FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Swedbank Q1 Interim Report Conference Call, January to March 2007, hosted by Jan Liden, President and CEO and Mikael Inglander, CFO and Head of Group Staff.

[OPERATOR INSTRUCTIONS]

I will now hand you over to Mr. Jan Liden to begin today's conference. Thank you.

Jan Liden - *Swedbank - President and CEO*

Thank you very much. I am not alone here with Mr. Inglander, we also have Mr. Erkki Raasuke here, President and CEO of Hansabank Group, we have [Jan Gunnar Aril], Chief of Finance, and we have Johannes Rudbeck, heading the IR department.

And, I'd like to start with to describe some of the slides that hopefully you will see on the screen and I think that the general comments we have to introduce this result is that we are very happy to, again, see a very stable result and strong and robust result for our bank.

First of all, the good thing is that we have been able to maintain a good result in all the 3 main business entities or business units that are driving revenues. That is the Swedish banking, Baltic banking and Swedbank markets. We have also seen the development of our interest net, which has been a discussion topic for a number of quarters, continue to stabilize and even increase this quarter, which is the fourth consecutive quarter.

If you look at Swedish banking, we see here that the result has improved with almost SEK200 million compared to this the first quarter 2006. We have a very high level of customer activities, which has resulted in increased business volumes in savings, lending and payments. And that the net interest income in total have remained stable. And if you compare to the first quarter last year, it has actually increased considerably.

Baltic banking considers its almost accelerating growth, which means that it is performing very well in the -- in all the 3 countries and has actually managed to improve its net results compared with the first quarter last year with almost 60%.

We do however, see a slowdown in the lending volumes due to a number of things, basically all related to the cool down of the economy in Russia and maybe to some extent also in Estonia.

Swedbank markets continued good development, most of all -- in all the different areas, equity, FX and fixed income trading and corporate finance and this quarter it was especially well performing in FX and fixed income.

We have also, during the quarter, managed to agree with the Swedish issuer, the company Folksam to handle and to manage -- help manage their asset management for their funds. And that transaction has been concluded this week. So that is the firm agreement and we will start serving them by the end of April.

Also, as you have noted, that our rating, Swedbank's long term rating was upgraded by Moody's to Aa1 and that rating remained even after the revision that they made.

And now we have a slide, I continue to slide number 3 where we have tried to describe our position right now and how we see it in the future for our growth and profitability. We think that we have now a very robust situation in Sweden where we have managed to manifest our stable positions in all the different areas, both geographically and product wise and customer segment wise.

In the Baltics, we now have a long period of sustainable growth where we have been able to maintain and also increase our market shares, which gives us quite a dominant part in the financial markets in all the three countries.

In Russia and Ukraine, we have small operations. Fact is in Ukraine we have only and agreement of having -- of being able to purchase the bank, TAS-Kommerzbank. We hope that that will be completed during the third quarter. In Russia, we have a small operation who now is developing very well. And of course, for the moment that is not contributing a lot to our result but we strategically think that that could be very, very important for our future growth.

On the lower side of that slide you see that what we think is very important. We think that customer satisfaction in all the three markets is very important to continue to increase. So that the perceived satisfaction from all our different customers, corporations and private clients continue to increase.

In all the three Baltic countries we have very good marking, marks and rates in that respect since a long time. In Sweden we are having positive times in the terms that we are one of the banks who are increasing its satisfaction value or satisfaction rating mostly.

Profitability, we have added another financial goal, that is to have EPS growth that is bigger than our peer group and as you see, from that graph, you see that we have continued to do so.

Another strategic aim or goal is to become and remain an attractive employer and also in the three Baltic countries we have a very good situation since a long time, but also in Sweden, we have improved our situation and we have now the latest survey that actually named us as by far the most interesting financial institution to work for by university students in business administration and by all companies number 4, which is definitely an improvement.

If we look at the business volume in slide 4 you see that the growth in the first quarter is impressive when it comes to lending and you also see how its divided between mortgages corporate lending in Sweden, mortgages and corporate in the Baltic, and you see that we have also an FX effect due to the strengthening of the euro against the Swedish crown. And you see the balances to the right of that sheet where you see that it's -- there is considerable size in the portfolios when it comes to mortgages and corporate, especially if we add them together, the Swedish and the Baltic portfolios. Even if the growth rate is very impressive in the Baltics, still there is a difference in size.

In savings that you see on the slide 5, you also see a very positive development. Deposits continue to increase with SEK15 billion the first quarter and deposits in the Baltics have increased with SEK6 billion, taking into account that FX effect.

Assets under management have increased in the group for SEK22 billion and the balance is now as you see it on the right side, SEK433 billion. There you see a good growth in the Baltic market when it comes under management when it comes to funds under management and the growth in Sweden is related to the growth in the value of these funds.

Deposits, considerable amounts both in the Baltic countries and in Sweden. If you look at the next slide, slide number 6, you see the margins in lending and deposits. Lending fairly stable, you see the comments also when it comes to Latvia and in the -- when it comes to deposits that they are continuing to increase due to the increase in the domestic interest rates.

