



Final Transcript



 InterCall<sup>®</sup>

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## Corporate Participants

**Michael Wolf**

*CEO - Swedbank*

**Erkki Raasuke**

*CFO - Swedbank*

**Goran Bronner**

*CRO – Swedbank*

**Jonas Erikson**

*Head of Group Treasury – Swedbank*

## Presentation

**Operator**

Thank you for standing by and welcome to the Interim report January to June 2010 first-half results teleconference. 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 one on your telephone. I must advise you that this conference is being recorded today, on Thursday 22<sup>nd</sup> July 2010. I would now like to turn the conference over to your speaker for today, Mr Michael Wolf. Please go ahead, sir.

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**Michael Wolf – CEO - Swedbank**

Good morning everyone, and thanks for attending this conference call. We will have the usual format: I will start, and then Erkki will follow up with financials, Goran will talk about the credit side, and then I will try to wrap up.

Our positive trend continues in this quarter on the global macro level. The second quarter made us all aware of the fact that the deleveraging is here to stay for a while. Most European governments have put strong packages in place to address their weak state finances.

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Is it, of course, essential that for the longer term countries take the necessary decision to regain their competitiveness. The big question mark is, however, the effect that this will have on growth, medium term. The Nordic regions specifically, and to a great extent the Baltic countries, are doing well in a relative perspective. The EU's decision to allow Estonia to enter the EU as of January 1<sup>st</sup> 2010 confirms this. And it will most probably have positive spill over effects on Latvia and Lithuania.

I'm meeting a lot of business leaders of small and larger companies throughout different industries, and the overwhelming majority of them have a positive outlook. For example, more and more companies are feeling the need to build up their inventories. The risk appetite is increasing, but visibility over the longer term is still low. Hence, there is still not enough risk taking appetite to drive credit demand back to more normal levels. We do also believe that the deleveraging in the Baltics is starting to bottom out. The development has also translated to a faster recovery of our financials than anticipated, and we report a strong improvement of net earnings, mainly driven by improved credit quality throughout our markets. The net commission income reached a level we have not seen since 2007, driven by good underlying transaction activity, despite the economical climate. It is clearly our ambition to further increase the relative share of this part of the income statement going forward.

Costs are flat. We continue to be prudent in terms of funding. In the first two quarters we have refunded more than the full year maturities. This gives us good preparedness for the upcoming regulatory changes. We are well capitalised, and we have the SFSA's approval to buy back tier two bonds to the amount of 9 billion SEK.

All in all we are financially in a strong position. We have the necessary buffers to withstand an adverse development in the economy. But, maybe more importantly, we have the capacity to take on business; which is our prime focus.

The business progress has been satisfying in the quarter, even if there is room for improvement. In the Swedish retail area we have seen a healthy activity in the corporate sector, and continually strong credit demand among private individuals. Our newly launched service concepts for both smaller companies and private individuals have been well received. I'm also very pleased with the fact that our new sales market share in the mortgage business jumped to 18% at the end of the quarter. The discussion about new regulation in this area has made customers more aware of risk with lending, and this has changed their behaviours. We continue to develop our market position in the savings business with a healthy inflow of new deposits.

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In Baltic banking the deleveraging trend is levelling off, but it is still too early to speculate when credit demand will turn up again. We are concerned with the political attempts to change debt restructuring laws for private individuals as it would limit the consumers' ability to borrow going forward. The business area, large corporates and institutions have established so called sector teams in the client part of their organisation. Six out of eight sector heads have been appointed.

Finally, we have completed a recruitment of the management team of Robur. Mr Thomas Eriksson is the new head, and joining us 1<sup>st</sup> August. And we have also recruited a new head of sales and a head of operations.

In respect of the financial performance of the business areas I would like to highlight the following. We start with retail, which continues to show strong credit quality performance; net commission improved with good transaction volumes in cards and payments; in large corporates and institutions we had a less strong quarter in fixed income, although with an improving trend during the quarter; whilst the other product areas in markets had a decent quarter. The re-pricing of the corporate book continues to develop well, and we have seen a healthy pipeline of new lending transactions. Asset management continued to show good results and gross flows. The net flows have been affected by the fact that more and more clients have chosen to put monies into time deposits rather than having them in fixed income funds; which so far has been a good call by them.

With that I would like to hand over to Erkki, who will go through the financials.

