**Q3 Results 2009**
**Swedbank**
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**CEO Michael Wolf**
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*Operator:* *Good morning, ladies and gentlemen, and welcome to the Q3 Results 2009 Conference Call. At this time, all participants are in listen-only mode. Later, we'll conduct a question-and-answer session. Please note that this conference is being recorded.*

*I will now turn the call over to your host, Mr.- - CEO Mr. Michael Wolf. Please go ahead.*

Michael Wolf: Good morning, everyone. We have experienced yet another hectic quarter with the successful closure of the rights issue being the main event. The interest for the rights issue was strong, and we had a significant level of oversubscription, but we also succeeded in getting many of the small shareholders to participate, and that's very pleasing. With the rights issue in place, the shareholders have proven that they take the responsibility to ensure our competitiveness. Our positional strength will be used to continue to offer competitive services, to act rationally and long-term when it comes to exposures on the reconciliation, and to improve the quality of our funding. Our short-term priorities will not change, and we will therefore continue to focus on the asset quality side, earnings capacity, funding, and finally capital management.

Starting with asset quality, we reiterate that the rate of impaired loans will level off during the second half of 2009 and the tendency in the third quarter confirms this. Apart from the intensive efforts in the work-out units, we have now moved further ahead with preparing our-self for taking over assets. We have established a company for this purpose, Ektornet, and recruited a CEO with over 20 years experience from the real estate sector. Pre provision earnings for the first nine months of the year is at par with last year, even if we have had market related headwinds. The re-pricing efforts continues and the capacity adjustments in terms of lower headcount announced in the second quarter is moving ahead according to our plans. In the area of liquidity and funding, we continue with our prudent approach and have prolonged the maturity profile yet another two months to 20 months in average. The rights issue has also improved our access to the funding markets outside the government guarantee at competitive terms. We have during the quarter issued SEK 50 million in non-state guaranteed long-term funding. All this enables us to look ahead and set a strategic agenda for the medium-term. We are a quarter late in this process due to the rights issue.

But during the fourth quarter, this will be our main focus area. First and foremost, we recognised the new environment and we welcome it. This is favouring a more traditional banking model, a position that sits well with our heritage. Our medium-term strategy will evolve around our core strength, our market position in our four home markets, and we will gradually move to a stronger tilt towards the Nordic and Sweden in particular. We will come back to the market with more specific details of this strategy, but it's a change journey that will take time, three to five years as earlier communicated. We are going from a conglomerate to a unified group and this will require significant cultural and structural changes in group with corresponding investments in infrastructure and personnel.

Let's turn over to performance in the third quarter in the different business areas. Starting with Swedish Banking, they continue to perform solidly in spite of the recession, and most impressing is that we still do not see any impairment losses to be worried about. Baltic Banking continues to operate in the harsh environment, but we're very pleased that the tendency in the second quarter on Estonia is confirming itself in the third quarter, while Latvia only seeing - - is having a slightly weaker position. International Banking is affected by the poor performance in Ukraine. The only positive is that we're seeing the end of the tunnel in terms of impaired loans. Swedbank Markets have had a strong performance year-to-date, but the third quarter is the weakest seasonally but well above Q3 2008. Asset management benefits from the strong equity markets, and we have seen a positive trend in market shares on new sales since the bottom of this summer. After the quarter, we agreed to compensate clients in three of our Estonia funds. The reason for that is that the regulation in this market was not very clear nor were our fund regulations, and it's in light of that we thought that the right thing to do was to compensate our clients.

With this, I will hand over to Erkki, who will go through the results in more detail.

Erkki Raasuke: Thank you, Michael. Indeed, we are operating in a challenging environment, and our third quarter results are showing that. In the first half of 2009, our results were supported by strong trading results and extraordinary income. Third quarter results can be described as according to our own forecast with continued pressure on the earnings of our East European businesses. Group net interest income was falling quarter-on-quarter by slightly by more than SEK 200 million, and this fall was mostly driven by our Baltic Banking and International Banking operations. In Sweden, our NII holds well. It is supported by structural balance sheet hedge and gradual repricing of the portfolios. In the Baltic Banking, we have strong pressure on revenues, and I will get back to that in the following slide. In Ukraine, significant part of our portfolio has became impaired, and this obviously takes down the NII. Swedbank Markets total result should be seen in connection with their net gains and losses. In third quarter, there were stronger NII earnings and lower net gains, and we also will be back onto that.

If we look closer at our current earnings headwinds, then they are coming from in post stabilisation fee by Swedish regulators in the third quarter, but reaching back over 2009 in amount of SEK 195 million, 110 million of that we were allocating to the Swedish Banking and the remaining to the other business units. Secondly, we do have historically low interest rates. Single most... This is the single most significant contributor to the fall of NII in the Baltic Banking, which we are also outlying in the chart at the right-hand of this slide where you can see that. Thirdly, increased overdue loans in the Baltic Banking and International Banking is taking NII down. Secondly we... Or fourthly, we also have a sizeable open currency position in the Baltic Banking, and this does not become without a cost. As we have... As we are the holdest *[sic]* - - holder of the largest pools of demand deposits nominated in local currency, then we have less of the local currency lending. And finally, the headwind in NII terms is that we see the general deleveraging in Eastern European businesses.

