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PRESENTATION

Operator

Good afternoon ladies and gentlemen and welcome to Swedbank Q2 results for 2008 hosted by Jan Liden, President and CEO. My name is [Ena] and I'll be your coordinator for today's conference.

For the duration of the call you will be on listen only. However, at the end of the call you will have the opportunity to ask questions. (OPERATOR INSTRUCTIONS). I'm now handing you over to your host to begin today's conference.

Jan Liden - *Swedbank AB - President and CEO*

Thank you very much and welcome to this telephone presentation and questions and answer session.

We -- I would like to go through briefly the presentation and the results as we presented it this morning, and I have a slide titled number two please to show that as a summary.

We think we have a good opportunity here to show you the very solid results we had this quarter.

We have a net profit for the quarter, who is 24% above last quarter and it's 16% above the same quarter last year. And if you compare the first six months of this year compared to the first six months last year, we're 8% above. That is, of course, very good.

A nice -- the even better thing is that we have a very solid and robust result in all the business areas where we're working, like Swedish Banking, Swedbank Markets and Baltic Bank and International. So, that is, I guess, one of the first messages.

We have also talked about the Baltics, of course, because that is something that has occupied many people. And we think that our current analysis reveals that we see all the Baltic countries in a negative part of the business cycle, and we still have a slowing economic growth and also a very high inflation in some of these indicators.

That has led us to again try to quantify the impact on our businesses. And what we see now is that growth of the businesses is slowing down, and also that the provisions that we think is conservative, but still prudent, to make has to be revised. And we earlier spoke about 50 to 70 basis points this year, and we have now said it's going to be very close to 70 basis points.

We think that the macro picture has deteriorated not only for the three Baltic countries, but also for the Nordic countries, including Sweden, and it's mostly an effect of the international sentiment and the inflation that is affected by higher energy prices and food prices.

We have also discussed the liquidity for the Bank, who has been good all the times and who has -- and what has also been improved since we converted our mortgage bond to covered bonds in the end of April.

We have also had a new objective when it comes to capital adequacy formulated by the Swedbank Board as of yesterday, where they say that in a mid term prospective, that is about three years, they think that in terms with full Basel II, when we formulated according to that, the Tier 1 capital should be between 8.5% and 9.0%.

We have also said that you have to look at our P&L carefully when you look at the net gains and losses on financial items. This quarter was an extremely good quarter. Last quarter before that was very poor. So, that's why we think and do the comparison six months to six months, where we still have a very good effect.

The -- all the business units you see on slide three, which is where you see the stable results in all the business areas. And if you continue to slide number four, I think I will not get into detail here, but I think that this slide is important, because we -- our focus as management is, of course, to implement all the strategic and operative initiatives we have formulated and initiated. And that is different in the different countries.

We think we have a lot to gain from increased -- continuously increasing productivity and that is evident in all markets. But also now, I think there is great potential in Baltic Banking, which they are right now occupied in implementing.

If you look at the macro picture, there is clearly so -- as I indicated before, that we have a slowing economy in all the areas. Definitely if you take Sweden, who is our greatest exposure, it will probably perform better than the EU average, but it will be slower than we previously thought. And on this slide you see the GDP growth for Sweden compared to the EU average and also the inflation development. And we expect that to become lower and hopefully having a better situation '09.

On slide six, you see the Baltic macro development tried to be summarized very short words.

The slow down in Estonia continues. Estonia is probably the first country into this part of the business cycle, and also the first to come out of it. A lot of initiatives have been taken to handle the situation. But still, GDP will slow to about 2% in 2008 and hopefully recover a little bit at least in 2009.

In Latvia growth will be even smaller and the bottom of this cycle is we expect to take place in spring or winter 2009.

In Lithuania the effect is so far less accentuated, but still represents a slow down. And you see on the graphs here that both growth and inflation is clearly worsening, and we hope that towards the end of this year that the inflation will level off.

In slide seven, you see a summary of the credit quality. The credit quality for the Group is still good, but the losses or net provisions are increasing.

You see also on this slide seven that we have defined to avoid all the misunderstandings I think we had at one time what we mean by loan losses net. And that is now increasing and you see that further confirmed in the lower part of the graph, where we -- you see the impaired loans who are also increasing. Still at levels, which we think are more normal. I think what we see now is the situation that it's becoming more normal after a few very, very [good years].

The slide eight is, I think, an interesting slide, because it has been a lot of discussion regarding the situation in the different Baltic countries. And what you see here is our own statistics combined with the public data that is revealed by Bank of Estonia and Financial and Capital Market Commission in Latvia.

And what you see here is that the Estonia overdues 60 and 30 days, and overdues in Latvia 90 and 30 days, and you see on the red graph, which is the lower part, is the data from Hansabank, and the brown graph, which is the upper one, is higher. So, the conclusion is that actually we in Hansabank have a better situation than the rest of the market and indicating, of course, also that the quality is well in line with what we have stated before.

