank, and Mikael Inglander, who is the CFO of the Group. And I thought we'd take you through a short presentation, first of all, which is probably you are able to see. So, if we start with slide number 3, we think that the summary of this quarter is that we are happy to report a strong quarter and the quarter is strong because we have good results in basically all business areas.

Now, the three big business areas is, of course, Swedish banking, where we have a stable and profitable development and a high level of activity and increased business volume. Increased market shares where in several segments and we also have a continuation of the improvement of the net interest income. Baltic banking has almost, I'm happy to say, as usual, been able to report a -- the best quarter ever with both very impressive volume growth and increased market shares in Estonia and Latvia

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and, of course, also an increase in net interest income. Swedbank market has a slightly lower result than it had quarter two. But that is due to seasonality. So, if you compare the third quarter for the last few years, you see a very clear trend in -- to an improved profit level.

If you look at page number 4, you see the total lending and savings development for the Group. As you see, we have some considerable growth from year -- from the beginning of this year until September 30, when it comes to lending, both in the Baltic countries, but also in Sweden. In Sweden, it's, of course, one big sector is real estate lending, but also corporate lending has developed very nicely.

When it comes to savings, we have an equally good development and mostly that is concentrated to deposits, which have considerable growth from year -- from, yes, from the beginning of the year. Funds under management are also developing well when it comes to nominal loan figures. One should, though, remember that that is the result of the increased value of those mutual funds rather than good new sales. Equity linked bonds from the retail market have continued to increase in a very positive way and we are now sharing the first position on the Swedish market with those numbers.

If you look at page -- or slide number 5, you see the different market shares developing in Sweden, which I think is a confirmation of what I just mentioned to you in, so we are continuing deposits on individual pensions, equity linked bonds, corporate loans. You see considerable growth compared to the figure from last year at the same time and also private mortgages.

If you look at page -- or slide, I should say, number 8, if I jump a little bit, you see the Baltic banking market shares have also continued to develop very impressively. Not the least, I think, one should look at Estonia, where we have these very impressive market shares built up over the years, which we -- Hansabank has been able to not only defend, but also increase when it comes to certain troubled areas, as you see there on -- in corporate-to-corporate lending and pension, too.

Latvia, where we have been talking -- of which we have been talking before, who is now very aggressive pursuing market-to-market growth, we have been able to increase our market shares. Did I say something wrong? Sorry. Slide number 8. So that's where I am right now, talking about Baltic banking market share. In Lithuania, we have this considerable growth, but the market shares are more stable and we have even some deterioration.

Looking at margins -- slide number 9 -- you see here that, in terms of lending, we have a fairly stable situation. The -- all the four countries are different, as you see, and where we have -- but the development is fairly stable. One thing that I think one should talk about when it comes to margins also in Sweden is that we have had this discussion, which we will back to when it comes to mortgage margins, which where we now see a stabilization, though not any - also in the sense that we can see any sign of increased margins throughout the country. But they have leveled -- the pressure has leveled off from our perspective.

You also see, I think, an increased pressure on, in the market, when it comes to corporate loans, where we have also had a good development, but you can see, as you see, the figure is implying that we do have a fairly stable situation. On the deposit side, we had an increase and that is a structural change in all four countries, due to the increase in interest rates. And therefore, we can gain some margins. Slide number 10 shows the cost income ratios and also illustrating the revenues and the costs in the Swedish banking. And even if the revenues are pretty stable, we are also managing to do that with a very stable cost. So, actually, the cost income ratio is coming down to 0.49 for the third quarter, which we think is a very good figure.

Looking at page -- slide number 11, you see that the thing that we have been discussing very much this year and the last few months is the interest net. And there you see that the negative trend we had, which was at its worse the first quarter of this year, we managed to turn that development around the second quarter and having an increase of 4% that time. And now we can continue that development and have an increase of 3% this quarter compared to the second quarter.

Slide number 12 shows Baltic banking cost income ratio, which is, indeed, very impressive, especially this quarter because you see the interest -- the revenue's going up considerably and the cost is actually going down. The cost is going down because of

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tight cost control, of course, but also because of the fact that the second quarter, we provisioned for extra VAT costs in our Russian operation, and that we didn't have to do more than marginally this quarter.

Swedbank markets, on slide 13, is developing very well and here you see we have marked out the third quarter in the last two years or three years. And you see the stable trend I talked about before, leading to slide number 14, where you see this good development for the Group on a quarterly basis, which I think gives some credibility when it looks -- when it comes to consistent earnings.

In terms of financial objectives for the Group, you see that we have now -- if we look at return on equity acquired on the first nine months a return on equity of 19.2% and this quarter 20.8%. And as you know, we're trying to compare ourselves with our Nordic peers. So, we'll have to find out, in a few days, where we are compared to that.