Some of the very same drivers are giving us also reasons to look more optimistically towards the future. Interest rates have been bottoming out and every increase of the rates will be beneficial for us as we are the largest holder of demand deposits in all four of home markets. Current sizeable short local currency positions comes at the cost, as already said; and when market outlook is starting to improve, we're seeking to reduce these positions and to employ them through our earnings. Risk based repricing of portfolios is continuing, and that is giving us opportunity to gradually extend the maturity profile of our debt markets borrowing going forward.

If we move on to the net gains and losses, then we see that there is continuing volatility in that. In the third quarter, we've got the negative valuation effects in the Swedbank Mortgage, but this needs to be seen in combination with very strong NII in the Swedish Banking, so they're partly offsetting each other. In Ukraine in banking, we had FX losses driven by local currency regulation and accounting treatment. They also have been partly offset through the positive effects against equity. Now we have adjusted IFRS treatment and future FX related volatility should be taken directly against equity. In third quarter, as already said by Michael, we also saw seasonally lower business volumes at Swedbank Markets. But once again, very strong NII in the markets here.

If we move on to the expense side, then the quarter back we gave additional disclosure of our capacity adjustment plans. And here we are moving according to our schedule. We had planned to reduce our headcount over the second half of 2009 by 1,350 people, more than 700 of that we have gone through, and we also our committed to our plan first half of 2010 to reduce the headcount by another close 2,400. More on the expense side that we had some one-off IT-related write-offs in the Baltic Banking in amount of SEK 45 million in the third quarter, and we also did some accounting changes around describing the repossessed assets and work with them. This also has been elevating the Baltic Banking expense base by about SEK 40 million.

If we move on to the next slide, so here we are trying to give some more disclosure on our tax treatment. Excuse me for that. Over the year 2009 while witnessing credit losses in the Ukrainian Banking and also in the Baltic Banking, so we have tried to find the right treatment in terms of creation to defer tax asset, and this has been partly, (inaudible) right. When we started off the first quarter, we created a sizeable deferred tax asset in Ukraine. But while going further, the tax outlook actually has been worsened; and by the end of the third quarter, we have decided to write back all of this deferred tax asset creation, so we have no deferred tax asset left in Ukraine. And while going forward, we're also not going to go create that. In the Baltic Banking, we also have tried to balance the right amount of degradation of the deferred tax asset. We did some catch-up in the second quarter; and in the third quarter, due to the bottom up process, we ended up perhaps too much on the conservative end. If you look to the rest of the group, which is part of making running profit, so here we have a fairly constant tax charge of more in excess of SEK 600 million, and that is expected to continue. To add this volatility up, our normalised tax charge from quarterly basis should be somewhere around SEK 300 to 350 million, so you can see that the third quarter we have been doing some catch-up because of the first and second quarter treatment. But going forward, we should be more or less in a bank between SEK 300 to 350 million.

Then if we try to sum up our third quarter results, so we ended at 8.1 billion total income, which is lower than quarter before. But as said, we also had no really sizeable extraordinaries, as well as there has been a lower trading income. I was outlining the tax expense, over SEK 700 million, and we ended the quarter with 3.3 billion loss.

Third quarter was above expectations strong in our funding side. We have kept very high liquidity buffers, as we also already are building them up quarter back, and these are kept for the reason that because we are right now in the middle of the quest of moving away from the state guarantee program. Our forecasted cash flows are positive over the next 24 months, and we intend to keep this positions also shortened going forward.

Strong debt capital markets over the third quarter, also combined with our own rights issue, having improved our access to the market-based funding. As already said by Michael, we have been raising more than 50 billion long-term debt outside of the guarantee. Also, we have raised over 50 billion short-term debt outside of the guarantee. And during the first quarter, only 1 billion was issued inside of the guarantee program. It's also fair to say that since the announcement of the rights issue in mid July, we have not utilised the state loan guarantee. We have run down partly our central bank repos, now reaching to the 165 billion and being over 200 just quarter ago. And as already mentioned, we have also extended our average maturity of wholesale funding by another two months. We started the year with a 14 months average maturity, now we have moved into the 20. We keep eye on that. The ambition is to build it further. But as said, we are in the middle of the process of moving away from the state guarantee program, and that is the primary focus right now.

And with that, I will hand over to Göran.

Göran Bronner: Sorry for that. Thank you, Erkki. Before moving on to the slides, I just want to say that I think that the asset quality in general are developing according to expectations of management. I think not only are we starting to see the first positive signals that the problems are abating, but also I think that it follows the patterns that we have seen in the earlier quarters with regards to where our problem areas are.

With that, I think impaired loans increased during the quarter with SEK 6.1 billion, in Swedish krona. But I think we have state there, we have a rather huge positive FX effect due to the strengthening of the Swedish krona. Taken that into account, the impaired loans grow with 8.9 billion, which is slightly less than in the second quarter. Going forward then and looking to the components here, I think it's fair to say that Sweden is really developing well considering where we are and where we have been in terms of real economic development. During the quarter, we have actually seen a reduction in absolute terms where impaired loans with a little bit more than SEK 250 million. And also credit losses or provisions in the Swedish operation are only SEK 150 million for the quarter. That together is of course a very, very healthy sign of the Swedish operation. Going further into Estonia, I just want to make that this first sign we saw earlier on that Estonia was clearly developing better than the other two Baltic countries has been confirmed during this quarter where we see a much slower pace of impaired loan growth and as in fact September month where we actually saw a decrease in actual terms of impaired loans, which also gives us good hopes going forward, not the least considering that the macroeconomic developments in Estonia are much better. Then turning to the problem areas, I think they're well known. The really outstanding event during the quarter I think is the Ukrainian development where we now have 44% of the portfolio being impaired, and we're taking a substantial hit during this quarter. With regards to Latvia, we are seeing a slight reduction in impaired loans, while a small increase in Lithuania.