In slide nine, you see the credit quality in Baltic Banking expressed in figures. And you see that this quarter ended with 0.54 basis points ending up in 47 for the first six months. And to repeat myself, we think that that could end in about 70 basis points at the end of this year. And you also see on the lower part the overdues.

As for '09, we have also stated that, regardless that we don't usually give forecasts, we think that there are so many opinions floating around now that we wanted to give you our best estimate. And that is that we see a continuing difficult situation in the Baltic countries, ending up in net losses of about 120 basis points. And even so, with that robust earnings capacity we have, we will still be able to meet most of the objectives for Baltic Banking also during '09.

On slide ten, we talk a little about valuation effects and that is this line I indicated before, net gains on financial items. And you see here the portfolio in Swedbank Markets did not change in value during this quarter. So, the effect on the quarter was zero.

In Group Treasury intra-group lending, that is when we fund ourselves centrally in euro and supply Hansabank for its needs. Then, of course, we tried to neutralize the interest risk centrally in the Treasury department, which means that depending on the loan needs, in Hansabank they get the maturity times they need. And we are funding ourselves and to match that, we have to apply different derivatives to match this effect.

Those derivatives have to be valued -- market valued, and there you have the volatility you've seen between the different quarters. The first quarter, we had a negative valuation of these derivatives of SEK253 million and this quarter, we have an upgrading of the value SEK419 million.

We have said that also in the report that we expect to introduce new accounting principles, so that we can neutralize that volatility beginning next quarter, so that we will get away from that.

In Swedbank Mortgage about the same principle, that they are matching the interest and FX risk and also have to value the derivatives in that respect is, however, very minor [influence].

In slide 11, we point to that and start to discuss the different business areas.

In Swedish, we have a good growth of new businesses, both with private customers and corporate customers. And therefore, we -- but we see a decreasing growth rate in mortgage lending to the private sector right now.

In the mortgage, we have now much more stable mortgage margins; both when it comes to new lending, which actually shows a slight increase, and the back book is now very stable. Margin in corporate lending is slightly or slowly increasing.

Deposit margins, however, have decreased as a result of mix effects. That is that customers are now going towards more attractive savings accounts, rather than the transaction accounts.

The increase in electronic services is still very strong. And when it comes to cards, debit cards and credit cards, that is, of course, also related to an increase in revenue for us.

And an indirect effect of that is also that when MasterCard listed itself on the stock exchange we were given a small portion of shares. Those shares we have during the quarter sold off with a net gain.

The quality is still very strong in the Swedish portfolio and I think again it needs to be repeated that half the Group's lending is actually from the Swedish mortgage. And that portfolio has a 43% loan to value. And I think that is something that it sometimes forgotten or misunderstood.

The slide 12 tries to summarize the operations in the Baltic Banking. We have here a very strong and stable income. We have lending margins who have decreased, because of that we have not been able to fund them as -- at the previous lower cost. So, the cost has increased and that has not yet been fully transferred to the customer.

We have deposit margins, who are affected negatively by decreasing domestic interest rates and we also have a few extraordinary items. That is we sold acquiring company, acquiring card transactions in Estonia which gave us a net gain of SEK66 million. And we have also reduced previous provisions for profit based remunerations for staff with SEK185 million.

And that's -- if you look on the graph you see income and costs, of course, which is developing nicely. You see the grey line, which is indicating the cost income ratio. And even if you take away these extraordinary items, which I talked about, they are still maintaining to be within their goal of keeping a cost income ratio below 0.42.

International Banking, we have changed Head of International Banking since Mr. Ek has retired. And he has been replaced by Mrs. Wijkstrom, who previously was Head of Swedbank Market.

In the International Banking which is Ukraine, Russia our Nordic branch offices, we have a strong net interest income development due to the increased volumes. And we have, of course, in Ukraine a lot to do with building up the infrastructure. And, therefore, we have somewhat higher costs since we are currently investing. Still the Ukrainian banking operation is showing a profit and it's performing better than we actually (inaudible).

In Russian banking we have continued to do business in a more stable level. We have changed top management. We have recovered tax on lease assets of about SEK20 million. And as I said before, we have strong lending growth in the other mortgage branches.

Slide 14, Swedbank's Markets business, since Mrs. Wijkstrom accepted new tasks, we have appointed Mr. Magnus Geeber to the new Head of Swedbank Markets. We have a good and stable income in all our businesses. And the difference this quarter compared to last quarter is that Corporate Finance have improved their results, both in Sweden and in Norway, compared as I said with the first quarter this year.