Cost income ratio, as I said, is now coming down to the targeted levels and the primary capital ratio, we're at the same level as we have been now for some time. That is at 6.1% in Tier 1 ratio, though we still have the goal of slowly trying to catch up to the 7% level.

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

6.5%.

Jan Liden - Swedbank AB - President and CEO

6.5% -- yes. Sorry, I said something wrong. And what that says is that our earning capacity is just enough to provide for that -- the increased business volume that we've seen in our operations. With that, I'd like to hand over for a few slides to Mr. Inglander here.

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

Thank you very much. And I think we will direct you to slide number 18, the total income statement of the Group. I have some comments to this picture. I will dig deeper into some of the items later on. But if we start at other income, the comparison that you should take into account that in Q3 2005, we had one-off item of divestment of [KIAB], which was 1.421 billion SEK. So, if you could take that away. We actually have then an income which is better also compared Q3 2005 with 2006. If you go even further down, taxes -- we discussed that and we reported Q2 that it was higher than we expected. It was, at that point, 25%. Now, we are down to what we believe is the rate we should have. It's 22%. And if you compare with Q3, it was just 17% -- Q3 2005, it was just 17%. And that is due to the divestment of KIAB -- which was not taxed at all. I think we are in line with what we have said.

Page -- or slide number 19 -- net interest income of the group. Here you can see that we have a -- had a very good development both in Swedish banking as well as in Baltic banking. I will come deeper into the business areas later on. Stable in the Swedbank markets as in the other operations. Elimination is just another part which I will tell you more about later on. If you go to slide number 20, here you see the Swedish banking net interest income and the changes you have seen in between the quarters. And as Jan said, when it comes to lending volumes, there has been quite a good development when it comes to volumes.

But still there is a pressure on margins, which is also shown here in the figures. So we are not yet able to actually cover the margin pressure with volume development. On the other hand, looking at the deposit volumes, it's the other way around. We have had positive development of both volumes and the margins. And we also have some funding-related operations, which is a positive [kick] and that comes after a positive effect on quarter on quarter with 98 million.

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One thing which is important to mention is looking at slide 21, is that development in Swedbank mortgage. And as Jan said, there is still pressure on margins, but it has really eased off. As you can see, between Q4 and Q1, that was a big drop which we have discussed before. Q3, it has actually gone up, but that is also due to funding operations within Spintab Group. So, the underlying business as such is still a very competitive market, but the pressure is much lower and the trend which we'd like to predict is more stable, but not going up as probably you could read out from the picture.

If you go further on to slide number 22, in Baltic banking, here you can see quite a success story when it comes to increasing the interest -- net interest income. Lending volume's up and also increased lending margins. Of course, you have to remember then, looking at the picture it showed by Mr. Jan Liden that you have seen a pressure in all three Baltic countries when it comes to volume. Very low, but still a pressure. And here you can see it is an increase in lending margins. That is due to that the balance is shifted somewhat always towards Estonia, where you have the highest lending margins, which actually affects the average margin on Baltic banking in total. So, all in all, it's a positive development, looking in comparison with Q3 also had to take into account the [inaudible - accent] of actually accounting the accrued loan fees, which is not the case any longer taken upfront.

Going further on to page -- or slide 23, here you can see again eliminations, which is, of course, volatile, but still, as you can see, the difference between eliminations in net gains and losses on financial items at fair value and net interest income is very close to zero. So that's -- it's the same pattern as we discussed last quarter. Onto slide 24, net commission income. You can see also a positive development when it comes to payment processing. It's up and that is due to, actually, it's stable costs, but increasing processing income. And that is due to increasing volumes. Still, it's a highly competitive market.

Lending brokerage and also other is, as you can see here, highly affected by the quarterly volatility, due to the summer season. And it's almost to -- the whole amount connected to First Securities in Swedbank markets and the lower activity during the summer months. So, all in all, being at Q3, we believe it's a good quarter and we can also see that in comparison with Q3 2005.

Slide 25, there again you can see net gains and losses on items of fair value. It has decreased and we would like point again that Baltic banking, Swedbank markets, which over time is quite stable, which - it's a bit volatile, is strategic holdings and elimination. And elimination we have already been through. But strategic holdings during this quarter is affected by -- it's not affected any longer, I should say, by selling out Sparbanken Group. And it also, if you remember here that we have sold out the PCCs to a large extent. So, the effect, in the long run, will actually be much lower when it comes to the strategic holdings.

Expenses -- extraordinarily low. We are now at slide 26 -- sorry. Very low in comparison with quarter two and that is, of course, due to the seasonal effects, but also -- and to a very large extent, aiming from Swedbank markets and the provisions made for salary-based or profit-based [inaudible - background noise]. Other cost is also down due to lower activity and that is marketing and such cost. And Baltic banking operations is, of course, affected again by not having made a provision for Russian VAT as we did in Q2. So, all in all, a good quarter, but very much also affected by the season.