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**Erkki Raasuke – CFO - Swedbank**

Thank you Michael. Our financial performance in the second quarter was generally quite uneventful. And Michael has already given the main lines or main developments. Nevertheless let me go more into the details of some of the developments and trends we are seeing.

Starting off, then, from the net interest income. We saw the decline of 224 million from the first quarter; but we also see the previous pressure now decreasing. This result was in line with our expectations. We see the contraction coming mainly from CE businesses, high full scale funding cost and maturity mismatch effect. As we speak we are actively re-sizing our operations in Russia and reducing local market lending. The volumes have also been in decline in Ukraine, and this is on a combined basis, reducing NII quarter on quarter by 89 million.

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Increased full scale funding cost, maturity mismatch effect and diminishing returns from equity hedge are recorded under the group treasury, which showed a decline of 204 million. Maturity mismatch [indirect] is expected to start to contribute positively in the third quarter and improve these numbers.

By now we have been seeing declining NII for five quarters in a row, and it has been pushed by different headwinds. But we are also seeing some new developments, which in my mind will stop the previous trend. Firstly, short interest rates have started to increase, and this is both in Sweden as well as in euroland. We are positioned to gain on that as deposit margins are starting to improve, which they already do. Secondly, we see slowly but visibly expanding lending margins in Sweden private, and partly also in the corporate lending. Re-pricing of some of the slower portfolios is also continuing. Thirdly, local currency interest rates in the Baltics have dropped significantly, and the slow acceptance to the euro has clearly helped here. We are seeing declining costs of domestic deposits. And these effects are now rolling in.

Baltic banking was reporting NII increase quarter on quarter by 62 million, and this in spite of the still diminishing volumes. It is also good to note here that we have reached loan to deposit ratio of 118 in Lithuania, and 114 in Estonia; so we are really becoming a deposit funded bank. And as we have such a strong position in retail deposits so it gladly turns the funding advantage towards us.

Based on this evidence in hand and the current short-term outlook I think we have now reached the bottom of the decline in quarterly NII. Obviously some of the headwinds are still there, but supporting factors are starting to become stronger.

I would have thought not to expect a quick recovery, also from the current levels. Lending volumes need to start to grow more convincingly, and interest rates also to keep declining before we can upgrade our expectations more bravely.

If we move on then. I think we have perhaps spent too little time and attention previously on our commission income and its trends; and that is not entirely justified. The good development in here is that from the lower levels in the beginning of 2009, we have now reached back to the pre-crisis positions. As a retail bank our commission income is very granular, and it is generated by the large amount of retail and corporate customers. This is clearly our area of strength as we have a dominant market position in domestic payments, in cards and in asset management of our home markets.

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Fees from payment and cards have been quite stable throughout the downturn, and they are earnings with a very high quality. Recent [close] what we can see has been mostly driven by the asset management, and this part is more linked to the overall development of the stock market. These two areas, payments services and asset management, are also making up the majority of our commission income.

Our front line organisation is reporting good and healthy increase in customer activity, and that should be also the good basis to expect some improvement in commission income going forward.

In net gains on losses on financial items we are showing stronger results than the quarter earlier, but the quality of these gains is not as solid as it was previously. Trading, or more precisely the fixed income part of the trading, was weaker in the second quarter; and this lowered large corporates and institutions contribution by more than 100 million SEK. Full scale funding evaluation effects recorded under the group treasury were showing strong gains over the second quarter. We generally expect these valuation effects to be close to the neutral over the maturity period of our full scale funding, then recent gains will likely be reversed at some point in the future. When exactly, obviously depends on how the market rates will move.

Nevertheless the fact is that we, out of the net gains and losses, we gained 809 million in the second quarter; it is quite a bit ahead of the numbers we showed in the quarter earlier.

Also funding markets were rather choppy and nervous in the second quarter. Spreads were a bit widening, and there were also short periods where the markets were not really well functioning. Partly even because of that we decided to be prudent and push ahead of our funding, and we issued another 50 billion term funding, in addition to the 100 billion that we did in the first quarter. If you remember in the beginning of the year we started off with the numbers that we had 140 billion overall term funding maturing; there is now 60 billion of that that is left. What we also have done to a quite large extent is issuing a solid standalone long-term funding through the covered bonds and senior unsecured. We have replaced maturing short-term funding of the central banks and government guarantee. It is also the first quarter that we see the long, over one year borrowing cost of the new issuance is actually a few basis points lower than the back book; and increased funding cost is really starting to move from the short term to the longer. Also maturities have all in all further been extended to the 25 months now, and covered bond part, which is the core funding source for us, has been extended over 38 months.