Slide 15 I think is an important one, because I think that is the base for some misunderstanding sometimes. If you look at our portfolio, as I said, half of it is Swedish mortgage. And that portfolio we found exclusively on the capital market through right now cover bonds, and also to some extent to commercial papers. That works very good and has been doing so for a long time. And, of course, we are helped by the conversion to covered bonds.

The rest of the lending, as you see on the upper pie, is divided into different countries, [as you see Sweden] 30%, Estonia 7%, Latvia 5% and Lithuania 5%. That you can say is funded to a large extent by our deposits. And then there is a smaller amount that needs to be funded for for these (inaudible). And in addition to that our equity are divided by this portfolio and the mortgage portfolio.

On slide 16 there is this new capital adequacy target mid term formulated. And as I said, the Swedbank Board has decided that we should be 8.5% to 9.20%. This is actually also a fairly cautious and conservative estimate. As you know, we have now been through this Basel II exercise, both having the methodology approved for large parts of the Bank; also run our portfolio through this up with the result of that; then added the so called Pillar 2, which is an adverse scenario, defined as once every 25 years we can see such a thing. And then, also on top of that added a buffer and still we have enough of capital even if you do that exercise [in three] steps.

And that we have confirmed, of course, with the Swedish FSA, who are the ones who approve this model. And our conclusion is that this is -- should be enough. Even so, to reach all this we come to a lower figure as the goal of Tier 1 capital. So, we have been slightly more ambitious in setting the goal 8.5% to 9%.

I think I'll stop there and hand over to Mr. Inglander to talk about the figures in the slides 18 and ongoing.

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

Thank you for that. I make just some short remarks and beginning with slide 18 I think it shows in a very good way the robustness of the development in Swedbank Group.

Important to underline when it comes to financial [objectives] is that the other objectives stated by the Board has not been changed. Meaning that return on equity is still one of the most important measures for us. And if you look here you can see that we are developing well, 18.6% as an average for the quarter, is at least, with two of the peers reporting, well above what has been report in their quarter increase.

Also, earnings per share is growing with a good speed, as is the Tier 1 capital ratio, as Jan was touching on. And also, I would like to underline that one year ago we -- looking in the (inaudible) Bank into the figures on the third quarter, that decreased our capital ratios. And we also stated that during '09 -- sorry, '08 we would restore the level of Tier 1 capital. And that is also what we can report today. That we have done. We are now in line with what we had after Q2 in 2007.

If you then turn to page number 19, there you have the full income statement. And I would like to make some -- a few remarks here. And that is if you start with NII, I will get back to that, as for net commission.

Net gains and losses, here you really see what Jan already mentioned. The development between quarters, it's mostly unrealized valuation effects between Q1 and Q2. If you take the average you will see that it's in line with Q2 2007.

Other income you had in Q2 again from sold branches here in Sweden, which is not the case for this quarter. But we had a net gain from divestments on MasterCard shares. Deducting those one-offs still you will see that it is quite a good operational development of the revenues during this quarter which, of course, we are proud of showing.

Going to the cost side, I will get back to that later on.

Loan losses as you can see here, they are -- do increase, but they are well in line with our own expectations and what we have said before.

Tax rate is lower than the average. It's just 20% for this quarter due to non-tax profits. But we still think we will come in line with the long term targets on 22%.

Turning to page 20, net NII and the Swedish Bank and Baltic Bank I will cover later. A few remarks on International Banking, we are pleased to see that all business units within International Banking, i.e. Russia, Ukraine, but also the Nordic branches is developing well when it comes to NII. Swedbank markets, you normally see a little bit of a volatility, but this was a good quarter and the volatility is between net financial gains and NII.

Shared services and other there is also a volatility and that is due to the Treasury effect, but also internal Bank, which we have seen before.

Turning to page 21, a breakdown of the NII in the Swedish Banking unit; still good development of volumes, it's up 3% between the quarters and 12% on yearly basis. Lending margins now stable, which is a changed pattern if we compare with previous quarters, and that is also what Jan has commented.

Deposit volumes still growing between quarters, but pressure on deposit margins, mainly due to that we have mix effects by customers appreciate high yielding, long term savings account and are pushing in more deposits on those accounts and leaving the transaction accounts.

Other changes is the hedge effect in the P&L of Swedish Banking, but a very stable development between (inaudible).

Baltic Banking shows similar development when it comes to volumes, 3% up; over 20% year on year. Lending margins under pressure and that is due to the increased funding costs in the euro market, which not yet has been passed on to customers.

Deposit volumes still increasing, but we see a pressure on margins and that is not pressure from the market. It's actually the base rate -- domestic base rate in the three Baltic countries, which is coming down with a much higher (inaudible) than the Euribor rate in comparison. And the main deposit is the higher transaction accounts, which is yielding at zero. And the whole effect then will kick in to the P&L.