Moving onto page -- slide 27, there you can see loan losses on Group level and I think we could show very stable pattern and when it comes to impaired loans, both in Swedish banking and Baltic banking, loss volumes has actually gone down a bit and we also have made recoveries in the Swedish business and it's stable in the Baltic business. So, all in all, you can see a positive figure.

The last slide in my presentation is slide 28 and just to sum up all the business areas, I would -- I could just again remind you of what we have seen during this quarter. Swedish banking, again, a good result for the period. Operating profit which is stable and also return on equity. Baltic banking, it has been a very good quarter and an increase in return on equity. Swedbank markets compared with Q3 2005 and 2004, very good quarter, but not at the same level as Q2. Asset management -- very stable. Can I hand over to you, Mr. Liden?

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Jan Liden - Swedbank AB - President and CEO

Yes. Thank you. I think we have a slide possibly marked number 30. That is the end of the presentation -- an invitation to a capital markets day that we will have in the 16th of November here in Stockholm. And apart from that, our presentation part is over and we'll be happy to try to respond to your questions and comments. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you very much. [OPERATOR INSTRUCTIONS] Our first question comes to you from the line of Daniel King from Lehman Brothers. Please go ahead with your question.

Daniel King - Lehman Brothers - Analyst

Hi. Good afternoon, gentlemen. I've got three questions this afternoon. The first two are on the Baltics. First, on the cost development, Q3 versus Q2, if I strip out the effect of the VAT differential, it still looks like you've cut costs by 1%, I think, Q3 versus Q2. So it's quite impressive. Can you talk about any individual factors that may be affecting that? Given the growth, that's unusual.

The second question on the Baltics relates to lending and foreign currency and whether you think this is an issue. It's always been an issue in some East European countries. Could you comment on the prevalence of that in the Baltics. And then, the last question is, sorry, a boring accounting question. You used to disclose the amounts related to amortization, depreciation and intangibles, which occurred on the acquisition of Hansabank -- the Hansabank stake. You no longer disclose that. Do you have that number or are you -- is that just not a number you can disclose going forward? Thanks very much.

Jan Liden - Swedbank AB - President and CEO

Well, thank you. I think what we'll do is to start with Mr. Raasuke to respond to the question regarding the costs and the lending in foreign currency in Hansabank Corporations. Please, Erkki.

Erkki Raasuke - Swedbank AB - President and CEO Hansabank, Head of Baltic Banking

Yes. There has not been a cost cutting, really, in the third quarter. This is totally seasonal and a seasonal effect or a -- because of the business seasonality. It's typically the second and the fourth quarters are most heavy in terms of new investments as well as expenditure. And then third quarter is [displaying] the slowest sales -- [inaudible - accent] our own surprise as well, the business was really very, very strong in the third quarter, but this is a seasonal effect. And if you strip off, actually, these Russians provisions, our costs have been increased with an annual rate of slightly above 20. And that's basically -- that is a more indicating number than just to compare the third quarter versus second quarter.

Daniel King - Lehman Brothers - Analyst

Can I follow this up? Do you think, Erkki, that even just above 20 is probably a good rate, given the rate of growth of your top line? Do you think you can consistently grow the revenues faster than your costs? Because, I mean, even to grow revenues in line with costs would be quite impressive. Can you have a positive cost [inaudible - accent] in this environment?

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Erkki Raasuke - Swedbank AB - President and CEO Hansabank, Head of Baltic Banking

This is definitely the goal, to not have aversion in cost income. Absolutely. And that's actually one of the key indicators for our sales is to maintain the cost income at the 45 or below of that because of this VAT provisions, we actually, on a consolidated basis, the Baltic Russian banking were slightly above of that. But without that, we are -- I think we are in very good numbers, I believe around 43 or so. And we definitely want to keep that and we're also currently in the mood that we can do that.

Okay. If I can move onto the lending and foreign currency. The currency board arrangements in the Baltics have been in place since '92 in Estonia, '94 in Latvia and '95 in Lithuania. And since that, there are -- the currency has been fixed -- Estonia to the Deutschmark and euro later. Latvia initiated [inaudible 0 accent] basket later and to the euro, Lithuania initiated \$1.10 to the euro. There hasn't been any change since its establishment.

The whole region is very much, I would say, euros and [part of already]. And we in our business, as well as actually the regulator, so also we do not see that as a concern. I mean, as long as overall macro picture is not put under the track, we are, as Jan mentioned, we are all the time looking to the real exchange rate and this does not show us any worry for the time being. So we are not concerned about that.

Daniel King - Lehman Brothers - Analyst

Great. Thank you.