I talked about positive signs during the quarter, and I think the positive signs are the development in Sweden of course, Estonia, but perhaps the most importantly is that we are seeing a (inaudible) - - a reduction in the growth rate of impaired loans in all three Baltic countries of 60-days overdues, which are the primary barometer to field an asset quality out there. And from that, it's very early days, but it's of course a positive signal.

Moving on to provisions, we took impairment losses on 6.1 billion during the quarter. It's 2.3 billion in Ukraine, a little bit more than 3 billion in the Baltic states, and the rest is distributed between Norway, Sweden, and Russia. The provisioning ratio are basically the same. For on the group level, we brought it down slightly in Ukraine, while it's increased a little bit in Sweden and Russia, but there are no real messages in there. We have during the quarter reallocated from group collective provisions SEK 2 billion into individual asset provision, and that's a natural phenomena as the work-out units are progressing in the work according to speed. We have a total of 22.5 billion of provisions in the Group, whereof almost 7 billion are group collective provision at this stage. Actual write-offs for the quarter were almost SEK 800 million, and I think we are now in the middle of this cycle we are still in early days with regards to write-offs, that will increase going forward of course.

To comment a little bit about the restructuring work, I think it's fair to say that the work-out units now have been operational for a little bit more than a quarter. They are operating at full speed. We have penetrated more than 70% of the weak corporate portfolio in the Baltic countries that now have an active business plan. The target is for us to reach more - - at 100% at year-end. One problem starting to arise in this is that the foreclosure process in these countries, and particular in Latvia, is will become a problem going forward in terms of the speed that we can take borrowers to foreclosure and take control over collaterals. The courts are overworked and also there are legislation changes that we would like to see. That is something we will start to work towards authorities in these countries on. Moving on to Ukraine, as I said and as Michael alluded to, we are now through the portfolio. I would say we still expect some increase in impaired loans for the next quarter. On the other hand, we are planning to continue to decrease the provisioning ratio slightly during next quarter as well as the visibility increases. And of course as a result of that, the P&L impact of this portfolio will be less going forward. Moving on to Sweden, I think just to come back on Sweden, I really think I want to emphasise the operation there. Not only have we seen a decline of impaired loans in Sweden, but we also have a very, very limited increase of the watch list during the quarter, which also gives us comfort in the stabilisation. So we... All and all, we are conservatively positive on Sweden, while it's still early days. We need to see the exit strategy for the central banks before we can really make a proper assessment of the credit quality through the cycle, but so far very good. It's nothing during the quarter that has made us change that the provisioning ratio will be changed through the cycle from 30 to 50%.

Then moving on to repossessing of assets. We have... As we have earlier announced started Ektornet AB, which is a subsidiary of Swedbank AB where we will put in repossessed assets. It will be a completely independent organisation with its own processes, reporting systems, and we will have completely different skills in this organisation compared to the bank. It will consist of very much real estate related assets. So far what we've seen, there are few industrial companies that eventually could become - - come our way ownership-wise, so that is a positive sign as well. The organisation will be fully operational at year-end. Today, we are possessing assets in different companies in the organisation, but all of that we'll put into one legal structure before year-end. We have, as Michael, said appointed an experienced CEO, which I think is very good going forward. We need to build the business plan for each asset, and that is a very lengthy process actually to see to it that we have done the due diligence and covered all risk on the assets before we move them over to this company. There will also be an external valuation of the assets as they move from the bank into this company. All in all, we - - with the visibility that we currently are having, we are seeing that we will repossess in Ektornet somewhere between SEK 5 and 15 billion up until end of 2011, and most of that will of course be in the Baltic arena.

Moving on to capital risk-weighted assets, they continue to decrease with a significant size this quarter as well, SEK 44 billion. I think we were helped during this quarter by the FX movements with 18 billion. But still, the deleveraging in the Eastern European arena together with own efficiency measures and also own repricing measures have continued to reduce the volumes also in the Swedish operations. Going forward, I think it's fair to say that it becomes more and more difficult for us to improve processes and get further reduction on that item line. On the other hand, we continue to see deleveraging in the Eastern European countries, as well as we continue to see repricing and exit of below hurdle assets in Sweden. The unknown factor for us going forward is of course what the credit demand will be in Sweden as things are improving. But we are now after the rights issue standing ready to do good business as we see coming.

Lastly then before we open up to questions, just to highlight where we are in terms of the capital position. If we look at the core Tier 1 capital ratio of the bank, it was 9.7 at the start of this year. We have so far booked losses of 8.7 billion. We have managed to reduce our risk-weighted assets quite significantly. And by the end of this quarter, we actually have improved core Tier 1 capital ratio to 9.9%. On top of that, we have during this quarter also then successfully completed the rights issue, which puts us in a very good capital spot I would say.

Michael Wolf: Thank you, Göran. Just let me summarise. This quarter puts to end to our first phase of the recovery journey. All actions in the last two quarters has been with a long-term focus to re-establish Swedbank based on the more traditional banking model. We have completed the rights issue. We have reduced risk-weighted assets with SEK 90 billion. We have prolonged the maturity profile of our funding with six months. We have established the structure and resources for the work-out units to focus on asset quality, and we have started to initiate the necessary capacity adjustments to downside the bank to match deposed crisis demand.