On the other hand I stated before, in the item of other changes you have a mitigating effect in the Treasury unit, which is taking away actually the full amount of the compressed margins.

Turning to page 23, commissions developing nicely; payments going up mainly due to that we see decreased transaction volumes, and especially acquiring card transactions has boosted their revenue streams. Lending provision and commissions is mainly due to Project and Corporate Finance deals done within Swedbank Markets, which have shown a good development over the quarter.

Brokerage and Asset Management is affected by the poor development in the stock market. And Corporate Finance, as we said, for the first quarter it was low levels, which was not indicating that the market has totally slowed down. It was we have a good dealing flow, and I think you can see that for the second quarter result.

Expenses on page 24, net net they have been quite stable, but you should not forget, of course, the recovery of -- within Baltic Banking and the profit based salaries where we had covered SEK185 million.

In Swedish Banking positive development with costs going down; Baltic Banking with this deduction still slightly up, but below the level of inflation. International Banking we have investments in -- of course, you have Ukrainian Banking, which was not part of our Group Q2 '07. But also investments in Ukrainian Banking, that is mainly within OpEx and business development.

Swedbank Markets is up due to better results and the profit based salaries. Asset Management and Insurance, we have had integration costs for Folksam Fond, which we have said that was one-offs, and that is also shown in the figures for the [quarter, while] the integration is finalized.

Summary of our main business areas on page 25; Swedish Banking, as already stated; good development, income stable even under this difficult times; expenses going down; operating costs going up and ROE on a -- from our point of view, [reached] good level of 22.1%.

Also Baltic Banking developing very well. And, of course, there are some one-off effects, both on the income side and expense side, but still a very stable development. And International Banking developing very well; revenues -- expenses going up in line with own expectations.

Swedbank Markets a very stable development, in spite of the difficult financial markets and asset management (inaudible).

(Inaudible) page 26, our key figures; return on equity on 18.2% [sic - see presentation] for the first half year. I think that will be a tough challenge for many banks to match. Earnings per share were going up, that's equity per share; cost income close to our long term target of being below 0.50. So, we're not there yet but not far from. Loan losses on a low level still, but increasing in line with our own expectations and our Tier 1 ratio, as already mentioned, it's 8.8% and in line with the new target the Board has put up at being between 8.5% and 9.0%.

I think I end there and hand over to (inaudible).

Jan Liden - *Swedbank AB - President and CEO*

Well, thank you very much. We have come to the time for -- we have a slide 27, which is the same as the first slide where we try to summarize this quarter. But we will happy to try to answer your questions and comments now.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS). We have a question from the line of Derek de Vries from Merrill Lynch, please go ahead.

Derek de Vries - *Merrill Lynch - Analyst*

Hello, it's Derek from Merrill's. I have two questions if I might. The first one relates to the SEK419 million gain and I understand this relates to derivatives. And I understand going forward you're going to move this into some cash flow head. So, we won't see that volatility again.

But you did give a description of what caused the gain? And I'm a little confused. I was wondering if you could give a little more clarity. I understand you're funding yourself in euros and then you have the ability to swap that. Are you swapping into local funding in the Baltics?

Or in other words, what should I be looking at to try to estimate the position there that led to that SEK419 million gain? Some more clarity there would be helpful.

And then on your guidance for next year for Baltic provision, the 120 basis points, I was wondering if you could just talk about your methodology for coming up with that number? Was that done on a very bottom up looking at the loans and saying, what's the probability of this loan defaulting and if it does defaulting? And if it does default how much are we going to provide against it?

Or is it done based on your assumptions of GDP and your assumptions of inflation and unemployment, those things?

If it's the latter not the former I was wondering if you could give us some idea of the sensitivity. What if GDP was at zero instead of your forecast which you've outlined? And what if inflation stayed at current levels? It would be interesting to know what are the most important drivers if it's done on the second methodology. Thanks.

Jan Liden - *Swedbank AB - President and CEO*

Well, thank you, two questions. I think I would like to ask Mr. Jan Lilja, who is our Head of Treasury to answer your first question. And then Erkki to respond to your question regarding the forecast regarding losses. Please Jan.

Jan Liden - *Swedbank AB - President and CEO*

Okay, the first question then is that our funding is in floating rates. So, we lend money in the capital market in (inaudible) in two to five years in floating rates.

The Hansabank, they need fixed rate to match their books. So, what we are doing is to add a derivative when we are paying fixed rates in euros, to ensure that we don't have any interest rate risk. But the IAS19 goes to a situation where we have to mark to market just this part of the derivatives in the portfolio.

So, when rates were moving down in the first quarter we had to valuate a lot of money. And now in the second quarter what we have seen the euro rate moving up, we also have some valuations effect that is positive for the Group.