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I think it is fair to say that the improvements in our funding profile over the past 12 months have been really massive, and that, together with the credit quality, I would say are two issues which have really turned. So, also I would, going forward, expect that we perhaps see this area more as a business as usual, and we'll spend maybe slightly less time on that.

Let me then conclude with repetition of some of the key income statement numbers. All in all we generated an income of 7.772 billion. This is about 100 billion ahead of the quarter earlier. Expenses were quite flat, with a small uptake of variable staff cost. Profit before impairments slightly better than quarter earlier. There is quite a sizeable change then in credit impairments, and Goran is going to cover that in a second. We also had an uptake in tax expense where we have done special reserves of 66 million for the open dispute we have around the Swedish insurance company. This is an industry wide issue, and the future will show actually if the reserves will be utilised or not. I mean, our general tax position, I would say, has not really changed, other than this reserve standby now.

That takes us to the profit for the period of 1.57 billion; almost a billion ahead of what we had a quarter earlier.

And here I will hand over to Goran.

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**Goran Bronner – CRO - Swedbank**

Thank you Erkki. I will start off with some highlights from the second quarter. I think firstly it's been a turbulent quarter really for the European banking system, particularly the southern part of it, of course. I think it is fair to say that we have no impact or visibility of an effect of this crisis in Swedbank. We have quite low exposures to the European banking system overall, and to the southern part in particular they are very low. We don't see any indirect effect to our clients either; so the clients seem so far to be very much unaffected in this area. But of course we are very watchful going forward of the economic impact here.

Moving on to the improvement areas. I think it is fair to say that the development in the Baltic countries has been positive, not only on a relative term but actually on an absolute term as well in all three countries. We have seen an improvement of fiscal positions. We have seen an improvement in external balances, unemployment in the three countries has turned a corner. And we have witnessed a stabilising increase in property prices in these counties which, of course, are very important for us going forward. And lastly the membership of Estonia into

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Europe significantly reduces the risk in a longer term perspective for the bank, so that is very positive as well.

All in all I think it is fair to say that both the asset side of the balance sheet has continued to improve from a risk point of view; but also the liability, as Erkki was mentioning. On the asset side I think it is a very limited increase of new problem loans, and very much as expected. We have seen significantly low credit impairments during the quarter. We have some recoveries in Russia and Ukraine again. And we actually witnessed positive rating migration in the Swedish portfolio that translates into small release of risk weighted assets in Sweden, which is approved from improved credit quality.

On the liability side, Erkki mentioned it, I think we have had good access to funding. We continued to fund us. Anecdotal evidence to that, I think, is that our USCP programme stood up to \$1 billion starting in the quarter, and we ended the quarter with \$3 billion; which is, of course, a very healthy sign during a period when it has been very difficult to access dollars for European banks. So, it really proves the increased appetite for our name. And we have continued to extend slightly, and the rating outlook looks better.

Lastly just to comment on the stress tests. I think it's been a lot of media focus on the CEBS stress test. I think the quarter we have concluded the ICAAP stress test that we do on a yearly basis in the bank, and we have also conducted two internal stress tests on our private mortgage portfolio and the commercial real estate in Sweden. All of these stress tests show a very high resilience to an adverse scenario in the bank going forward.

Moving in to more numbers and volume developments. I think it is very much the same pattern as before. We see a healthy demand in the private mortgage side in Sweden. And we have seen a slowdown of the deleveraging in the corporate demand in Sweden. We have had a contraction of 4 billion during the quarter, but we see clearly better demand and questions around credit applications and proposals going forward. So, we are quite optimistic on that side. We also see that the growth in the private side will continue in the short to medium term at least.

In the Baltics it is a very big difference between the countries. Estonia is clearly recovering a lot faster than Latvia; but we are seeing the end of the deleveraging. Overall our exposure now with Estonia moving into the euro, so our portfolio exposure to the eastern part of the euro, is not a restriction at all in the bank going forward.

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Moving on to credit impaired loans. We have during the quarter witnessed a small increase. One third of that is relating to private mortgages; the rest of it is relating to corporate credits. I think it is very much as expected, as we have a long watch list, and we have a portfolio of restructured loans. It is very much to be expected that some of the restructured loans move in to being impaired; and some of that have also, during the period, moved in to the healthy pot.