With that, I would like to open the floor for Q&A.

*Operator:* *Thank you. Ladies and gentlemen, if you have a question, please press star and one on your touchtone phone.*

*Chintan Joshi from Nomura is online with a question.*

Chintan Joshi: Hi. Good morning, everybody. **I have three questions to ask. The first question is on net interest income. You are terming out the maturity of your funding. It's gone from 14 months to 20 months. It would be great if you could help us quantify the impact from terming out this funding. For example, SEB has guided that the cost for them is going to do be about 2 to 2.5 billion. Would be great if you could give a similar number or a quantification because of this. The second question is on your guidance for credit costs. You reckon that 2010 losses should be lower than 2009. It would have more meaning if you could say whether Swedbank - - do you expect Swedbank to be profitable next year or not, or is it too early to kind of give guidance on that? And the last question is just to understand the impact on Swedbank accounts from say a 15% devaluation in the Baltics. I would expect that you'd have to book an upfront credit cost, risk-weighted assets would come down, and there would be an FX loss in the compliance of income line. Am I missing out on anything? And if you can quantify some of these, it would be great if you assume a 15% devaluation.** Thank you.

Erkki Raasuke: All right. I start off with the funding question. The largest moving part in this fairly complex equation is obviously the market pricing of the debt, and that's what we have seen is a significant reduction of the margins over the last now three/three and a half months. So it's fair to say is that all of the spreads, yes, all of what we are have been now recently showing without the guarantee is actually at or below of the levels what we used to issue under the guarantee, plus the guarantee fee on top of that. This is significantly better position than we expected for just a quarter ago so that the markets have strongly rallied, as said also our own rights issue is clearly also helping us in that regard. As this is mostly outside of our hands, so we will be greatly dependent on the markets further performance. I would dare to say is that if the markets will remain at the current state where they are in terms of the credit spreads, then going forward gradually extending the maturity profile should not put significant pressure to our NII.

If I jump immediately then to the question three, which was the 15% devaluation impact, is that without giving very concrete numbers because as well in this equation there are many moving parts, yes, you are right is that if that would happen as suddenly went that we were - - our capital would get a boost out of that. But we think that over the time that would be offsetted by increased credit losses.

And Göran, maybe you can comment that one further.

Göran Bronner: Yes, with regards to the devalue impact of 15%, I think it's fair to say that we will have a compression in time of both impaired loans and provisions due to such a devaluation. I think over 15% devaluation is very much in the cards, in the planning cards of the bank. The segment that will be most hurt, that so far has performed well across all the three countries you could say, so of course the private individuals. While the corporate sector is I think - - I'm very much hesitant what the effect at will be there since you will see positive signs for many corporates as well. Some of them being to some degree export dependent, but also that property market will suddenly with the devaluation start to wake up as well.

Turning on to your first question with regards to 2009 and '10, I think we have said all along that we see that impaired loans should - - growth rate of impaired loans should come off in the second half of this year. And with that guidance earlier, I think it goes that we are seeing the 2009 are the most problematic year for the Bank, if nothing unexpected happened, and therefore you can expect to see lower credit losses provisions 2010.

Chintan Joshi: **But does that mean Swedbank would be profitable next year or is too early to say anything?**

Göran Bronner: We're not giving any guidance on profitability.

Chintan Joshi: No. Fair enough. Fair enough. Thank you very much.

Michael Wolf: Thank you.

*Operator: Andreas Håkansson with Credit Suisse is online with a question.*

Andreas Håkansson: Yeah, hi. **Just one question first on unit interest income, you're talking about quite many moving parts between trading and NII. Could you just quantify this so we can have a better view on what's happening on the underlying NII? And then secondly, you are talking about that you see increased risk on the mortgage book in Sweden and that you want to slow down your growth in that area. Could you just tell us a little bit with what you're seeing and what the risks are (inaudible).** Thanks.

Michael Wolf: If I start with the second question, what we are saying is that the low interest environment requires us to act prudent versus clients because the effect of this low interest environment has been increasing house prices is in Stockholm during the summer, for example, so therefore we are taking more prudent stands when the probing mortgage credits.

So I hand over to Erkki on the other issue.

Göran Bronner: Can I just comment there because that has been an area of question for some parts that on the book and assets that are currently owned, we don't feel any nervousness on that at all. We have stressed a weak partial portfolios and feel comfort there.

Michael Wolf: So it's more our operational mode out there in the market not wanting to put our clients in a difficult situation going forward.

Erkki Raasuke: On the underlying NII development, I would split the discussion into the two parts and first is that if we really mean underlying development is that then once again rolling them through, Swedish banking versus LIBOR we see through the repricing improving margins and the recent developments in the funding market, we don't foresee that it's going to negatively affect this banking NII. Swedish banking also has been supported by the structure of interest rate hedge which we have been discussing over the many quarters, and it's contribution now to the

NII quarter-on-quarter basis has been flat. But just if we roll it back three/four quarters, it was close to zero. So this is supporting the Swedish Banking NII, and short-term basis we don't expect to be differences in there.