If were turn to slide 7 and look at, in this case the Swedish banking, we have worked for a long time to continue our business volumes and we have continued to succeed in that, both in household mortgages, household deposits and in corporate lending where we have continued to increase more than the market has done. That has led to that net interest income, in spite of the margin pressure, have remained stable as a total. And if you look at the graph, you also see that the spread between revenues and costs have increased somewhat and that our cost/income ratio have slightly improved.

The next slide illustrates the savings market in Sweden and there you see that [Sweden] is the largest operator on the Swedish market in total and you also see on deposits -- on that the distribution between different products in the savings area. And you see that in all areas except traditionally insurance that we have a very strong position.

When it comes to mutual funds, when you look at slide number 9, you see that we are trying to illustrate that with a number of new products who have been introduced this quarter and that has continued to be very well received by the market.

As a total, however, the net outflow - there has been a net outflow on the mutual funds for new sales, January and February. And somewhat better, much better situation in March. And those new -- newly introduced funds have been, as I said, very well received. The Swedbank Robur and the Folksam deal, we have been telling you about before and now it has been concluded in a firm agreement and, as I said, we will start beginning of May managing the assets from interest bearing and equities securities from Folksam, for a total of SEK142 million, the 1st of May. Another SEK27 billion from another company, which is called Folksam Bond AB will be included and that is also a company that we will purchase at the end of the year.

And we still have to, of course, get the mutual regulatory approval and we think that will be given to us and mostly to Folksam and we think that this very strong performance -- management performance, in the Robur management has been a key factor. We have also agreed with Folksam to continue and actually to switch over to them as a vendor for property and casualty insurance. And that will start shortly.

Baltic banking, now I'm on slide number 11 now, you see that impressive good result when it comes to the difference between revenues and costs, giving a cost/income ratio to 0.40 and the result of close to SEK1 billion the first quarter. As I said, we see some slowing down in the lending, increase is slowing down in the lending, the portfolio is still increasing, but there is the slowing down. We have continued to invest in new employees and still see a very good credit quality.

The next slide, number 12, you see that the decreasing lending growth is evident in all the three Baltic countries and our forecast is that that situation will continue. There will still be considerable growth but it will slow down compared with last year.

We have been taking a lot of actions in the Baltics that we have discussed and contributed in the discussions with the different authorities in all the three countries and in Latvia. As you know, there has been anti -- or combat inflation plan introduced and that the actions are now being implemented gradually.

We are also participating in the sense that we are not only seeing a decreased demand of loans but we are also increasing or trying to increase the quality in our credit portfolio by raising the prerequisites for granting credits to both corporations and to private clients.

Slide number 14, you see the Baltic banking market shares and I think that the basic conclusion here is that we are continuing to grow with the market and defending our already manifest and impressive market shares in all the three countries, and of course, Estonia is still very dominant in this market.

Swedbank Markets, slide number 15, you see the graph here, the results, the different quarters. And if you look at the trends for the first quarter '05, first quarter '06 and first quarter '07. I think that you can agree that you see a very strong and clear trend and the net profit has increased with 16% compared to the last quarter ending December 31, 2006 and almost 50% compared to the first quarter '06.

Fixed income and foreign exchange have been performing the best. We have still been able to increase our issuing of structured products, that is mostly equivalent bonds with 22% compared to the first quarter last year and we are definitely the largest issuer of these products the first quarter 2007.

Also, in Norway, it has continued to go well in the sense that First Securities's performance have continued to be very good and resulting in increased profit the first quarter compared to the -- both the fourth and the first quarter 2006.

TAS-Kommerzbank acquisition process is according to plan. Ongoing preparations between TAS-Kommerzbank's management and ourselves is giving us hopefully a head start. And TAS-Kommerzbank is continuing with its ambitious business plan and opening up approximately 60 new branches this year.

Next slide, 17, is Swedbank Russia. You see there that the bars are implying the result, the quarterly results and the graphs are illustrating revenues and costs. When you see now the last three quarters a healthy and steady growth of result wise. Still on a low level of course, but gradually increasing.

With that I think I should turn over to Mr. Inglander to give -- to comment a few of the remaining slides before we happy to take questions from you.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Thank you very much for that. And then we turn to slide number 19 and the income statement of the group. I would like to make a few remarks starting with the income, it was a good quarter, starting with interest income, I will get back to it as well as net commission.

But some comments I think is fair to do when it comes to net gains and losses, a [plan] which has a lower figure than Q4, but is still on a level which I think is on average compared with Q1 in 2006. Important to remember here is that we have changed our accounting principals from this quarter and that also would probably make this item less volatile in the future also due to the fact that we have now sold or divested all the remaining [TCCs] Norwegian TCCs as well as the strategic holdings from [inaudible] last year.

When it comes to costs, going down compared with Q4 and that was also what we indicated due to the fact that we have a normal seasonality effect in Q4. Loan losses, on a stable low level, it's of course higher if we don't have any recoveries compared with Q4 and that is also what we have to tell that we will not be able to have net recoveries over time but still on the same low level as Q1, 2006.