Jan Liden - Swedbank AB - President and CEO

And the third question regarding the amortization for the investment in Hansabank, which we call a Baltic banking investment, which I think was your third question.

Daniel King - Lehman Brothers - Analyst

Yes, you used to disclose the amount that used to go through each quarter as a non-cash item.

Jan Liden - Swedbank AB - President and CEO

Yes, I think we do. If you look at -- if you look at the fact book here, I think we call facts, yes. If you look at page 13, I think you can find part of the answer anyhow. Because there we have added, if you like, at cost, an interest -- net interest cost for the quarter of 104 million and a depreciation-amortization of 24 million.

Daniel King - Lehman Brothers - Analyst

Great. Sorry I didn't see that.

Jan Liden - Swedbank AB - President and CEO

Thank you. Next question.

Operator

Thank you. Our next question comes to you from the Ronit Ghose from Citigroup. Please go ahead with your question.

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Ronit Ghose - Citigroup - Analyst

Thank you. Just a couple of questions. On Spintab on the Swedish banking business. On Spintab, you mentioned that mortgage market competitions data's underlying trends are stabilizing a bit. Can you quantify the funding benefit or any kind of mismatch benefit you had in the quarter in a basis point? Apologies if you already said that. I missed it. Secondly, on deposits. You've done very well on spreads across the board in all four of your major geographies. Are there any timing issues or any other one-off issues that we should be aware of when thinking about spreads going forward on deposits?

Jan Liden - Swedbank AB - President and CEO

Well, I'll try to answer your last question and then I leave the split up in operation interest nets and funding revenues when it comes to not Spintab, but Swedbank mortgage operation. As for the deposit spread, I mean, I think it's not a one-off thing. It's a structural change and what it is, is actually that we, with an increasing interest rate, we are following through with increase interest nets on some of the saving accounts, especially in Sweden, to have a very attractive savings offer on the saving accounts. But we don't follow through when it comes to currency accounts. And --

Ronit Ghose - Citigroup - Analyst

Large accounts.

Jan Liden - Swedbank AB - President and CEO

-- then, we have a structural change in a positive way when the interest rate is going up. How long we can maintain that situation, I really don't know because it's a competitive situation. But what we will do is hold out for our strategy. That is to have the currency accounts as a kind of switch where you direct your funds either into other saving products like a deposit account or other investments for consumption or paying off your investments. So that is the strategy we have. And so far, our customers have enjoyed that. As for the Spintab, I'll let Mr. Inglander try to guide you through.

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

Yes, I'll try to. And what I showed already in -- if you look back at slide number 21 and what I was trying to say with that picture is that this is actually what you see when you look at Spintab as is. But there is the fact when it comes to funding. In total, in the Swedish banking, where Swedbank mortgage is included, we have funding effects, which is 43 million. And our -- what we would like to predict when it comes to the investment margins without including funding effects, I would say it's fairly stable. But the picture you can see here is it's -- that it's actually going up and that is -- that is what we want to point out. That no, you make your own conclusion if you think the margins will go up in Swedbank mortgage.

Ronit Ghose - Citigroup - Analyst

So, X the funding benefit, you would have seen something like 74 basis points, give or take a half.

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

In this case, it's fairly flat.

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Ronit Ghose - Citigroup - Analyst

Okay. Understood. Clear. Thank you.

Jan Liden - Swedbank AB - President and CEO

Next question, please.

Operator

Per Lofgren from Morgan Stanley. Please go ahead with your question.

Per Lofgren - Morgan Stanley - Analyst

Thank you very much. I had a question that I guess we have partly touched upon. But I looked in the Swedish banking division and I noticed that the MII is growing, quarter over quarter, faster than the numbers for lending. You have talked about this -- the positive effect on the deposit side and also this -- what was last mentioned here, the funding effect. But just to make sure, could you please go through or mention if there is how -- all the dynamics of that number or that pattern, if I missed something. Second question and my last question, is on I had read recently some service from local real estate brokers up in Sweden, indicating that housing prices might be on its way down. Is this a pattern that you see as well? Thank you.

Jan Liden - Swedbank AB - President and CEO

Well, thank you. I'll start with the last question, the housing prices. And I think we have a fairly good idea because we are the owning -- we are the owners of the largest real estate broker in Sweden. And what you see is the stabilization of the prices. They are not going up as much as they have done before. So, currently, we have a price increase which is in the neighborhood of 7%, 8%. We have had recent reports stating that prices are actually starting to be -- have a very stable situation, that is zero increase, and even in some areas a slight decrease. And I think you have to be very careful with those figures because, again, a large part of the real estate market, in terms of volume, from a financial point of view, is of course, concentrated to the big city areas like the Stockholm region, Gothenburg region and Malmo region.