Moving on into credit impairments. I think we have witnessed improvements in all three main areas during the quarter. Sweden is extremely low levels; they can't really go lower than this, since we have a recovery in our LCNI division as well. We have also recoveries in Russia and the Ukraine. The credit impairments in the Baltics have significantly decreased in the quarter as well. Going forward we think this trend will continue. It will be very much depending on property prices in the Baltics. But considering the very significant steep decline we saw from 2007 to 2009 we feel pretty confident that we have witnessed the bottom there.

Risk areas for us, of course, in this is that we have lately and during the quarter seen more talk in the three Baltic countries about debt restructuring laws for private individuals and also insolvency law changes. And we will monitor that carefully and see what kind of effect that will have on our provisioning and also on our lending policy going forward.

Lastly, just to touch on the provisions. We feel very comfortable with the overall provisions of 27 billion. We can also conclude that the portfolio part of the provisioning are continuing to diminish as the rating migration of the portfolio improves. And we can also see here that the actual write off numbers as of today are quite small in comparison to the overall provisions, which we would have hoped to be higher and the inflow into Ektorner from the three Baltic States to be higher. But it is one of the problems that we have, especially in Latvia, that it is a very time consuming and cumbersome process.

With that I think I will stop there.

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**Michael Wolf** – CEO - Swedbank

Thanks Goran. And to conclude, our operation focus is now clearly on making the bank even more attractive, so that our strong franchise in terms of branch network, telephone and internet banking can reap the benefits from an increased client and sales activity. At the same time we believe that we have more operational efficiency opportunities as a consequence of our new organisational structure.

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We are not pleased with the existing cost income ratio. The swing factor is, of course, credit demand, bearing in mind where we are in the cycle. The positive trend that we have witnessed so far should continue for the remainder of the year.

So, with that I would like to thank you for listening and open up to the Q&A.

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## Questions and Answers

**Nick Davey – UBS**

Good morning everyone, and congratulations on a very good set of results. I've got two inter-related questions on funding, and two inter-related questions on NII, if possible.

On funding I just wanted to get a couple of bits of data points from you. First of all can you just let us know where you are now as far as the total stock of issued covered bonds? I know you give us the total side of your cover pool. And just give us a sense of where over collateralisation is on that now, and where you think it might settle.

And the second on the covered bond side. I notice that euro SEK basis swaps are clearly on the rise; can you just give us a sense obviously of where you think that trend might continue, and whether or not that would then make the cost of issuing covered bonds in euros prohibitively high, I guess not just for you but for your peers as well. So, that is on the covered bond side.

The second, just on NII, a couple of data points you used to give us in previous quarterly releases. One, can you just outline please what you expect from the benchmark effect in coming quarters? And also where you are now versus equilibrium?

And finally just briefly returning to that so called hedge in group treasury. My understanding was that there was about a 400 million net positive impact to NII in previous quarters; my sense is that is unwound by about 200 million this quarter. Can you just give us a flavour as to what you might expect from NII and group treasury going forward? Thank you.

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**Jonas Erikson** - *Head of Group Treasury – Swedbank*

On the capital collateralisation in the covered pool, the covered pool size is around 620 billion SEK, with currently outstanding around about 400 billion. So, that gives you a feeling. On top of that we have some internal transactions on our books for interest rate hedging purposes that don't necessarily need to go towards the covered pool. So, if you look at the over collateralisation that we would be reporting to rating agencies and others it would be more like 23% or something, 23.5%. But part of that is internal transactions which we can, if we need to, unwind as well.

So, we feel that we have room for some 75 or 100 billion SEK worth of further issuance over the longer haul in the covered pool.

On the basis swaps, as you point out, they have been on the rise for quite some time now actually; especially they've been very volatile over the last year or so. At present the euro SEK basis swap in the five-year segment would be north of 35 bips; and that is obviously very costly. But it is also worth pointing out that in that market there is, in the longer end, pretty much a one-way flow; whereas in the shorter end it is much more weighed up by sort of real economic and quarter flows. And I think that also goes for other parts of that derivatives market in terms of forwards etc. So, we can also obviously choose not to enter into the contract for the full duration of the funding issue as well; which we have done a bit selectively over the last couple of quarters.