One remark on taxes is that now we are in line with our own projection, between 22% and 23%. It's 22.4, it was slightly higher in Q4. It's definitely higher than Q1, 2006, but that is due to reverses of previously paid taxes in 2005, which it hit in Q1 for 2006. All in all a good result.

If you turn to page 20 or slide 20. Here is just, try to show you the efficiency within the group with, of course, increasing costs. But if you look at the curve of the income, taking away the capital gains, it's increasing even more. So the gap is actually widening which we think is good [business](inaudible) right direction.

Turning to page 21, net interest income by business area, starting with Swedish banking, we have been able to keep net interest pretty flat. I will come down -- I will come back to more in detail what has happened in Swedish banking. Baltic operations good development with an increase of 8% between the quarters and 55% year on year.

Swedbank Markets, extraordinarily good quarter when it comes to net interest income and this is one effect of the change in accounting procedures, which also is shown in the net gain for Swedbank markets, which is slightly lower than average. And this volatility will remain within Swedbank markets, which is due to the kind of business they're operating.

All in all, a good quarter with an increase of 5% in net interest income.

Turning to page 22. Here you see a breakdown of Swedish banking and the change in the net interest income. Q1 versus Q4, you can see that lending volumes, which has grown with a good speed in Sweden, has increased of course the income. On the other hand we still have a pressure on margins which is on the same level as we have seen during 2006 and it has come down with a couple of -- or actually 3 basis points over the quarter. And then it's quite a stable pressure but it's still there.

Deposits increased volumes at a very good speed in Sweden as well as increased margins due to the increase in base rate. [Inaudible] then, we have treasury and hedge effects, which is slightly negative but all in all it's up [SEK1] million. When compared with last year, it's definitely an improvement in the same area that we already discussed.

If we go to Baltic banking, page 23. You can see, again, a very good development when it comes to net interest rates, mainly due to increase in volumes in lending, it's main part. Still a pressure on margins, but it's in a quite low level. And it's also due to, as Jan already mentioned, some mix effects where we are increasing shares of mortgages which have lower margins compared with, for instance, consumer credit, which is decreasing as part of the total balance sheet.

Deposit volumes up and that is, of course, positive. Higher deposit margins is up here in SEK119 million. It is important here to mention the fact that we have changed the way of using the internal accounting of internal interest rates, which also affects the next item of other changes. And that is approximately SEK40 million out of other changes, which is a change in Latvia and also in Estonia.

All in all, good development both between Q4, Q1 and fourth quarter last year.

Net commissions on page 24, here you can see that it's quite a good development in almost every area. It's going up in asset management due to the increased volume. Payments slightly down and that is seasonality effects which normally hits us in Q1. But is also a highly competitive market when it comes to pricing. Brokerage, very good due to a good market. Lending volumes stable at the insurance and corporate finance (inaudible).

Page 25, and expenses. Development between the quarters, very good, it's down 4% and the big business areas are Swedish banking and Baltic banking and Swedbank Markets all going down. But there are also increases in for instance, the staff costs over the period. In Sweden it may be due to increased positioning for [inaudible] between Q4 where we had a reversal. But also increased salaries. In Baltic banking, we have increased number of employees over the quarter with 438 people, which affect costs. That is also important to remember that the figure of 432 people is actually quite high for the quarter and our position still is to keep it, as we have said before, that it should probably come in below the total increase of 2006, that is the projection for 2007.

Swedbank Markets, the costs are flat when it comes to staff, but it's up compared with Q1 2006, mainly due to the fact that we have a good business and have increased our profits which also means that profit based payments have increased in Swedbank Markets.

Page 26, loan losses, group level. It's a very healthy and stable pattern, even though it has increased this quarter compared with the three former quarters and that is in line with what we have said. It's still a loan loss level, which is not more than 2 basis points of out of our total portfolio.

Next slide, 27, credit quality of the group. Share on impaired loans, compared with our total balance sheet is still going down. So now it's not higher than 7 basis points and this if you're still keeping -- still provisioning on the same level or increased level that means that the provision ratio actually has gone up. We are near 200%, which also reflects the way we normally handle credit issues.

If you go further to page 28, and I think this is an important picture. It's describing Baltic banking. And since we have seen such a high growth in volumes in Baltic banking over the last year, it's also fair to try to measure what's happening with credits granted more than one year ago and see how they are developing. Normally our newly given credits will perform well, in the beginning at least. And as you can see here, even if you go back and exclude newly given credits, it's stable pattern, it's actually turning downward slightly. And that also goes with a last part of this side, net provisioning on a healthy stable level. You can see some volatile parts both in the Lithuanian figures as well as in the Latvia, that is due to individual customer defaults and in Latvia it was a deal done in trade finance and it doesn't reflect the general picture of the credit losses on that provisioning level in Latvia at all.

Page 29, business areas. Here you can see that it's a stable development in the as we see it the right direction. Swedish Banking total income up between Q1 2007 and Q1 2006 with 6%. Total expenses increased with 2% and that means, of course, operating profit up as much as 14%.