When it comes to the Baltic Banking, then NII has had a major contraction, so we have been trying to also to illustrate that on the Slide No. 7, as you see is that the major part of the contraction has came through the base rate fall as we have not had structured interest rate hedge in the place, but we are bottoming out now in terms of the interest rates. The Euribor has dropped from five - - six months Euribor has been dropping from 5.25 to 1% over the last 12 months and every (inaudible) basically moving up from here would be clearly positive to us. Also, the Baltic Banking NII has been under the pressure because of overdue loans with a lesser of a speed like it has been commented this pressure still remains there.

Thirdly, open currency position, we have a special slide on that in the appendix. Is as well, we are running a sizeable short local currency position. As local currency deposit rates had been moving higher than Euribor rates so maintaining that position is additional cost for ourselves. For time being, we think this is - - it's a good decision to keep that position going forward; and once when the market outlook is starting to improve, we are starting to lower that position. This position is unique. None of our competitors is having that, and this is really due to our very strong retail position. So this is - - these are the underlying developments and then probably needless to say about Ukraine is like Göran was commenting, 44% of the portfolio impaired and this has consequences to the NII in there. Other parts of the business is they are with a minor impact. Now what comes to the relationship between NII and the net gains and losses, then two things in here is that in a general funding picture we are using - - we have been using in the past fair value option and while the credit spread has been starting to widen, it does give us unfortunate volatility quarter-on-quarter basis but also between NII and net gains and losses. And not all of that we are - - we're able at this point of the time down to the last detail to disclose to you. Nevertheless as we know that on the cash flow terms there are no open risks, so over time they will smoothen out.

And what comes to the trading part is that this is very much due to the positioning strategy of the Swedbank Markets will they on quarterly basis will more of their results will it end up in NII or less in a net gains and losses like it was this quarter or if we just go one quarter back, it was actually slight the other way around. So once again here, if we look to the Swedbank Markets overall performance, we should see that general in combination of these two items together.

I hope that explains.

Andreas Håkansson: Okay, that's fine. Thank you.

Michael Wolf: Thanks.

*Operator:* *Peter Grabe, Handelsbanken, is online with a question.*

Peter Grabe: Yes, hi. Thank you. **Two quick questions. Firstly regarding the provision ratio, you say that we shouldn't read too much into it, but it's now flat to 63% quarter-on-quarter and you said in Q2 that over time when the**

**transparency improves in the portfolio, we should expect it to decline. If that (inaudible), can you give any more flavour as to what to expect there in terms of timing on the provision ratio. Secondly, I'm just wondering in terms of lending margins, how much potential you see there is still in the book in terms of repricing, especially the SEB corporate lending book, where are you today and how much can we expect you to reprice in coming quarters.** Thanks.

Göran Bronner: Starting off with the provisioning ratio, I think that it's still early that we envision bringing the provisioning ratio down, but we have stated earlier that we will do that in a conservative way. We have started doing that with Ukraine for this quarter, then we have an increase in Sweden in Russia and that's more in effect that we have a negative development of impaired loans, so we get an increase so - - and we felt it was quite early to sort of start dissolving group collected provisions in Sweden. So from that perspective, we'd rather wait a quarter or two. So to answer your question shortly, yes, you can expect it to go down if it continues to improve, but not at a dramatic speed.

Michael Wolf: In respect of repricing, Peter, Baltic state we're doing a relative good job there, bearing in mind that repricing there could actually create new problem loans, so we are more careful, but I think we're doing a decent job in the Baltics on repricing and we'll continue that through the cycle. At the end of the day, we need to price the risk in these three countries correctly to get long-term sustainable models in place for those markets. In Sweden, we are repricing constantly, and I think the efforts are going very well. And of course, now when we improve our funding situation that we'll also enable us to get a less volatility in funding cost, but repricing will be on the agenda through this cycle. So it's a long-term effort and as loans mature or as covenant are breached, we'll address the issue with our clients. But I think at the end of the day, all banks are looking at this and there's still a competitive market out there.

Peter Grabe: **Okay, can you say anything about how much of the portfolio had been repriced already in Sweden and how much is sort of left?**

Erkki Raasuke: We have commented that also in our interim report. I don't have these numbers right now, but we have said as to how much the portfolio has been touched. Having said that, again, it's an ongoing effort and repricing as such, it does not have a definite start or not definite end. Like Michael was saying, we expect this to continue quite a while, but obviously we are in a competitive market and so we need to see where we're going to end up. It's fair to say that there are still sizeable pockets of the portfolios which do need to have a touch. That's concerning both in Sweden and our Nordic branches. And what we also have been discussing previously is that we have about 7 billion euro mortgage portfolio in the Baltics, which is waiting there and currently basically is having a really negative margin. So this is something that through the changes of the product feature and through the renegotiations with the customers, we, as all of our (inaudible) also need to address in the Baltics, these are not at a sustainable level right now.

Peter Grabe: Okay, thank you very much.

*Operator:* *Robert Noble with Execution is online with a question.*

Fiona Swaffield: Hi, it's actually Fiona Swaffield from Execution. **I just have a couple of questions. Firstly on Slide 13, I don't know if you've said at all how much the cost of funding was in Q3, your wholesale funding. I'd just to be interested to know the cost of that funding versus Q2, so to see whether there has been a marked improvement in the prices you're getting post the rights issue. And the second issue is in term - - in terms of the pre provision profits in the Baltics. I mean are we getting towards being able to say that we bottomed because of what low rates having taken all the pain, or do you think loans are going to go down further? So I don't know if you can help us on the when you think pre provision profitability will bottom in the Baltics.**

Michael Wolf: Okay, let me start with the first question. I mean in Q3, there's so much happening in the credit markets, it's very difficult I think difficult to judge the quarter as a whole. I mean we started... I mean if you look at the five-year covered bond that we issued in May, we issued that at 130 bps to mid swaps and we issued seven-year covered bonds only a few weeks ago at 58. So I mean there's been so much happening in the last four months that I think looking at where we are now, we are issuing at clearly better levels than what we've issued previously when we done long-term issuance under the guarantee. But then again, we haven't really come out in the senior and secured market, but mainly issued under the covered bond market. So I think it's like Erkki says, I mean net/net, it shouldn't have large impact, might be marginally positive run over time.