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**Erkki Raasuke** - *CFO - Swedbank*

If I move on to the NII topics. You were asking about the benchmark effect. Just to tell it, the benchmark effect is all of these calculations what we do forward looking the entire approximations, because they also entail assumptions at what speed, at what point, and which terms actually early purchasing the benchmark bonds, which is the basically standard practice of what we do. There are one out of the two benchmark bonds was maturing in the middle of June, and when we really reached... I mean, initially it was over 60 billion; when we really reached into the maturity it was less than 20 billion there. So, that has had an effect. And we have another benchmark bond then in December this year.

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In terms of the trend, yes we were negative in the first quarter, and then most part of the second quarter, and it should now turn. Approximation of the contribution of this benchmark effect in this quarter is around 70 million.

Once again, this is... I've been going deep into these calculations and how we actually do it, and we do a lot of kind of modelling and assumptions in there; so it is not extremely kind of precise science. But an approximation of this effect only, if we try to ring fence it or clean it out, was about 70 million in this quarter.

As I said, it has turned already. We can see that in the latter part of June. I'm hesitating in giving you the exact numbers for the third quarter, other than saying it should actually swing back quite a bit. We shall see and we will report that in the third quarter.

The second part of the question, what you ask about the NII of the group treasury: I wasn't sure that I really got it. You said that it has had a really strong positive part earlier. I don't think that is true. I mean, we had been reporting, other than fourth quarter, generally actually there has been a net deficit in the group treasury in terms of NII or basically shared services and group stuff.

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**Nick Davey - UBS**

Perhaps could I clarify? I think it probably moved when you re-disclosed your divisional's. My sense was that so called hedge used to appear in Swedish retail; and Swedish retail NII was relatively flat. And I think post the divisional re-disclosure my sense was that the impact of that hedge had been moved to group treasury. And I guess that explains, Q on Q, why group treasury now is declining. Am I off the mark there?

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**Jonas Erikson - Head of Group Treasury – Swedbank**

There are several hedges in place for term fixed interest rate risk. If you look at the hedges that are accounted in group treasury, there are hedges where we take interest rate risk on our equity in the group, and then we have other hedges in Swedish retail that are accounted for in Swedish retail, where they hedge a fraction of their demand deposit base for the low interest rate. And that is still accounted for in retail.

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**Erkki Raasuke - CFO - Swedbank**

In addition is that what you say currently, what basically is driving the group treasury NII is obviously this maturity mismatch effect. But also we do try to replicate competitive funds transfer pricing through our mortgage lending; and not to basically... and this is pretty much we take the approximation also from the middle of the market; and we do not just bluntly transfer further the actual funding cost, which has been distorted because of our CEE exposures. That is also basically part of the reason why group treasury NII is currently in deficit.

And on top of that also, over the short period of time, any extensions and further build ups of the liquidity portfolios is also accumulated in that.

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**Nick Davey - UBS**

That is all very clear. Thanks for the detailed answers.

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**Chintan Joshi – Nomura**

I just want to ask kind of a little comprehensive discussion on funding. Apologies for asking you to repeat some of the information you've already given. If I can start; the first question, if you can tell me: how much wholesale funding, both long and short, is maturing over the next 18 months?

Secondly, how much of this is already pre-funded? And how do you plan to refinance the maturing funding in terms of what will be covered, what will be senior unsecured?

The third question is we know that there are refinancing gains coming because of re-financing the government guaranteed bonds; I think you have highlighted between 60 to 80 bips in the past. But a lot will depend on the cost of funding for you over the next whatever, 12 to 18 months. Could you tell me how you see your cost of financing evolving over the next 18 months? What are the key concerns here? And I guess for me the key concern is that the volume might be quite big. You've done quite a bit in the last three quarters, I think about 220 billion; but the volumes over the next 18 months, how do you see that as a risk? And what other risks do you see to your cost of financing?

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And finally you gave, you said earlier that the new funding costs were lower than the back book; could you explain some of the moving components there that got you to a lower cost of funding?

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**Jonas Erikson** - *Head of Group Treasury – Swedbank*

When it comes to maturities you have all the details on page 49 in the fact book; so I will just refer you to that.

Looking at our funding costs it has evolved over the last two years, partly from going into longer maturities, but also partly moving into the government guarantee scheme, which has been fairly costly for us. We have paid up on average, on the term funding we've issued on the guarantee around 160 bips, which is obviously clearly higher than we issue new funding on.