Baltic Banking, a very impressive improvement when it comes to income, 50% up and expenses, just 26% up and that means operating profit between quarters up 68%. The same figure goes for Swedbank Markets, which is totally up 49% between the quarters. Net interest income in Markets if you don't see a comparison in percentages due to the fact it was negative in 2007 -- 2006 in Q1 and other income was much higher in Q1, 2006.

ROE, very good in all those four business areas here and the improvement is in all business areas, also including shared and new businesses.

And that was my last slide -- sorry was not, I have one left, it's number 30 and some of the key figures. And I think you can see here it's improvements in almost every area, return on equity up, per share up, loan loss ratio stable and the cost/income ratio down and also provisioning, as I stated before, increased the ratio to 199%.

Tier 1 capital ratio is, as indicated before, 6.8 due to the fact that we have new regulations in place in Sweden since 1st of February with the transition rules of Basel II , which is gives us 5% release compared with the former rules. That was my last slide, Jan. Over to you.

Jan Liden - *Swedbank - President and CEO*

Well, thank you very much. I think that ends our presentation. We think that we have a very strong financial result and -- which is always good to have in the beginning, backed up by a very robust business development in the different market, customer segments and product areas, that we have tried to illustrate. So we'll be happy to take your questions and comments.

QUESTIONS AND ANSWERS

Operator

Thank you.

[OPERATOR INSTRUCTIONS]

Our first question comes from the line of Per Lofgren with Morgan Stanley. Please go ahead with your question.

Per Lofgren - *Morgan Stanley - Analyst*

Thank you very much. And hello, this is Per Lofgren from Morgan Stanley London. I have one question to start with and that is relating to your trading line. You have, or you disclosed a number that is saying that this change in exchange rates give revenues of SEK400 million. And last quarter it was something like SEK500 million. One year ago, I believe it was 0, so it's in this quarter it's quite a significant amount, there is like 5% of your total revenues. And also you showed here in your slides that you had some exchange rate effect. It was in the CEO presentation. I think it was on slide 4. Could you describe to me how much of those SEK400 million is like underlying trading and related and how much is from these exchange rate effect that you mention here? Thank you.

Jan Liden - *Swedbank - President and CEO*

Thank you. I'll ask Mr. Inglander to respond to that.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

First of all, Per, it's important down the line that when you look at net gains and the financial [inaudible] as we have picked up before, it's very important to actually add together all the different lines that is in that description. When it comes to the SEK400 million it's the mainly due to trading and nothing else.

Per Lofgren - *Morgan Stanley - Analyst*

Right. Thank you.

Operator

Thank you, the next question comes from the line of Derek De Vries from Merrill Lynch. Please go ahead with your question.

Derek De Vries - *Merrill Lynch - Analyst*

Good afternoon. This is Derek from Merrill's. I want to ask a few questions about SMEs. First -- SMEs in Sweden I should say. First, starting with your market share data that you give in the fact presentation, it looks like you're below 20% on both lending and deposits. Given your sort of large branch presence. I guess if I were to look on the 5 year view where do you think those market shares could go, not next month, but sort of 5 years from now?

Jan Liden - *Swedbank - President and CEO*

Well, we seldom give forecasts like that, but as you perhaps know, we have been focusing on all the forecasts -- all the market shares to increase our market shares in the corporate sector for a long time. And we have been successful in that and I think we have reported to you that the financial results of these activities have been in our view, impressive.

Now, and you're -- I think you're right in the sense that we are around these numbers that you mentioned, around 20% both for the lending and deposits for [corporate]. We are of course -- we of course think, as you implied, that that can increase and that hopefully that will increase over the years and I would perhaps in a market it is very ambitious to look for market share at about 25% because I think that is hard to achieve in highly competitive markets that we have, but definitely that is the aim that we have.

We also think, and I think that this market will actually increase considerably in -- over the years. Right now we have a high economic activity in our part of the world and I think that for the corporate sector that will continue at least the next 2 years.

Derek De Vries - *Merrill Lynch - Analyst*

Okay, maybe just a follow up on that and then and it's sort of intuitively as we look at your market shares, it makes sense that you could sort of gap up 5% over the coming years. But I guess my question is where have you had success? Is it product offering? Is it hiring employees from competitors? Is it pricing? I guess those are the three things that occur to me. Hiring people, pricing and innovative products. Maybe you can elaborate on that list and sort of suggest which areas you've had the most success.

Jan Liden - *Swedbank - President and CEO*

Yes, I think some of the things that you mentioned. Number one, we have hired good people from outside from the bank. Both from competitors but also people who have actually been working in the corporate sector, which I think is very good. And we have a number of examples of that.

We have also expanding of large corporate departments. We have -- but I think when you talk about where have we expanded product wise, I think that one part that we have expanded is actually offering the whole product range and not only for instance, credit. We have offered the whole credit [line], our capital market product, our savings product, our pension products for the corporations and thereby increasing our business interchange with them, leading to of course a higher return on equity on that customer segment.