And there you see a continuous, not only stabilization, but also increasing prices. So, I don't expect that to go down very much. But I think that the increase will not be as strong as it has been previously. And that, I think, also is the case in the Baltic -- many of the Baltic countries. You have the large part of the business volume is in the very big cities in the Baltic countries. And there you have a continuous pressure upwards on prices. But if you take the whole country, you see a different picture.

When it comes to the Swedish net interest income, I think Mr. Inglander has at least a slide where he went through the net interest income on --

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

Yes. So, let's go back to slide 20 again. And I think the pattern or trend you can see there and looking between Q2, Q3 is that, as we see today, lending margins and volume growth are in total compressed, but it's covered for with the increased deposit volumes and the deposit margins. So, all in all, there's a positive trend. Of course, it remains to be seen if we can see the same growth rate in the future. But all in all, the underlying business have a positive trend.

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Per Lofgren - Morgan Stanley - Analyst

All right. Just to make sure -- did I understand correctly, for some -- you mentioned a funding effect. Is that one -- the 43 million or so -- is that in one of these numbers then?

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

Yes, it's, in total, 43 million for this quarter.

Per Lofgren - Morgan Stanley - Analyst

Okay. Very good. Thank you.

Jan Liden - Swedbank AB - President and CEO

Next question, please.

Operator

Thank you. Yes, your next question comes through from the line of Jan Erik Gjerland from ABG Norway. Please go ahead with your question.

Jan Erik Gjerland - ABG Securities - Analyst

Thank you. I have two questions. One on cost, I just figure. Could you please give a little bit of flavor on the other costs in the other expenses, please. Because it looks like it's going down by some 7%, 8%, if you take the overall cost level. So any flavor on that could be very, very interesting to hear. The second one is on the net gains and also on financial items of fair value. If you strip out the gain you made last quarter from Swedbank One Group, you basically gain about 10% q-on-q. But if you look into the business areas, Swedbank, Swedish banking is down, Baltic banking is up and markets is pretty much down. And of course, the shared operation have this to gain in. So, all in all, it's the elimination who is the winner here. So, we'd just like to have some more color on the issues here, please. Thank you.

Jan Liden - Swedbank AB - President and CEO

Well, thank you. We'll start with the first question when it comes to other costs. The real big valuation there is, as we said before --

Unidentified Company Representative

[inaudible -- microphone inaccessible]

Jan Erik Gjerland - ABG Securities - Analyst

I'm looking at slide 21 in your big package reference slides.

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Jan Liden - Swedbank AB - President and CEO

Yes. So, the other costs there. Yes.

Jan Erik Gjerland - ABG Securities - Analyst

Yes, 114 is VAT, I presume. But if you strip out that, it's 650 versus 536.

Jan Liden - Swedbank AB - President and CEO

All right. I'm with you. I'm afraid I have to revert to my friends here because I can't give you on top of my head what that is. We're looking at -- in other expenses. If you look at -- I think you have a better view if you look in the fact book, page number 11, there is more, perhaps better expressed other expenses. There are different items like IT expenses, telecommunication, premises and so on. Still, the big effect is related to Baltic banking and the VAT effect.

Jan Erik Gjerland - ABG Securities - Analyst

Yes, but if you look at slide 21, you have stripped out the IT telecom and marketing. And then you are left with another item on 114 again, excluding the 114 from the VAT. So, just going in -- try to give a flavor on how much -- what kind of issues are there because if it's just seasonal pattern, it's very strong, at least.

Jan Liden - Swedbank AB - President and CEO

I'm not sure -- when you say page 21 --

Jan Erik Gjerland - ABG Securities - Analyst

I'm on page -- slide 21 in your reference slides.

Jan Liden - Swedbank AB - President and CEO

In the reference slides, okay.

Jan Erik Gjerland - ABG Securities - Analyst

Given the web.

Jan Liden - Swedbank AB - President and CEO

I think we better then get back to you since I don't have the reference slides with me.

Mikael Inglander - Swedbank AB - CFO and Head of Group Staffs

Yes, we'll have to get back to that.

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Jan Erik Gjerland - *ABG Securities - Analyst*

Okay. Thank you.

Mikael Inglander - *Swedbank AB - CFO and Head of Group Staffs*

I think the question you have -- oh, sorry, do you have any --

Jan Erik Gjerland - *ABG Securities - Analyst*

The second question was about the financial items at fair value and the different business area seems to come -- go down. So, basically, if you have your trading, if it's towards the different business there and what customer driven trading has driven, the Baltics are drive the trading upwards. And then, the elimination, which is the winner [inaudible - accent] lot of the slide. Could you give us some more color on why elimination is so large in trading and why, of course, it's so long on methods of income then? Is it so that all the business area gets the benefit of net interest income and then -- and lose on the trading line?