The maturity of those bonds will start from December this year, and a large part of it is maturing next year. So, from that, assuming that between 80 and 85 billion SEK worth of government guaranteed bonds mature next year, replacing that with covered bonds and senior unsecured, will obviously take down the cost of funds fairly materially.

In the last three quarters we've issued 250 billion SEK of term funding, and I think we were quite active early on during the autumn and early on in this year; whereas we've been slightly less active, relatively speaking, in the last quarter when spreads have moved higher. So, on aggregate in the last nine months we have had an average marginal funding cost that has been clearly lower than the average in the market.

What we see from here is that when we issue new funding today we don't extend the maturities as much as we did nine or 12 months ago. That is the largest, I would say, swing factor. Then obviously looking at our CDS spreads or senior spreads, they have actually moved materially tighter over the last nine months; which is not the case for the market as a whole. And that has obviously helped as well.

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**Ashwinder Bakhshi** – *Fidelity Investment*

My question was regarding the announcement you made today regarding buy-back off your subordinated debt. The first part of the question is generally what is the rationale there behind that announcement? The second question was in terms of whether you will be buying back the bonds at par?

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**Jonas Erikson** - *Head of Group Treasury – Swedbank*

To start with, as we've mentioned, our intention is to call them as par whenever that day comes. We are not today going to buy them back at par, but rather at a market yield for where these instruments should be trading. The rationale is simply that we, over the last 24 months, have built more than 500 basis points of core tier one capital. These calls are coming up, and we have in this bank – as far as I know anyway – always called at first call dates; and intend to do so also in the future. Given that our CAD ratio is as high as it is, and we have been still getting the odd incoming call on these instruments, so we are providing a market in them. And if we buy some of them back that's great; that will lower our funding cost slightly. If not at least I think we've provided a service to the market. But we would expect to at least have – I'm not sure exactly where we would come out if we were to issue any new tier two bonds today – but Nordea came out, I think, at 145. The market is wide and slightly thin so add another couple of tens of basis points for the yield difference between us and Nordea and you will have a sort of cost of funding pick up force of around about 100 bips, replacing this with senior unsecured; that is the way I see it.

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**Andreas Hakansson** – *Credit Suisse*

I actually just have one question left, and it is some sort of follow up as well. It's going back to the NII. If you can just look at the different drivers of it, we see that you have been pre-funding also in Q2. Can you tell us a little bit when you did that, and if you expect an impact on that in Q3? And if you look at other drivers of NII, if you look at the long growth that is declining, interest rates going up, what are the drivers that make you feel comfortable that you are going to grow NII in the coming quarters?

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**Michael Wolf** – CEO - Swedbank

I'll try to be quite explicit that I do not expect NII to grow in the next quarters. What I said is that I think we have seen the bottom, and that probably the very short-term growth or small uptake will come from the benchmark bond effect. And yes, you are very right in pointing this: it's not just variables in there.

The trend that we are seeing, and there are multiple kinds of signs, is that the volume decreasing is slowing down. As Michael was also saying, there is a decent pipeline in a corporate part. So late, but the interest rates increase has started to get moving. I mean, we have seen in the Swedish market quite an uptake in short-term interest rates, but also in the euro rate.

Also, not the least important, is that – that is my observation in the last four, five weeks or so – the kind of language around the customer margins, and also the actions have changed in a domestic market. So, this allows also to look, already to see, but also the look is slightly more optimistic towards the lending margins.

The negative that we still have is a question around the volumes. The funding portfolio by far has been generally turned around. You are right to mention that there are some leftovers also for extending the maturities to the next quarter. Currently I would quantify them around 40 million. But we have seen the uptake in the Baltics. I think basically the gains on the deposit margins is actually going to more (volume) also in the third quarter.

One of the things that basically increasingly I would like leave out from the equation is obviously Russia and the Ukraine. There we have basically a contraction story in our hands, and this is... so that, I think, should be slightly looked at separately from the rest of the business.

Does that answer?

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**Andreas Hakansson** – Credit Suisse

Yes, perfectly. Just one follow up on that. I mean, you are the biggest player in rate and deposits in Sweden, and when we saw the rates of one of your competitors hiked I think 27 basis points when the hike was 25; could you tell us what you are doing in terms of pricing and retail deposits at the moment please?

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**Michael Wolf** – CEO – Swedbank

Yes, on time deposits we follow the repo change, so 25 basis points. I think we have a decently competitive rate, but we are not the market leader. If you look at the net inflows we are taking 35%, 36% of the total market; that is twice our back book market share. So, I feel very comfortable that our franchise with the branch network etc reaches out to our customers in a good way.