I think that is basically -- that is based on competence. Because if you understand the whole corporation's activity and development, you can actually be able to provide the company with a full range of financial services. And we have been working a lot in this area over the last few years and we will continue to do so. And that's why I think that is the future source for increased business volumes.

Derek De Vries - *Merrill Lynch - Analyst*

Great. Thank you very much.

Operator

Thank you. The next question comes from the line of Fiona Swaffield from Execution Limited. Please go ahead with your question.

Fiona Swaffield - *Execution Limited - Analyst*

Hi, I had a question in a number of areas. On net interest income, could you talk a bit more about the Swedish branch network and whether one of your competitors mentioned timing impacts in the first quarter? So whether the 3 basis points of lower lending margin would have been even worse because of a shorter February, whether there's anything unusual in that number. And then also what's going -- what your view is on mortgage margins in Sweden in terms of what's happening on new mortgage lending margins.

And then also, could you talk a bit more about Latvia? You mentioned there was a one-off provision, so if we took that out would that mean that provisions are pretty stable. And could you also talk a bit more about the LTVs that you are writing new business at. You said that you've obviously made it lower risk, but I wonder if you could be more specific.

And then the last area was Robur. I think one of your strategies was to try and improve the market share and obviously that you've had net outflows. Could you talk a bit more about stabilizing Robur and also whether the trend of income growing slower than costs is going to continue in asset management for some time? Thanks.

Jan Liden - *Swedbank - President and CEO*

Well, thank you. I think we'll start with your questions regarding Latvia. The provisions and the loans -- the activities we're taking in order to increase the credit quality of our portfolio. And I'll ask Mr. Raasuke to comment on this.

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

Okay, firstly, the credit risk is --it was a one-off event. It was a trading client, which was taking the metal products actually from Kazakhstan over to the Central Europe. And was reaching into the difficulties and we have to provision the loans by EUR3.9 million. So basically, this particular case in Latvia had very little to do or had nothing to do with overall Latvian [inaudible] environment.

Other than that, currently throughout the Baltics, the current portfolio quality is standing very strong. There are no deteriorations seen.

In terms of the -- of new business in mortgages Latvia, [accelerates] then the new business it issued close to 75% in terms of LTV and -- but more important, obviously there is -- it's a new and growing market, more importantly is looked, the cash flow really and client's ability to serve the debt.

Why we are not so much concentrating on LTV that this is more like a qualifying factor there. But at the same time the prices have been increased in the market quite rapidly and loans what we were issuing 12 months or 24 months ago, they actually today with very conservative LTVs already. What we don't do, we actually don't index or we don't revalue them so we can guess but we don't have exact data on what's the state of the portfolio. What we know is it's fairly conservative.

And basically now reducing the new origination overall then the LTV, or lowering the LTV is one way of doing it.

From the core products we haven't done the changes but we have had it in some of the more of the niche products for the young families et cetera where there was a different additional collateral, et cetera. There was ability also to move higher in terms of the LTV than 75. So we actually have reduced this window there

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Jan Liden - *Swedbank - President and CEO*

I'll try to continue with the other questions you had and maybe we can come back. The Swedish branch network and the mortgage products and the margins. We have talked a lot about that in the past and we still see margin pressure so that new sales actually are done to a lower margin than we have in the portfolio. But we have abstained from giving you all the details. But what we have seen is a similar development we have seen the last few quarters with 1 or 2 basis points coming down every quarter. And that has been the case also this quarter.

I think that the price competition on mortgage products is going to continue. So I don't really see anything changing there. At -- the branch offices are of course selling these credits and it's also sold through the Internet channel and to a small degree also facilitated by the telephone bank.

I think one thing that we have done very much lately is actually to work together with real estate brokers, both our own company and others in participating in their -- when they have showing the house or the apartment. And that has been very successful.

Whatever the outcome of this will be, we still see that the strategy is to involve as many of our customers as possible in their financing of their houses or apartments. We think that is strategically very important because we know that we make more business with those clients who have their mortgage with us. We think even if the competition is harsh, we think that there is still profit to be made out of that, as a product in itself. And we think also that the risk for customers leaving the bank for a competitor is much greater if they place a mortgage with someone else. So that's why we intend to stay there and so much of the activities of the branch network is directed to the real estate affair, if you like.

So that will continue. The timing, how long with this time pressure go on and so on. I think that's going to remain. I think that -- if we only talk to the small country of Sweden, I think that the market will continue to develop, maybe a little bit more than we thought from the beginning of this year due to tax or advertised tax changes that would probably push the prices up a little bit more than at least we thought from the beginning.

As for Robur, the performance and their P&L. Now their P&L you have to look upon a little bit carefully because that is heavily integrated in the banks and we are, of course, trying to give the branch offices as good incentive as possible of the total margin they have. So one cannot look at only Robur's P&L when you judge the financial performance.

We still have not succeeded in turning the trend around so that we actually can have a positive development of new sales, so the upward trend you see in value of the funds under management is actually the result of the value increase of these funds. What we do see however, the last period in time, is that the new funds introduced on the market have been received very, very well and we currently also see an outflow of interest net funds, or interest based funds and an inflow of equity based funds, which is also was doing well for our P&L because the fees we have on the equity based funds is higher.