Derek de Vries - *Merrill Lynch - Analyst*

So, you've swapped floating for fixed essentially and as a result you've got gains in the quarter?

Jan Lilja - *Swedbank AB - Head of Treasury*

That's correct.

Derek de Vries - *Merrill Lynch - Analyst*

Got you.

Jan Liden - *Swedbank AB - President and CEO*

And then Erkki please on the losses on -- in Baltic Banking.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Yes, the methodology is covering actually both aspects. It is built both on the wide macro picture and then it is bottom up on all of the sub-segments of the portfolio. And exercise does cover 100% of the loan portfolio order.

On the macro side the most important inputs there are GDP, unemployment, inflation and the debt origination or debt growth or non- growth. And we do not disclose the inputs, but do say then we do not forecast there improvements in 2009. So, basically the scenario has been built that it reach into the slowest point and stays there over our scenario time period of over time.

Derek de Vries - *Merrill Lynch - Analyst*

So, just to follow on then, so the 120 basis points is built on a different scenario than the scenario you provided us on page six?

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Correct.

Derek de Vries - *Merrill Lynch - Analyst*

Okay.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

And on the bottom up then it's on the large corporate side, rated company side. So, what it -- the main inputs are portfolio growth and amortization client downgrades based on the watch list, rating migrations by the sectors, and also the possible changes in loss gain and defaults.

And in all other parts, which are mass market products, as we call them, that is the small sized enterprises and product individuals, it's based on the portfolio growth and amortization trends in overdue payments over 30 days, which we have been then building into the expected [vintages]; then also the proportion of the overdue payments over 30 days, which then will convert into the eventual default or overdues over 90 days. So, that's basically the bottom up.

Derek de Vries - *Merrill Lynch - Analyst*

And on that, in terms of what loan growth -- loan growth obviously is pretty is important when you're talking provisions, because of the impact on the book, are you talking Q2 like loan growth or --?

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

We have been reiterating our guidance for 2008, which is around 10%. And we have not set any numbers for the -- 2009 and I'm not also going to do it now.

Derek de Vries - *Merrill Lynch - Analyst*

Fine, thanks.

Operator

Thank you. The next question is coming from the line of Sasu Jarvinen from Credit Suisse. Please go ahead.

Sasu Jarvinen - *Credit Suisse - Analyst*

Hello, it's Sasu Jarvinen from Credit Suisse, just two slightly bigger picture questions, and first a follow up on the Baltic credit quality if I may?

If we roughly assumed similar level and type of economic challenges in all of these three Baltic countries do you see any structural differences in your business or in the market itself, which could result in different level of losses in these three countries?

And then secondly on the funding, could you just shed some light to your recent funding activities, the spread increase you have seen in the Swedish mortgage or covered bonds, and on the other hand unsecured?

And if we assumed unchanged funding spreads going forward, how do you see lending margin developing following a few quarters of pretty significant margin pressure, at least in the Baltic operations?

Jan Liden - *Swedbank AB - President and CEO*

Yes, I think it's virtually the same subject as the last question is, but please Erkki, number one to the credit quality?

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Yes, the underlying assumption is that Estonia and Latvia broadly will follow the same path, which is Estonia slightly ahead and Latvia follow, meaning reaching close to zero growth rate or even slightly going negative. We do estimate that Lithuania is coming through the cycle better and will -- the lowest point will not be as low.

Talking now about expected loan losses, then we do expect the highest credit costs to come from the Latvia. And the overall economy is most stretched there, but also what we do also realize ourselves is that our origination quality has been different in Estonia and Latvia, and mostly that's due to the availability of the client data.

And Lithuania, due to the mostly macro picture, but also our newer books -- and we virtually started to build the new portfolios just 2001 and 2002. So, we expect actually the portfolio to stay most robust there. So, we could say that. And if we give guidance we expect roughly to come higher than that, Estonia about the middle and Lithuania lowest.

Jan Liden - *Swedbank AB - President and CEO*

Okay, are you happy with that?

Sasu Jarvinen - *Credit Suisse - Analyst*

Yes, thanks very much for the color. Maybe one follow up, any chance you could elaborate a bit, 120 basis points, any massive difference between, let's say, households and corporates.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Absolutely, the -- proportionally the largest part of the loan losses we do expect them from the corporates. And I don't want to go more into the details, but then there are quite sizeable differences in the different sub-segments and sectors.

Sasu Jarvinen - *Credit Suisse - Analyst*

Sure.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Good. And then Jan, perhaps you want to comment the question regarding the funding issues again?

Jan Lilja - *Swedbank AB - Head of Treasury*

Well the funding issues, in terms of funding -- first, we have the mortgages and the mortgages they are in fixed rate and the higher funding costs will be transported to the customers, because we are adding a margin to the funding costs, both on floating and fixed rate products.