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**Jonas Erikson** - Head of Group Treasury – Swedbank

Relatively speaking we are slightly more generous on term than we are on short term. Andreas, I think it is also worth mentioning that when we look at the NII development cycle based phase volume growth let's see what happens. The one thing we know is that next year we will replace more than 80 billion SEK worth of government guaranteed bonds that are currently costing us some 155, 160 bips. That should be positive if spreads remain where they are today.

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**Johan Ekblom** – Bank of America Merrill Lynch

Most of my questions have been answered. But given the strong return on profitability how do you think about dividends going forward, given the strong capital position you have?

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**Michael Wolf** – CEO - Swedbank

It is probably an obvious question to ask, and we have a dividend policy stating that we should distribute 40% of net profit. And there is no change in that.

Let's see what the economy does the next couple of quarters in Europe, and what effect that has on the overall outlook.

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**Jacob Kruse** – *Autonomous Research*

Can I just follow up on that dividend question? With respect to your pref shares what is the situation there in terms of your ability to pay dividends this year, given that you have to pay preferential dividends to the pref holders?

And secondly, I just wanted to ask on the Baltics: you seem to be taking a lot more provisions than your competitors, SEB and Nordea, as well as DnB, have done this quarter. Is there a chance that you are getting into a kind of Ukraine situation where you are highly over-provided and we can see recoveries? Or do you see still that significant amount of problems that reflect that kind of 285 basis points provisioning level?

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**Michael Wolf** - *CEO - Swedbank*

On the first question, I think there is a lot of data around the pref shares position versus the ordinary shares on our home page. So, the question is theoretical subject to the dividend amount; but the pref shares come first, and then come the ordinary shares.

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**Goran Bronner** - *CRO - Swedbank*

With regards to the provisions, I think it is very difficult for me to comment on comparisons with other banks; that is more job than mine. I can only conclude that we are guiding for sequential improvement in this area, and then going forward it will be very much dependent on where property prices end up. At the end of the day banks have very different ways of approaching this one. Loss through the cycle, we will have to wait at least another 18 to 24 months before we have a clear answer on it.

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**Hampus Broden** – *SEB*

I just have a question on a small business area, but there was still a rather big swing this quarter: in the NII in Russia and Ukraine. The NII basically halved this quarter, and we just note that from

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the peak lending is now down 50%, but NII is down 80%. Given your swing in this quarter I just wanted to check with you what you think will happen going forward? Is that NII basically going to zero, or will it level out, or perhaps bounce back at some point?

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**Erkki Raasuke** - CFO - Swedbank

Theoretically it can go even to the negative, can't it? No, I think you are well spotting that, Hampus. It is the case that we have been in, as we call it, resizing move now in Russia from the fourth quarters. Basically the numbers are coming in with a certain delay. Also if you look to the fact book actually, the personnel difference quarter on quarter in Russia is down by more than 140 people. So, we are clearly exiting from the domestic corporate lending there.

What we also have currently is that why the NII is actually collapsing so quickly is that it is a combination of three things: overall volume reduction; secondly, a month of the impairments, which are quite high and part is there in the portfolio, which currently obviously stays; and then thirdly also is that when we are also looking to the liability side, basically because we are re-sizing then some of the deposits also have left, and we are currently slightly stuck with some of the higher costing term deposits there, which is also putting additional pressure. So, these are basically the three things.

What you should expect going forward, I mean you should expect perhaps less dramatic drops, but nevertheless still a contraction going forward.

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**Fridtjof Berents** – Arctic Securities

Good morning. I have just two short questions. The average maturity on the new funding you are taking up during first half of 2010 is split on senior and covered; if you could give me that. The second question is related to the legal changes potentially in the Baltics. As I don't know the proposals in detail I wondered if you could just highlight some of the effects there and how we would potentially play out on collateral values regarding provisions, if that is possible. Thank you.

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**Jonas Erikson** - *Head of Group Treasury – Swedbank*

I don't have the exact numbers for you on the marginal new funding that we have done, but I would say it's around about four years, or slightly above. On the senior side we have issued about 20 billion SEK, where two-thirds to three-quarters were in three-year segments, and one quarter was around about two-year segment. And over and on top of that we have done fairly small numbers of private placements in the two and three year segments as well.

The maturity extension obviously comes then from the covered bond side.