So we have again, also a strategic ambition to increases our participation there.

Luckily enough for us, the market share of the portfolio has not changed very much. It's still almost 26%. So it's only a very marginal change. So we are still, by far, the largest operator on this market.

Fiona Swaffield - *Execution Limited - Analyst*

Thanks very much.

Operator

Thank you. Our next question comes from the line of [Ineko Lekoberry] from Abaco Financial. Please go ahead with your questions.

Ineko Lekoberry - *Abaco Financial - Analyst*

Yes, thank you. A couple of questions. One is on some clarification on interest rate exposure. As per your interim report, I read, I think it's on page 3 or 4, page number 4, some statement where you say what would happen to the balance sheet value after a 1% yield shift upwards and you quantify that in a negative effect in terms of value of the assets and liabilities of SEK1.7 billion. I think that's clear enough. But you mentioned what the impact to the P&L of such a shift would be and you qualify that as SEK118 million. Now, I need to make sure that that would be a one-off adjustment rather than a permanent one and I'd like to get some clarifications as to what would be the shift of the earnings power of the bank to a 1% shift -- parallel shift to the yield curve if you could elaborate on that.

And the question number two relates to foreign exchange. If you adjust for currency movements in the quarter, especially the Baltic currencies relative to the Swedish crown, the net interest income growth on the first quarter versus the fourth quarter, which is up 5%, what would that percentage of growth be at the constant currency? Thank you.

Jan Liden - *Swedbank - President and CEO*

Yes, if we start with the interest rates with -- you refer to it as we have stated and your question I believe was is that the one-off. And yes, that's just a one-off. That's [inaudible - background noise] of the underlying assets.

As for the sensitivity analysis, if we have a 1% shift that would mean something like SEK600 million in [second quarter]. That is what we have stated before and that is as close as we can get.

So -- but maybe I didn't listen carefully enough about your FX question. So could you please repeat that?

Ineko Lekoberry - *Abaco Financial - Analyst*

Yes, if I look at the first quarter versus fourth quarter, net interest income growth, at group level, that is plus 5%. If we calculate that number on the basis of fixed currencies, so assuming there was no deviations of the Baltic currencies vis-a-vis the Swedish crown. What would that growth be? I assume lower, but how much lower.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Not a significant amount.

Jan Liden - *Swedbank - President and CEO*

We think that's marginal. The FX number is very marginal. Is that correct - yes.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Yes. It's very marginal.

Ineko Lekoberry - *Abaco Financial - Analyst*

Okay.

Jan Liden - *Swedbank - President and CEO*

Thank you. Okay?

Ineko Lekoberry - *Abaco Financial - Analyst*

Yes, thank you.

Operator

Thank you. The next question comes from the line of Geoff Dawes from Citigroup. Please go a head with your question.

Geoff Dawes - *CitiGroup - Analyst*

Hi, Geoff Dawes from Citigroup here. Couple of questions. First of all, Swedbank Markets, I know you touched on this already, but quite a large swing in NII. Can you just go into the reasons behind that and specifically whether there is some kind of accounting change that means NII in trading kind of shift in between each other and that is a new run rate for NII now.

The second question is on the Baltics. You mentioned your decrease in the risks on new lending. Does that have any margin implications and specifically does this mean another round of a decrease in margins in the Baltics as you take on lower risks? Thank you.

Jan Liden - *Swedbank - President and CEO*

Yes, -- maybe Erkki Raasuke could start to comment on the impact on the margins due to the risk shift.

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

Actually this -- we are - first, the motivation really to start with is that we -- one on one basis [inaudible] we have not been concerned about the quality of the credit. Rather due to the [macro] concerns and the big picture concerns we have decided to restrict or bring down actually the new loan origination and obviously then one way of doing it is by pricing it higher, especially the higher risk part of the curve. And also restricting the new issuance in terms of the other measures like LTVs, minimum monthly income for private individuals, et cetera.

What we do expect is actually -- it's difficult to currently see how it will be developing but [rather] margins to stay flat or actually even try to increase, not to decrease. Yes, I think that on the quality part of the credit there is still a rather fierce competition and we will stay also there and what we also have decided is that on obviously in the alignment of overall trying to -- whereby banks are trying to widen the margins that we actually do not want to have a negative selection. So we still want to have the same credit selection throughout the risk (inaudible) that we have had. But what we do think is that basically the higher risk part, or medium higher part we can now in this environment where we're actually restricting and also the rest of the market is restricting the new issuance we can actually push it slightly up.

Jan Liden - *Swedbank - President and CEO*

As for the revenue side, on the market side, of course there is a balance between net interest income and net gains or losses on financial items. So you have to look at them in combination in order to get the right perception. But I'll be happy to let Mr. Inglander develop -- talk about that.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

I think that was a totally correct description of what's happening.

Jan Liden - *Swedbank - President and CEO*

Okay.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Accounting procedures that we use today.