Then we have funding costs for the banks. The utilizer of the higher -- the costs that is rather expensive for (inaudible) that is for the Bank and the Hansabank Ukraine and Russia, who utilize this money, so the rest of the parent and the Swedish operation that is funded by deposit.

Sasu Jarvinen - *Credit Suisse - Analyst*

And any chance you could give a rough indication on the spread and what you have seen more lately? Let's say, issues you have done in June or May compared to January?

Jan Liden - *Swedbank AB - President and CEO*

If we look at the Bank, what we have raised there I think, as for many Banks we have the higher funding costs for the parent. In the first quarter we saw something around 16 to 25 in terms of your Euribor plus. And that's was for [terms] one year to three years.

What we have seen now during the second quarter is somewhere between 25 up to the highest, that is 75, what we paid the public deal we did in April.

Derek de Vries - *Merrill Lynch - Analyst*

Okay.

Jan Liden - *Swedbank AB - President and CEO*

So, roughly to give you an estimation, I think on average something, 40 basis points to 45 basis points that we have paid for [term] money.

Sasu Jarvinen - *Credit Suisse - Analyst*

Yes. And on the Swedish mortgage bonds, something around 25, or --?

Jan Liden - *Swedbank AB - President and CEO*

In terms on Swedish mortgage bonds, they're not priced in terms Euribor plus. They are priced in fixed rate.

Sasu Jarvinen - *Credit Suisse - Analyst*

No, sure.

Jan Liden - *Swedbank AB - President and CEO*

So, when we are trying to match our books we do that when our customers have rollover and that is priced in fixed. So, that is fixed yield. That could be plus two. It could be plus five. It doesn't matter.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay. And in terms of your ability to pass on these higher funding costs to your lending customers, we have clearly seen that in Baltics it's not very easy compared -- based on what you have reported now in Q1 and Q2. Do you see any light in the end of the tunnel in this regard?

Jan Liden - *Swedbank AB - President and CEO*

If you look at the mortgage book you can see that we are higher net interest income of SEK85 million. So, we have the ability to pass over the higher funding costs.

Sasu Jarvinen - *Credit Suisse - Analyst*

And in Baltics?

Jan Liden - *Swedbank AB - President and CEO*

Yes, in the Baltics it's -- the headline rates to the clients have been increased. And probably they could and then should have been more increased on the mortgage side, but no complaints on the other areas really.

But the difference is that the lending in the Baltics is done off from the Euribor -- on top of the Euribor and there is no prime in between. So we -- and the portfolio just does not turn over so quickly to adjust the quite the sizeable changes in the fund income.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay, good stuff (inaudible). Thanks very much for the color.

Operator

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

Geoff Dawes - *Fox-Pitt - Analyst*

Hello, good afternoon. Geoff Dawes here from Fox-Pitt, if I can ask three questions. I'll keep them quite brief.

First of all on net interest income and margin trends in the Baltics, we obviously saw lending margins fall quite significantly on a quarter on quarter basis in the Baltics. Part of this I'm sure is due to funding cost increases, but can you give us a bit of color on pricing trends in the Baltics, given the relatively low level of volume growth the market could expect that you've got a reasonable amount of latitude to price loans as aggressively as you want but we're not seeing that come through in the numbers?

My second question would be on defaults in the Baltics again I'm afraid, slightly different question though. You mentioned that the increase in loan losses was partly or mainly due to private customers in real estate management companies in Latvia and Estonia. Can I just ask what's driving the increase in loan losses, particularly for private customers, because obviously we haven't seen any impairment in terms of wage inflation, and we're yet to see any widespread unemployment in the region? So, what's causing private customers to default or go into overdue status?

My final question, very brief; Swedbank Markets, a very good quarter in that division; I know first securities was particularly strong. Can you just give us a bit of flavor and a bit of color for what products? And what areas were particularly strong in driving the good results in that division? Thank you very much.

Jan Liden - *Swedbank AB - President and CEO*

Well, thank you. If I may start from the end to comment on Swedbank Markets' results, we have very good results in basically all the different product areas. In spite of that there is a lower activity in total but the change, based on that robust -- bottom, so to say, or base we have, as you rightly point out, also shown a very good result in Corporate Finance and Project Finance this quarter compared with the last quarter.

And I think you have to look upon it that the first quarter was a very, very [weak] quarter and now we're back to a more normal and better situation, both in Sweden and in Norway.

When it comes to the default -- increase in private and corporates clients in the Baltics I -- and also for that sake, the net interest and the margin to talk about trends there, I leave it to Erkki.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

As you pointed correctly that the biggest part of the margin decrease is due to the cost of funds, which has been really quite rapid for the Baltic operations. So, if we talk there about the matched funding to the portfolio, so the average funding cost now to the Baltic Banking has been -- there it's been 80 to 100 basis points over Euribor and we were around probably 20 basis point a year ago -- plus 20.