Jan Liden - *Swedbank AB - President and CEO*

I think this question, we tried to describe it earlier, is connected to the way we actually are doing the accounting on a business area level compared with -- on group levels. And then, the elimination is due to the way we actually are funding -- financing the trading assets. And when we are funding -- when we are accounting them on the business area level, there is always an internal financing, which you will find under the item -- net gains and losses on items at fair value.

On group level, we are doing the accounting another way. And that means that we actually account for the interest rate payable or income when it's externally managed, it comes in the net interest rate. And otherwise, it's going directly to the trading liabilities or assets. So, I think we have to, in this case, actually, point out that, on group level, there's a different way of describing it than on the business area level. I'm not sure it's more clear, but we can take that, perhaps, deeper into -- in another session. We'll try to help you out on that.

Mikael Inglander - *Swedbank AB - CFO and Head of Group Staffs*

Okay. I think we thought a little bit about your first question, also, and I think that my conclusion is that it is a seasonality thing, if you compare the different quarters and the same quarter last year. But please come back regarding if we should further detail our analysis on net gains and losses on items as fair value, which I understood was your question.

Jan Erik Gjerland - *ABG Securities - Analyst*

Okay. Thank you.

Jan Liden - *Swedbank AB - President and CEO*

Next question, please.

Operator

Thank you. Our next question comes through from the line of Sasu Jarvinen from Credit Suisse. Please go ahead with your question.

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Sasu Jarvinen - *Credit Suisse - Analyst*

No questions left at this stage. Thanks.

Operator

Thank you. In that case, our next question comes through from the line of Haakon Boenes from Pareto. Please go ahead with your question.

Haakon Boenes - *Pareto - Analyst*

Yes, hi. I was just -- I just wanted to go back to Swedbank mortgage to make sure I understand this, but Swedbank mortgage net interest income is up by 83 million in the quarter. And that's 8% or thereabout. And lending is up about 2%. So, I was just wondering if you could break out for me how much of the increase in Swedbank mortgage, which actually relates to the funding effects and what is driven by lending? Thank you.

Jan Liden - *Swedbank AB - President and CEO*

I'm sorry. We are not prepared to actually go any deeper into that detail more than what we have already said. And in total, that is, on the Swedbank, Swedish banking level, it's 44 million. But we will not actually give you the figures for Swedbank as a company. But the trend, we'll try to point out, it's fairly flat when it comes to the margin -- investment margin on [inaudible - background noise] if you take away the funding effects.

Haakon Boenes - *Pareto - Analyst*

Okay.

Operator

Thank you. Our next question comes through from the line of Kim Bergoe from Fox-Pitt Kelton. Please go ahead with your question.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Hi. Two questions. One for Erkki about -- I saw recently that there was likely to be a new attempt to curb lending growth in Estonia. Just if you can comment on that. And then, again, I'm sorry to return to the mortgage margin issue, but just if you could confirm, do you still have a front and back book issue or how much of it is -- and just whether the recent movement in that, whether that's widening or narrowing or what it is. And also, we're hearing from your largest competitor, Handelsbanken, in terms of outlook. First of all, they still see pressure and, in terms of outlook, they seem even sort of -- even in the short or medium term, a little more pessimistic. What is your outlook there and do you think there is a -- is it likely that you would see a different kind of trend than they would? Thanks.

Jan Liden - *Swedbank AB - President and CEO*

Well, I'll try to respond to the last question regarding the mortgage. First of all, we don't comment on Handelsbanken, of course. They have to do that. When it comes to the outlook, I think, as we have stated, there will be continuous pressure in Sweden and

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in other markets do, when it comes to margins on mortgage credit because it's a very attractive product area for many financial institutions. And being the largest operator now in all our core markets, we will, of course, be exposed to that.

Then the question regarding front book and back book. We don't want to communicate that anymore, the detail reports on that. There is still a small difference, but the difference is much less and has a very minor impact on our [inaudible - background noise]. And we will not, sort of say, discuss that any further. And the way we see forward is that we think it is entirely stable right now. But on the other hand, this is a kind of market dynamics. And whether we will see new initiatives from other operators on this market, we'll have to see. I think that the outlook for this [inaudible - background noise] period is we will have a continuous growth. It will probably be best, percentage-wise, than we have seen in the last few years. And we have already seen that it is easy for use and I think that is also in the material. So, I think that's all we are really prepared to tell you about the mortgage credits. And when it comes to the lending growth, I think you said Estonia and perhaps some other markets, too. I think, Erkki, you have a comment on that.

Erkki Raasuke - Swedbank AB - President and CEO Hansabank, Head of Baltic Banking

Did I get the question right that you said that there has been other attempts to limit the lending process in Estonia, yes?