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**Goran Bronner** - *CRO - Swedbank*

On the law changes in the Baltics, I think if we summarise it, there are debt structuring law changes for private individuals being discussed in all three countries, and also in Latvia there is insolvency law changes for the corporate sector around the table. In general I think the ones that are we seeing being discussed in Estonia is very similar to the EU standard, and is not of a significant concern to us. The ones we have in Lithuania is, I think, very less progressed in parliament, and it is very much on an idea basis; so it doesn't really concern us at this moment in time.

The thing that of course effects us the most, both positive and negatively, are Latvia, since we have a much higher proportion there that is, I would call it, un-collateralised on the private mortgage side. I think we will see a law change there. We will have an election, though, before it becomes implemented, and we will have time on the private debt restructuring law to continue to effect that one. And we have done so lately; so it has been very much imported down from the regional proposals. That part is, of course, a concern to us, and we are looking at it from a provisioning point of view. It is not material in any degree. I'm more concerned from a lending point of view that actually the implementation of this will hinder or sort of delay a recovery on the private mortgage market and the credit demand because banks will be somewhat more harsh in their lending policies.

Then on the positive side in the same law change, we have the insolvency law change for corporate credit restructurings and the court proceedings relating to that. That has been very much pushed by IMF. We are very happy with that fund. We want that to continue in order for us to really move ahead with repossessing collaterals and having their final write off on the things

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and have things coming in to Ektornet. So, all in all in the Latvian situation it is a positive and it's a negative.

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**Chintan Joshi** – *Nomura*

I just have a quick follow up. I've been looking at the fact book you have: over the next two years about 360 billion coming up for refinancing. How do you think this will impact refinancing spreads going forward? To be fair, you have raised 220 billion over the last three quarters; but I just want to know how you think about how spreads move forward from here.

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**Jonas Erikson** - *Head of Group Treasury – Swedbank*

I mean, to give an outlook on where spreads are moving I think is really difficult. Let's see where the market goes. I feel given the volumes that we have issued in the last nine months I think that says something about to which extent the market is ready to swallow Swedbank issued paper. I mean, 250 billion in nine months, and spreads haven't really moved; if anything we've moved tighter. So, that is the best answer I can give you.

I wouldn't expect a material impact on our spreads from what we have on our finance. You also have to remember that someone is obviously choosing to sit on this paper that we need to refinance at the moment, and I would assume that is an active choice; especially in Sweden where the large covered bonds are; and there the refinancing is normally quite un-dramatic in terms of it is done through market makers, it is done on a very continuous basis, and it is often done ahead of each maturity. I mean, as Erkki mentioned, in June this year we had a maturity which started off with volume levels four times higher than the volume was on the day of maturity. It had been rolled prematurely.

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**Mike Harrison** – *Barclays Capital*

Good morning everyone. Two questions, hopefully both quite short. First question is: you previously talked about pulling back from the domestic mortgage market in Sweden, and kind of giving up share because you are concerned about credit quality in a rising rate environment. We

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are not getting rising rates and higher mortgage share of new sales. I wonder if you could just talk us through what is driving this change in attitude.

And then secondly, just around the flight path on group cost income ratios: where you see them going and over what sort of time period. I mean, obviously that would be reflected in volume of business; but just a bit more clarity around that would be helpful. Thank you.

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**Michael Wolf – CEO – Swedbank**

We have not been concerned with our credit quality. The back book is fantastic. What we have been concerned with last year is that we had a GDP decline of 5%, whilst we had a credit expansion north of 10%, or close to 10%, driving profit prices up quite significantly in the switch market. So, we changed our lending criteria already in the spring of 2009. With the new regulation everyone else had to follow suit.

With the regulation coming on board there has been quite an intense debate in the media around this issue, and I think consumers have started to listen and realise that it might be smart to fix interest rates not only on three month periods, and it might be smart to have slightly more buffers. As far as I see it, our uptake in new sales market share to 18% at the end of the quarter is evidence of that, because we haven't changed anything internally; we are conducting business as we have done the last 12 months. And with our franchise and our market position in Sweden, we should continue to see that trend develop to our advantage.

Cost income ratio: we are clearly not happy with 0.57; we should come down. And the big swing factor here is credit demand.

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**Michael Wolf - CEO - Swedbank**

I would like to thank everyone for participating and asking good questions. I look forward to hearing from you in the next quarter. Bye.