Fiona Swaffield: Okay.

Erkki Raasuke: What comes to the Baltic pre provisioning earnings is that once again I need to go back to the contributing factors, mostly to the NII. As you see that the net gains and losses have been fairly flat and also there we have a downward trend, but nothing close to as sharp as we have in NII also in that commission part. I think that we are starting to get into the territory where we should start to fill the bottom, but it is - - it's quite dependent on the interest rate development going forward. I mean it was falling another 30 basis points in a quarter basis and that will actually - - we will see some of the results also rolling in over the next quarter as majority of the lending is tied to the six-month floater.

Having said that, I think that, yes, we are starting to get to the low points in terms of the Baltic Banking, provided that the credit performance outlook is what we have been expected to be and we have some additional certainty on that.

Michael Wolf: Let me just add on the funding costs as well that I think the important part for us, and that's why the rights issue was so important to get down, the important part for us is mainly to be not too far from our competitors in terms of funding costs. If you look at the covered bond market where we've issued the vast majority of the 50 billion in Q3, we're current trading between 5 and 10 bps depending on the market from our competition, from the best in class competition. I think that's sort of within a level of where we're willing to issue quite substantial volumes, which we can easily translate into pricing relative to clients. So that's the main importance for us I think.

Fiona Swaffield: **Can I just... Just following up on that, so just trying to under how it's impacted the P&L because I'm still a little bit unsure, so I think what you're**

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| | **saying is this isn't going to be a P&L - - big P&L positive reducing your funding costs because you turning out at the same time is at the net.** |
| Michael Wolf: | Yeah, I think it's two different things. One is the pricing competitiveness relative to clients and there what matters is really our relative funding costs and that has improved substantially since the rights issue. And the second issue is the P&L sequential development and there it's, like Erkki says, when we started issue under the guarantee, we issued at sort of 30/40 bps above mid swaps, plus the 83 bp guarantee fee to the government, which obviously is substantially higher than we're issuing at currently. Let's see where that takes us over time, but net/net should be flat or marginally positive. |
| Fiona Swaffield: | Okay, thank you. |
| *Operator:* | *Per Löfgren from Morgan Stanley is online with a question.* |
| Per Löfgren: | Yeah, thank you very much. It's Per Lofgren from Morgan Stanley. **I have one question left and that goes back to the MPL trends. I just wanted to hear what trends did you see in September and how has October started, very much appreciated if you could comment on that. And please comment on, if you can, on the three Baltic countries, Ukraine, and in Sweden.** |
| Göran Bronner: | I think we are not going to - - we can't give so much details of the information that we have received of the quarter really. The only thing I said was that we saw - - we had actually negative number of impaired in Estonia during September, which was very positive for us. Otherwise, I don't know if I have much to add. |
| Per Löfgren: | **But the absolute number is coming down in Estonia?** |
| Göran Bronner: | We saw one positive month. I think it's you can't rule... It's a positive sign, but you can't say that it's the new trend. |
| Per Löfgren: | Okay. |
| *Operator:* | *Hampus Brodén with SEB is online with a question.* |
| Hampus Brodén: | Yes, hello. Thank you very much. **I'm looking at Page 12 in your presentation where you say that you have now liquidity for more than 24 months, I'm just curious if that's the figure that was 18 months in Q2 or if there's been a change in definition of some sort. Next question on the same theme. Like you said that the prolonging of the funding duration should not necessarily have to pressure the NII going forward. I was just wondering if you make the same assessment regarding moving from central bank funding to market terms funding, which has to be done, the bulk of that will have to be done in Q3 next year, if I understand it correctly. If you wouldn't be ready to give us a cost assessment for moving from those central bank funds to markets term funding at that time it would be more interesting. Then a third question on different topic is just I was wondering if you could say anything forward looking regarding costs.** |
| Michael Wolf: | If I start with the last one, it's definitely on our agenda and we have clearly articulated that pre provision earnings are important for us, and we will continue to look into the cost side going forward. If you... Albert *[sic]*, if you look at the |

liquidity growth, what it says, it actually contains both last quarter's numbers and this quarter's numbers in the same graph, so what you can see, and I think that for us the most relevant is rather what the number is when you go out say 24 months. What we say here is it's more than 24 months and it was actually already in Q2. The number after 24 months, and this is like a stress test of contractual cash flows and liquidity, after 24 months in Q2 the number was around 50 billion and now it's more like 70, so it's a slight improvement. I think in regards to the repo financing that also ties into this graph, as you can see we've substantially raised the short-term liquidity available to the bank, and I think as we start replacing government funding with market funding as credit market improves and becomes slightly more liquid and we can get out on long-term issuance, we have lower need for the short-term liquidity. Then I think it's also important to - - when you sort of look at where banks are doing with the central bank money that they actually raise, we have not had a principal of investing them to yield a lot of carry, so they're not really contributing at all I would say to our NII today.