Kim Bergoe - Fox-Pitt Kelton - Analyst

At least, as I understand it, there is talk about it. I don't know how advanced it is.

Erkki Raasuke - Swedbank AB - President and CEO Hansabank, Head of Baltic Banking

But this is -- it is actually [there] on regular or rather on a central bank level that this is continuous spoken in all three countries with the difference that Estonia has so far acted most radically by lifting the risk rating for mortgages from 50 to 100. And both Estonia and Latvia also have been adjusting their cash reserves up. At the same time, there is -- we haven't seen or we don't -- we have no knowledge that there has been some very recent change other than central bankers continue to talk about the topic. But we are not knowledgeable of any further steps.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Okay. But do you feel -- how likely is it -- are we -- how concerned are -- is the government of central bank? I mean, is it like -- are we going to see another kind of steps and more than talk in the two other countries, in your opinion?

Erkki Raasuke - Swedbank AB - President and CEO Hansabank, Head of Baltic Banking

In my opinion, I would rather expect some further steps than not.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Okay. Thanks.

Jan Liden - Swedbank AB - President and CEO

So next question, please.

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Operator

Thank you. Yes, the last question we currently have in queue comes through from the line of Fiona Swaffield from Execution. Please go ahead with your question.

Fiona Swaffield - *Execution Limited - Analyst*

Good afternoon. You showed a slide on the market share of new sales and particularly corporate loans or I think you said you're writing 29% of the business. Could you talk about the mix between SME and large corporate? And also, whether you think it is wise to be putting on that amount of corporate credit at this stage in the cycle? Whether you were kind of concerned about private equity deals or whether this is much smaller-type business, SME type business.

Jan Liden - *Swedbank AB - President and CEO*

Yes, well, I cannot give you some comments. I think that we, as you know, we think that the corporate sector is extremely interesting and we have been focusing on that for a number of years. And we're seeing increased revenues coming from that sector, in this case, in Sweden. What you also have to understand is that it is fairly volatile with these big volumes coming from large corporates. Sometimes you have big variations. And in this sense, I think we've had a pretty stable increase of some what -- at least we hope to be in some considerable increase in volumes towards the corporate sector. I will not talk freely about in detail what is directed towards the very large corporates and what is directed to the SMEs.

But we see a strong demand in the corporate sector in the Swedish economy because we have this -- we have this good situation for many corporations in terms of that they do want to invest further and they have a good general economic situation. The situation, I think, in Sweden, when it comes to the climate for corporates, I think, is in the next 12 month period, is going to actually improve because the demand is there and the general conditions are compared to before being improved. So, I think that the demand for investment and capital - for working capital will continue to increase.

Fiona Swaffield - *Execution Limited - Analyst*

Okay. Thank you.

Operator

Thank you. We do have a question come through from the line of Aaron Ibbotson from Goldman Sachs. Please go ahead with your question.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Hi, there, yes. Most of my questions have been answered. I just had one follow up and just to see if I got this right. On slide 25, where you highlight the net gains and losses on item fair value, your sort of darker orange bar, which is strategic holdings, eliminations and other. And is there any chance you could break those numbers up and exactly -- or have you given that on various places through the presentations?

Jan Liden - *Swedbank AB - President and CEO*

Yes.

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Aaron Ibbotson - *Goldman Sachs - Analyst*

The 380 or something [ATM] it looks like.

Jan Liden - *Swedbank AB - President and CEO*

Yes, I think if we look into the fact book. I'm not sure if I can find the right page directly, but there you have a better description more detail [inaudible - off mic].

Mikael Inglander - *Swedbank AB - CFO and Head of Group Staffs*

No, I haven't.

Jan Liden - *Swedbank AB - President and CEO*

We are --

Aaron Ibbotson - *Goldman Sachs - Analyst*

On your reference --

Jan Liden - *Swedbank AB - President and CEO*

-- looking desperately in what we --

Aaron Ibbotson - *Goldman Sachs - Analyst*

I was looking as well and I couldn't find it.

Jan Liden - *Swedbank AB - President and CEO*

In terms of --

Aaron Ibbotson - *Goldman Sachs - Analyst*

On page 13, on your reference slides, you give some sort of breakdown, but it doesn't really cover --

Jan Liden - *Swedbank AB - President and CEO*

If you go to the fact book, page 10, I think, you have a better breakdown of the existing parts of the net gains and losses on items of fair value. Perhaps that could be more helpful.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay.

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Jan Liden - *Swedbank AB - President and CEO*

And if you don't have --

Mikael Inglander - *Swedbank AB - CFO and Head of Group Staffs*

Do you have access to the fact book?

Aaron Ibbotson - *Goldman Sachs - Analyst*

I do. It's just that you haven't really split it up the same way as you do on the slide here where you call one of it strategic holdings and eliminations and other. But that's fine. I can probably get close.