But second, also there has been -- and continuously there is a structural change also in the -- or there is actually a significant structural change in the new origination if you look.

So, the real estate management, which has had the widest margins previously has basically stopped, and also because there has been continuously negative migration in the portfolio.

So, we have tried to strengthen the portfolio also by tapping the really high quality credit in the high end of the risk ratings. And they have been with the lower margins as well. So, these two things contribute, but most of cost of the funds.

And the second part is that what drives the private [low revenues] then, yes, you're right there. Unemployment really has not peaked yet. So, we -- or has not really increased significantly yet. We do expect it to happen. Mostly the financial strength -- stress of the private individuals comes in as the variable part of their pay is reduced.

So, they still have the job but the variable part is reduced and then as some of the clients are facing difficulties. So, there is -- the situation is weakest in Latvia where about 1.6% to 1.7% of the mortgage portfolio now is over 60 days overdues.

The same trend we can also see in Estonia and in Latvia but -- sorry, in Estonia and Lithuania, but to the lesser extent.

Geoff Dawes - *Fox-Pitt - Analyst*

Sorry, just to clarify on that, in Latvia you said 1.6% of the total mortgage book is now 60 days overdue, and that's due to variable rate interest payments. Is that correct?

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

No, no, no, because the variable income of the private individuals --

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Geoff Dawes - *Fox-Pitt - Analyst*

That's variable income, right.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Has diminished, yes. So, they still have their job but they are seeing less pay now for their job.

Geoff Dawes - *Fox-Pitt - Analyst*

That makes sense. And on the variable interest side, what percentage of your customers are on flexible interest rate mortgages?

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Vast majority.

Geoff Dawes - *Fox-Pitt - Analyst*

Vast majority, okay cool. That's very helpful, thank you very much.

Operator

Thank you. The next question is coming from the line of Fiona Swaffield from Execution. Please go ahead.

Fiona Swaffield - *Execution - Analyst*

Hello, can I ask three questions? Just starting with the Baltics, the coverage ratio, the stock provisions to impaired loans has come down significantly. I wondered if you could explain why that was. Whether it was mix? Or it just seems rather strange given that you're talking about higher provisions going forward in the Baltics?

The second area was just stepping back and looking at pre-provision growth or pre-provision profit in the Baltics. Costs are growing obviously faster than income, given you've got this issue on margins. Is that something that's going to continue?

And then the last area was Sweden, I think in your press release you talk about dark clouds in Sweden, but obviously loan loss provisions are very, very low there still. I know you've got a lot of mortgages. But could you talk about where you could see the credit cycle turning? And what would be -- you talk about the Baltics doing 120 basis points, what do you think could be seen in the Swedish loan loss ratio for '09 and '10? And where are the issues? Thanks.

Jan Liden - *Swedbank AB - President and CEO*

Well, let me start by being a little bit boring and saying we don't actually give out forecasts and we will not do that now either. We have done one exception to prove the rule and that is the predictions for our Baltic Banking for '08 and '09.

Regarding the cost structure in the Baltic Banking, we have invested a lot in a number of interesting projects, circling around the subject of increased productivity. And that we hope that we will gain the advantage and result of that already during the end of this year and next year.

But I'm sure that Erkki can outline that a little bit more in detail, and also perhaps comment on your question regarding the impaired loans and the provisions in relation to impaired loans.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Yes, there are currently two major topics [stable] in the Baltic Banking. They are efficiency and credit quality.

What comes on to the efficiency to follow up on Jan's, we are committed on -- 42% cost income ratio. At the beginning of the year, as -- we have been manage to keeping that and we are continuously committed to reach that. It doesn't come just like that. Obviously it takes a lot of work, but we are confident on achieving that also going forward.

In terms of the NPL coverage, this is exactly the mix issue here. But the overdues have been growing in residential mortgages and overdues in mortgages do not (inaudible) are that sizeable. Provisions are stable with the start of the consumer finance or are unsecured lending in the corporates.

To be more precise is that loss given default in a mortgage is well inside of the 30%. So, that would give you the feeling that if the loan or part of the portfolio does go into the default, that at what level of provisions will be provided on that. And they are definitely not going to be one against one.

Jan Liden - *Swedbank AB - President and CEO*

Okay?

Fiona Swaffield - *Execution - Analyst*

Could you just say -- I know you're not going to give us any loan loss ratio guidance on Sweden, but you do seem relatively downbeat versus some of your competitors on the Swedish economy. And could you just say what that could mean for credit quality over a cycle or if we'll even see a cycle in Sweden?