Jan Liden - *Swedbank - President and CEO*

And the accounting procedures we are using, we have told you about the change and they -- but all the numbers that you see here are recalculated so they are comparable. So that doesn't make any difference. But the essence of understand FX and fixed income business is that the income either occur on the gain when you trade the underlying assets or after a net interest income.

Geoff Dawes - *CitiGroup - Analyst*

Okay. That's clear. Thank you.

Operator

Thank you. Our next question comes from the line of Andreas Hakansson from UBS. Please go ahead with your question.

Andreas Hakansson - *UBS - Analyst*

Yes, hi. It's Andreas from UBS. A quick question on page 9, in the report, you're talking about the hedge and other effects having a negative SEK36 million impact on the Swedish retail basis. Is that on the top of the SEK30 million negative impact you have from less allocated capital to the division?

Also how long is this hedge running? When should we see a more clearer number? Thanks.

Jan Liden - *Swedbank - President and CEO*

It's included.

Andreas Hakansson - *UBS - Analyst*

Sorry.

Jan Liden - *Swedbank - President and CEO*

It's included.

Andreas Hakansson - *UBS - Analyst*

It's included. Okay, so the hedge effect is actually quite small?

Jan Liden - *Swedbank - President and CEO*

Yes, Andreas. That is correct.

Andreas Hakansson - *UBS - Analyst*

Okay. Thanks.

Operator

Thank you. The last question comes from the line of Aaron Ibbotson from Goldman Sachs. Please go ahead with your question.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Yes, hey, just very short question on page 6 or slide 6 in your presentation. Swedish deposit margin seems to have been flat in the quarter or possibly up a basis point. What's the reason behind that considering how sharply the short term interest rates were up in the quarter? Many thanks.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

That is -- you're right, why isn't the curve deeper. I guess that's your question. And that is a mix effect. A lot of the increased deposits is actually going to our highly priced savings accounts which are very attractive to the customer. And that's why you -- yes, you do see a slight increase in the consolidated deposit margins but because such a large part of that increases is going to these high interest rate accounts the effect is smaller.

Aaron Ibbotson - *Goldman Sachs - Analyst*

So -- but I mean you've got almost half of your book, or a third, over a third of it in 0 interest rates. Or at least transaction accounts. So did you have a substantial increase on those and then it was -- the mix effect was so big so it offset that, or --?

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Oh, that's a nice try but I don't think we have explored that. What we can -- we have our deposit volumes but ---

Aaron Ibbotson - *Goldman Sachs - Analyst*

Well, in Q4 you were quite helpful and gave us some numbers actually.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Well, maybe there will be another Q3. Anyhow the increase is actually coming then from the -- the increase you see here is coming from the high interest rates, the savings accounts and that's why you have a more marginal effect than the interest rate increase in itself should imply.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Thank you. We also have a question from the line of Jan Erik Gjerland from ABG. Please go ahead with your question.

Jan Erik Gjerland - *ABG - Analyst*

Hi, it's Jan Erik from ABG. I have three questions. The first one is on the collective provision you show us in all three. It's basically for the group. Can you give us a hint of how much of that emerging from the Baltic business versus the Swedish business?

The second one is about deposit margin in the Baltics. It's all ticking upwards, which is of course interesting with the higher interest rates at the moment. Could you tell us what kind of level or if you see any increased competition in the Baltics, three Baltic countries about deposit margin.

And the third and last one is on payment services. Even though it's a seasonal down tick in the payment fees, could you give us a hint of what kind of underlying competition there is for payment services in Sweden? Thank you.

Jan Liden - *Swedbank - President and CEO*

Yes, if I start with the last one, with the payment fees and then only talk about Sweden. I think that you see there is difficult competition in the sense that you know the business model is that you have these interchange fees who are paid to the company who issues the card and then you have the merchant fees who the acquirer collects of the merchants. But the acquirer has to give away the interchange fee.

So, and the interchange fees for credit cards are higher than for debit cards. I think you see an increase also in the usage of those cards, there is -- but not so much in the merchant fees. You see a compressed margin there. But I think you will see variations over time.

What you also have to consider is the increased volume that should speak in our favor actually because we will have an economy of scale.

And thirdly, we are in the middle of a technology shift where we're actually replacing the terminals for the cards acquiring with DMB compliance terminals in order to support this -- or to use actually this liability shift that will take place. That if you use the new technology you can shift the liability away from the acquirer.

I know if you look at the other payments you have definitely a pressure downwards. But also our economy of scale is increasing all the time. But I think you will see increased volumes in all payments, lower margins and hopefully an increased total income.

Jan Erik Gjerland - *ABG - Analyst*

Can I just have a follow up on the payments?

Jan Liden - *Swedbank - President and CEO*

Sure.

Jan Erik Gjerland - *ABG - Analyst*

The domestic versus the foreign payments, is it so that there are still a very high fee on the foreign payments versus the domestic? And when is it to be ended

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Jan Liden - *Swedbank - President and CEO*

That is a good question and there are several answers to that. When you look at international card transactions, for instance, yes there is a substantially higher fee, interchange fee on these. But the merchant fee, the fee that the merchant pays to the acquirer is not that much different. So that if it's not our own card used outside Sweden or Europe, that is usually not a very profitable business for us.