Jan Liden - *Swedbank AB - President and CEO*

Okay. Otherwise, you will have to get back to us. But I think that is the most helpful picture we have.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. Thanks a lot.

Jan Liden - *Swedbank AB - President and CEO*

Are there any other questions?

Operator

Yes, we do have just one final follow-up question from the line of Jan Erik Gjerland from ABG. Please go ahead with your question.

Jan Erik Gjerland - *ABG Securities - Analyst*

Yes, just following up with what Aaron was touching upon now. The slide -- or the page 10 in your fact book, as I said, you have a shares and participation of interest. Should we assume that you have -- hold a portfolio of shares and participations of value and that's where you basically gain return on that for -- according to the Swedish market or whatever? Because now we have sold off most of them and you only have [inaudible - accent] left for the strategic holdings I can understand. But what is left and is it the 4 billion or is it 5 billion we should assume, giving a return every quarter? Or could you give us a flavor on that? That would be very helpful.

The second one on following up is the trading within the business areas. Should we understand the trading in the business area, that that is the customer-driven volume you have in each of the business area or is it just eliminations through -- given to the different business lines? Thank you.

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Jan Liden - Swedbank AB - President and CEO

Well, the last thing, I mean, it's almost exclusively customer driven. The first question, I think that the line that you looked at on page -- on slide 10 in the fact book, under the line trading derivatives and fair value option shares participating interest, that is actually the equity trading.

Jan Erik Gjerland - ABG Securities - Analyst

It's the 248.

Jan Liden - Swedbank AB - President and CEO

Yes, 248. Exactly.

Jan Erik Gjerland - ABG Securities - Analyst

Yes, so that is -- that is your -- is both your -- the trading is -- the bank does and the portfolio of stocks you hold. Is that correct?

Jan Liden - Swedbank AB - President and CEO

Yes, but I mean, the -- yes, it is. Because that's the stocks we have.

Jan Erik Gjerland - ABG Securities - Analyst

Yes.

Jan Liden - Swedbank AB - President and CEO

We don't have any other stocks.

Jan Erik Gjerland - ABG Securities - Analyst

But the stocks you hold from market making or just for as a portfolio of stocks you hold?

Jan Liden - Swedbank AB - President and CEO

No, no, no. We don't do that. We only do customer driven trading.

Jan Erik Gjerland - ABG Securities - Analyst

But then that's -- pop up in there as well?

Jan Liden - Swedbank AB - President and CEO

Yes, that is here. I mean, because we are doing very little proprietary trading.

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Jan Erik Gjerland - ABG Securities - Analyst

Yes, but the --

Jan Liden - Swedbank AB - President and CEO

We do --

Jan Erik Gjerland - ABG Securities - Analyst

-- the bank holds -- the bank holds shares and in -- as in different companies, minor holdings here and there. And all that adds up to a portfolio -- normally a bank holds from 1 to 3 billion in holdings, which is mark-to-market. Is this a reflection of that --

Jan Liden - Swedbank AB - President and CEO

Okay. But the thing I think you're asking for is not in that figure. It's coming further down under the line other financial instruments. And we have very little there and right there where I think we have a minus as well, which I think it is the [PPCs] in Norway where we actually made a slight loss when we sold them compared to the valuation the second quarter. So we don't have so many other stocks to value.

Jan Erik Gjerland - ABG Securities - Analyst

Okay. So if I go through the balance sheet and look for the participation or shares of participation of interest for which the customer doesn't bear to risk it, it's a difference between 66.8 billion and 61.3 to around 5.5 billion. Should I not assume that is your holding of --

Jan Liden - Swedbank AB - President and CEO

No, that is holding unit link. That's the insurance part.

Jan Erik Gjerland - ABG Securities - Analyst

The 66.8 minus 61.3, I would think there is a lot [less in your business]. What's the rest?

Jan Liden - Swedbank AB - President and CEO

I think we'll have to be back to you in details. We have a different theory here. So, let us please come back to you with a detailed report and please contact Mr. Inglander or Mr. [inaudible] on that one.

Jan Erik Gjerland - ABG Securities - Analyst

Okay. Thank you.

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Jan Liden - Swedbank AB - President and CEO

Okay?

Operator

Thank you. We have no further questions in queue, so I'll hand back to your speakers today to wrap up this afternoon's conference call.

Jan Liden - Swedbank AB - President and CEO

Well, thank you very much. Thank you for your questions and, again, let me repeat our invitation to capital markets day that we --

Unidentified Company Representative

16th.

Jan Liden - Swedbank AB - President and CEO

16th of November here in Stockholm. Thank you very much.

Operator

Thank you. That concludes today's conference call. You may now replace your handsets.

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