Hampus Brodén: Okay, thank you very much.

Michael Wolf: Thanks.

*Operator: Nick Davey with UBS is online with a question.*

Nick Davey: Yes, good morning, everyone. **Two quick questions remaining please. First is on Slide 14 on impaired loan formation. On a headline level, it looks like impaired loan formation, just at the group level, has decelerated quite rapidly of about 9 billion at Q2 to 6 billion at Q3. You give us helpfully a figure of 8.9 billion excluding FX effect. Now is there any way you could give us that equivalent the previous quarter so that we can get underlying look at impaired formation at the group level excluding FX. That's the first question. And then the second is a broader question on the SPV vehicle you're setting up in the Baltic region. Can you give us any early indication of how you intend to mark the assets you transferred to the SPV, so whether or not you will mark-to-market prices and then look for write-ups or whether you would mark to sort of medium-term value you think you could then release on a medium-term view.** Thank you.

Göran Bronner: Right. To answer the first question there, I don't think we have the numbers ready right now. We are comparing what would be interesting for you is of course to see the euro number in the Baltics, perhaps, developing quarter-on-quarter from Q1, Q2, and Q3. I think we can supply that for you later on, but I don't have it right here.

On the second question, with regards... Well start out with, when we move assets from the bank to Ektornet, it will be an external valuation, so it will be a third party valuing the assets. Then of course you can either do a very rough pointing time valuation of the real estates, what would be the prior sale valuation of selling the asset in the market, and you can - - or you can do a discounted cash flow assumptions and net present value and there I think we are more in the latter camp of the two, but it will be an external valuation verified by third party.

Nick Davey: Okay, thank you.

*Operator:* *Jacob Kruse with Autonomous Research is online with a question.*

Jacob Kruse: Hi, this is Jacob Kruse with Autonomous Research. **I just had one question. I just wanted to ask you, on your funding side, when it comes to getting out of the out of state guarantees and I guess bringing down funding costs, other things that you can do internally in the bank to improve the processes, the structural, the funding to help this process along or is it just raising capital and awaiting for the markets to become more benign in terms of funding? And also just on the funding side, could you tell me how much unsecured funding is actually done with out of state guarantees the third quarter and what the pricing was there?**

Michael Wolf: Let me start with the last question. We've done very little senior unsecured. I mean if you go back three months, the quotes that we got on senior unsecured around 300 bps and now it's down to a bit more than 100 bps if you look at the three-year space. There's a lot happening in that market and it's surprising it's extremely - - I would almost call erratic. It's very hard to get a good pricing picture. What we have done is some private placements and they - - we have - - it's like SEK 3/3.5 billion that prices in say in the midpoint if you look at the other Swedish banks.

If you look at the... I'm not sure I understood your first question, what was it really what we can do internally to improve the path away from the government guaranteed funding or...

Jacob Kruse: **Yeah, I guess the question is: Is getting out of the government guarantee simply a question of having market rates improving and the sort of perceptional *[sic]* Swedbank improving so that you can do your funding issuance more easily or other changes you can make in how you do your funding, the number of programs you have, the type of distribution you have on the funding side, et cetera, or is it more external factors that have to be proved?**

Michael Wolf: I think it's a combination of several thing. I mean the funding markets are not that different from the equity markets in that the perception also matters. I think in terms of fundamentals, we've done quite a few things over the last quarter, not at least the rights issue was important to us, and we did see quite clear pick up. But if you look at the issuance in the third quarter, I mean it's large enough to be sort of good start on the path away from the government guarantee funding. I think this is more from our perspective is a combination of it being out there and meeting our debt investors with how the markets will develop during next year that will be - - those will be sort of the two main deciding factors, (inaudible) combination.

Jacob Kruse: Okay, thank you.

*Operator:* *Sven Nordenstan with Reuters Stockholm is online with a question.*

Sven Nordenstan: Yes, hello. **I wonder if you could elaborate a little bit on your view of possible devaluation risks in the Baltics. This 15% you said you planned for that. Is that a best case scenario or worse case scenario, and what do you believe?**

Michael Wolf: I think we should make it very clear that any currency issue is a political decision. What we then plan for in our best case is totally independent of what the political agenda is all about, so you need to see that as us being prudent in planning for things, but we don't have an official view on this issue at all.

Sven Nordenstan: Thank you.

*Operator: Frederick Gutenbrant with Kell Capital is online with a question.*

Frederick Gutenbrant: Yeah, hi. Good morning. It's Frederick here at Kell Capital. **Just a few observations from the report or the presentation and then a rather broad question for you to answer. Looking at Slide 19 where you talk about risk-weighted assets, you have in the past quarters you have been able to cut them back and it's clearly so that you are continuing to monitoring your risk-weighted assets. At the same time, you are also cutting back stuff in the Baltics and international division. And if I understand you correctly, you are raising (inaudible) flag here when it comes to the Swedish mortgage market on the back of increased property prices and the low interest rate environment. So my question is if you could in anyway comment upon potential growth in the next 12 months.**

Göran Bronner: I mean what you have seen is a natural deleveraging taking place in Eastern Europe based on the macro economical situation, so that is one of the main reasons for the decrease in risk weighted assets. The second decrease is law and order issues, and the third issue is relating to FX effect, so that's the three biggest issues. When it comes to the mortgage market, I think once again wants to reiterate that we have very good quality in our book. What we are seeing is that the low interest rate environment is increasing house prices quite significantly in Sweden and therefore we want to ensure that when we lend money, new money to people that we are careful and ensure that they can sustain increased interest rates, so that's where we are. With the foreign banks leaving Sweden, you need also to recognise that there is more space for the incumbent banks and there is a credit demand out there, but not very significant. So in the Swedish market, even (inaudible) has concluded that there has never been a credit crunch. There is a lack of credit demand, which we think if the economy continues to show good signs will come back; and with the rights issue, we stand well prepared to compete in that market.