Now, the fees for -- I'm coming back to your first questions regarding the collective provisions. I mean you wanted to split that up in the different business areas and we have chosen not to disclose that. But you also saw from Mr. Inglander's presentation and Mr. Raasuke showed, I think, a slide as well that you see that the provisions are developing in a stable way all over. And I think we have also stated that they are a little bit higher in the Baltic markets than they are in the Swedish markets.

Yes, Erkki, maybe you had a comment as well?

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

I was going to [maybe] come to the second questions -

Jan Liden - *Swedbank - President and CEO*

Yes, of course.

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

Yes, which was about the deposit margins.

Jan Liden - *Swedbank - President and CEO*

Yes, I'm sorry.

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

Yes, it's true that deposit margins are climbing up while the local interest rate as well as the Euro base rate is moving up. And then you also asked about the competition. I think that the mere fact that these margins are widening is also show -- already showing is that the competition is not overly fierce in the deposit market. There is a possibility actually they're going on the [right] with interest rate increase. And there are 2 reasons for about this, one thing is a -- or two, I think most important reasons for that. One thing is there is still substantial part of deposit, on demand deposits where there is no really kind of price competition for that and then client relationship is very much determined by other products, [inaudible - heavily accented] cards, the mortgage, et cetera (inaudible) interest rate which is based on the -- paid on the demand deposits.

And then if we talk about the time deposits, then vast majority of the Baltic banking is owned by the foreign banking institutions and there is actually no point really compete with the local -- for the local deposits, anything above Euribor plus a small margin. Because the whole banking market in all three countries is clearly, the lending is already clearly above the overall total deposit market and the market further lending growth is dependant on foreign [funding] and there is basically just kind of competing with the price there against each other doesn't make these deposits more and the further lending will be dependant on the foreign funding anyway.

So it's basically for us is also, it just becomes more if there's no point of increase -- collecting the money that's Euribor plus 50 or 60 if we can raise it through the international markets for plus 5. And that same applies to the majority of the other players as well. Does than answer?

Jan Erik Gjerland - *ABG - Analyst*

Okay. So basically you expect them to increase by the interest rates hikes ahead?

Erkki Raasuke - *Swedbank - President and CEO of Hansabank Group*

Yes, we will benefit out of that. Yes.

Jan Erik Gjerland - *ABG - Analyst*

Yes. Thank you.

Operator

Thank you. The final question comes from the line of Sasu Jarvinen from Credit Suisse. Please go ahead with your question.

Sasu Jarvinen - *Credit Suisse - Analyst*

Hi, it's Sasu Jarvinen from Credit Suisse. Just one question left. On capital, on page 24, you show the capital calculation basically both based on Basel II and Basel I and it looks like your RWAs on the Basel II are roughly 22% lower, versus Basel 1. I remember that in your Capital Markets Day you gave this number based on QIS5. And at that time it was still around 30%. So I just want to hear what explains the difference does the page 24 incorporate some parts of [Pila 2] as well?

Jan Liden - *Swedbank - President and CEO*

Yes, I -- why don't you, Mikael, answer the question.

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Yes, if you look at what has happened with the calculations on the credit, which is under IRB, then you can see the releases of 25% and its still we haven't included the total portfolio under IRB, which must be done if we want to see the release in the neighborhood of 30%. That is also what we are aiming for in the long run. But we are not there yet. We are still in the transition period. So what we are working with at the moment is Baltic Banking and also our financial company or leasing company, which we are also taking to the advanced model, the IRB model. But that is the main difference as you can see.

And then there is also a transition period here where you have some constraints still within the system, which affects us. We will have to look at the QIS5 in the context of what will happen in 2010, and also already in 2007.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay. That's very clear. And when do you expect to learn more about Pila 2?

Mikael Inglander - *Swedbank - CFO and Head of Group Staff.*

Oh, I think you could say that we already have learned a lot about Pila 2 since we already have been doing our homework when it comes to internal capital adequacy process, which is a bold decision regarding how we would look upon capitalization on a group level. That is also taking into account when we have to hook up the target of that Tier 1 ratio 6.5, which is obviously much above that regulatory capital which we need during, under Basel II or Basel I, but that process is already, I would say, in place. And of course it's a moving target. We will constantly be reevaluating the need for capital in the group.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay. Very good. Thanks.

Jan Liden - *Swedbank - President and CEO*

Thank you.

Operator

Thank you. That was the last question so I will now hand you back to the host to wrap up this conference call. Thank you.

Jan Liden - *Swedbank - President and CEO*

Thank you very much. Thank you for attending this conference and I guess our summary is that to repeat ourselves that we are very happy with the first quarter results. We think it's a very robust result backed up by good business performance in all the important business units and we think that this is a very good start of this year.

Thank you for attending this conference.

Operator

Thank you. Ladies and gentlemen, this call has now finished. You may now replace your handset.