Jan Liden - *Swedbank AB - President and CEO*

Downbeat, well, I'm not so sure we're downbeat. I think what we see is a slowdown in the economy. We still thing we have robust macro data here. And perhaps from this very low level we will see some increase, but it will not be no dramatic change.

And we don't see these changes out there yet. So, I'm not so sure that we -- I don't think that the word downbeat is correct in this sense.

Fiona Swaffield - *Execution - Analyst*

Okay, thanks.

Operator

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

Per Lofgren - *Morgan Stanley - Analyst*

Thank you very much. Yes I have one question left. Just wanted to ask, you mentioned here that you have finalized the Pillar 2 and additional buffer discussions in connection with setting your new financial target here.

Could you please shed some light on your discussions with the regulator here? What part of your business do you think that you need more capital under Pillar 2 and also extra buffers? I can guess some but would be interested to hear what you have to say.

Jan Liden - *Swedbank AB - President and CEO*

Well, I will not reveal the detailed discussion with the regulators. I will though state the obvious that we have agreed on the methodology, on the numbers that this e-cap exercise came up with. We have also stated that apart from that we have quite a big buffer put on, and then there is still more capital left. So, I think we are well capitalized and that they have confirmed that.

They have also said that this is valid for the mid term perspective. And that is why the Swedbank Board decided on a new goal, which is a little bit more conservative than this scenario as it played out. So, we are even more cautious when formulating new target to stay within the range of being well capitalized.

If you look -- and we have also said that it will probably increase the primary capital ratio we would like to stay in the upper level of this segment also when we come to the end of this mid term period. And the reason is, of course, that we expect to be exposed to new markets, like Russia, Ukraine and also the growth in the Baltics when they -- that -- these economies are recovering. And that probably means that we will have a need for more equity allocated to this business.

Per Lofgren - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Jan Liden - *Swedbank AB - President and CEO*

Thank you.

Operator

Thank you. We have a question from the line of Aaron Ibbotson from Goldman Sachs. Please go ahead.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Yes, hello there. Most of my questions have been answered, but just a couple of short ones. First of all, in Asset Management, I'm just trying to understand. Your commissions went up in the quarter, despite what I assume was a quite difficult quarter with outflows and shrinking volumes. I just wanted to know if you could shed some light on the income dynamics there with consolidation etc.

And finally, I just wanted to know if it was possible to get an update from Erkki on the property market development, if we've started to see a pick up in activity in Latvia and Estonia? Prices have been falling, but just what his view is on the situation in the Latvian and Estonian property market.

Finally, very briefly, just if you could mention the strong NII in markets, net interest income. It's a bit of a mixture between line items there, but I just wanted to know if you could give some idea of how we should look at this going forward considering the high jumps of the last four quarters? Cheers.

Jan Liden - *Swedbank AB - President and CEO*

Well, if I start from the end and, yes, Markets did show, as we said a good result. And that is only due to what their basic business is developing.

And I think that if you look at -- it's hard to predict, because it's by nature a volatile business. But if you look at the last few quarters and especially compare the trading net plus the interest net, you see a very stable development. And I hope that to today and I see no indication why we shouldn't see that.

And the other things that affect maybe other operators like evaluation -- valuation issues and such things, we have very little of these so far.

And as for the real estate prices in Estonia, I think Erkki could comment on that please.

Erkki Raasuke - *Swedbank AB - Head of Baltic Banking*

Yes, I would start off with disclaimer is that we are not really good in estimating the property prices. That's not the strongest side of our selves. And actually we could say is that, yes -- and now I am generalizing also that the prices from the peak -- in May and June 2007 residential real estate prices probably came down 20% to 25%.

We are prepared that they will move further down by another 10% or so. But all in all, that they would probably lose more than one-third from their peak. So, that is the best estimation we currently have.

The markets are very quiet and the activity level is -- it's fair to say it has more or less leveled off, but it has also leveled off at a very quiet -- or very small number of transactions. And we -- again, in the short term we do not expect or we don't really see a good reason why the things should improve rapidly there.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay.

Jan Liden - *Swedbank AB - President and CEO*

And your question when it comes to Asset Management and the commission we get there. I think that -- without being very specific, I think that one has to look at the commissions are based on the average value of the underlying assets. And what we saw in the second quarter was an increase in the beginning of this quarter, both in April and in May. And they're increasing, of course, the value but also then the commissions.

Then we have seen quite a drop in the value of the underlying assets in the last few weeks of the period and that affected it negatively. But the net net was a slight increase.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Thank you. We currently have no questions coming through. (OPERATOR INSTRUCTIONS). We have no questions coming through, so I'll hand you back to your host to wrap up today's conference.

Jan Liden - *Swedbank AB - President and CEO*

Well, thank you very much for attending this conference and goodbye for now.

Operator

Thank you for joining this conference. You may now replace your handsets.