Michael Wolf: Let me also add on the mortgage market, Frederik, that the way credit spreads have moved, different players in the market act very differently today, and there are clearly two camps where you have some players being far more aggressive than others, and I think it's quite easily looking at (inaudible) market shares to see which are which, but I don't think we've ever seen sort of these large differences between market and players act in the market as we have now and I think that's also main explanation to our sort of market share development.

Frederik Gutenbrant: Yeah, that was actually my follow-up question here, if you have seen the - - any specific competitors being more aggressive in the Swedish market, but I think you answered that.

Michael Wolf: Yeah.

Frederick Gutenbrant: Okay, thanks a lot.

Michael Wolf: Thanks.

*Operator: Chintan Joshi with Nomura is online with a question.*

Chintan Joshi: Hi. **A very quick follow-up. Can you just tell me how much of the impaired loans have been reclassified back into good loans so that we can get that impact on the impact loans?** Thank you.

Erkki Raasuke: I don't have the exact number of that in front of me, but it's a very, very low number. As we come in... When you become classified as impaired, the system we're running is very difficult to get out of it.

Chintan Joshi: Okay, thank you.

*Operator: Jackie Sheung with Goldman Sachs is online with a question.*

Aaron Ibbotson: Hi there. This is actually Aaron Ibbotson from Goldman Sachs. **I just got a quick question on capital. Basically you seem to more or less offset your losses with reduction in risk-weighted assets and other capital management. You've had two large rights issues. Where do you see your capital in a normalised environment? And with that, I would mean probably breakeven in the Baltics or something similar in GDP growth. Is 12% excessive or where do you see your capital ratio go in a couple of years time?**

Michael Wolf: I mean I think it's way too early to comment on that, and we have quite a long list of new regulations hitting the financial sector, so I think we need to see through the cycle and we also need to see through these regulations and their real effects on banks. So in my book, it's still too early to make that call.

Aaron Ibbotson: **But is there anything you've picked up so far that suggests that Swedbank would need to run with a higher capital ratio or have a worse implications from new regulation then say the average European Bank? Is there any particular that worries you?**

Michael Wolf: No, nothing actually. I think we did the rights issues for good reasons, to get out of the state guarantee and to really ensure that our clients don't have to worry, and we have done good on the funding side and the rights issue had served its purpose, and then we'll have to come back with the long-term correct capitalisation level.

Erkki Raasuke: And what comes to the regulation is that there are recently few good research pieces out there that looking Nordic Banking versus the rest of the Europe also looking over the banking one against another and you can see from there is that there is not any particular weaknesses, which the Nordic Banking sector or us particularly would have. So we have moderately relaxed view currently for these changes in regulations, and obviously we keep ourselves alerted on these topics but nothing worrisome for the time being.

Aaron Ibbotson: Okay, thank you. **And just I'm not sure if you touched on this in your presentation, which I partly missed, but you're guiding for losses or impairments lower next year versus this year. Is there any chance you can**

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| | **give any more colour on that? Are we talking significantly lower or do you expect them to trend down from the Q4 level throughout, or do you have any more colour to give, particularly considering the huge impairments you've taken in Ukraine, which I would assume would not be possible to repeating in the next year.** |
| Erkki Raasuke: | The answer to your question is probably no at this point; we will not give you any further guidance on that point. We'll see what we do in (inaudible) Q4 report. |
| Aaron Ibbotson: | Okay, thank you. |
| *Operator:* | *Dominique Griffins with Fidelity Investment is online with a question.* |
| Dominque Griffins: | Hi, there. **I just had just had one question. I may have missed it at the start. In the presentation, it mentions that your restructuring teams in the Baltics are now working at full strength, and you also commented on the call that you're seeing improvement in the 60-day overdue trend in all the Baltic markets. I just wondered how related those two points were, i.e. how much that improvement in the 60-day trend is a factor of the restructuring teams getting in early now and restructuring those loans before they go nonperforming relative to true underlying improvement in the economic environment or credit quality within the Baltics. And also if you could give us any sense for the percentage of loans that are kind of quarterly restructured that later kind of nonperforming or perhaps it's too early to tell.** Thanks. |
| Göran Bronner: | On the last question, I think it's too early to tell.<br><br>On the first question, I think it's not related and I mean the levelling off in 60 days that we are seeing internally is not an effect of us sort of restructuring transaction, which we (inaudible) did not do. That's not the case, and I think also the visibility there or the improvement we're seeing in 60 days has been confirmed by a sort of overall market information in some of the markets as well, so it's not just within our own book. |
| Dominque Griffins: | Okay, thanks. |
| Michael Wolf: | I think we have to call the end to this meeting unfortunately. We're having a press release - - press conference very soon, so thank you for the questions. |

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Please Note: * Proper names/organisations spelling not verified.
*[sic]* Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.