

FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Jan Liden

Swedbank - President and CEO

Mikael Inglander

Swedbank - CFO

Erkki Raasuke

Hansabank - CEO

CONFERENCE CALL PARTICIPANTS

Garth Leder

Redburn Partners - Analyst

Sasu Jarvinen

Credit Suisse - Analyst

Kim Bergoe

Fox-Pitt Kelton - Analyst

Per Lofgren

Morgan Stanley - Analyst

Aaron Ibbotson

Goldman Sachs - Analyst

Richard Henze

ABG - Analyst

Johan Ekblom

Merrill Lynch - Analyst

PRESENTATION

Operator

Good afternoon and good morning ladies and gentlemen. And welcome to Swedbank's Q2 interim report, January to June 2007.

(OPERATOR INSTRUCTIONS)

I will now hand you over to your host, Mr. Jan Liden, president and CEO, to begin today's call. Thank you.

Jan Liden - *Swedbank - President and CEO*

Well, thank you very much. Good afternoon and very welcome to our teleconference. I am assisted here by Mr. Mikael Inglander, who is the CFO of the group; and Mr. Erkki Raasuke, who is the CEO of Hansabank; and Mr. Johannes Rudbeck, who is Investor Relations Manager; and Mr. [Ourel] who is Head of Accounting.

I thought that I should try to briefly go through the presentation that we have had here in -- this afternoon, a few slides. And I think that you are able to see them on your screen. So if we try to summarize this last quarter and compare it with the first quarter of this year, I think we were happy to report that we have been able to improve the group result. So we are now above SEK3 billion for the first time in our history, which is of course nice to report.

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Earnings have therefore, of course, increased. The net interest income have, on a group level, continued to increase for the fifth consecutive quarter, which we think is a healthy sign. And if we do compare not only the quarters but the first six months this year compared to the first six months last year, we have actually improved the earnings per share by 19%.

Swedish banking had this quarter a slightly lower result than the first quarter 2007. Still we are pretty happy with it, because it also included very strong volume growth in both lending and deposits. But we also see that the lending margins are under continuous pressure, not a change really in trend, but still a consistent pressure. We have also had some one-off costs that we have seen during this quarter.

Baltic Banking has, on the other hand, has had another very good result and managed to increase by 19% this quarter's result compared to the first quarter. And first of all, I think what we're happy with is a very good result in all the three countries in all the different business activities. But we also see what we forecasted last time or the last quarter, that is a slowdown percentage-wise in credit growth. But you cannot still exclude the risks for overheating in these economies. But we think the situation has, if anything, improved.

Swedbank markets and capital market products have continued positive business volume and development in everything related to equities, FX and advised corporate finance have improved their result, though we've had a slightly less result in fixed income activities. The acquisition of TAS-Kommerzbank in Ukraine, as we announced it in February, we were able to complete July 9. And now the integration for the Ukraine organization is starting.

If we turn to the next slide, you can see that still the positioning of the bank is very close to what we showed you a quarter ago. We think we have a very stable and good base in the Swedish operations. And we think that we now, during a number of quarters, have endured a lot of market activities and market competition, and been able to consistently show good results. At the same time, we are capturing the growth in all the three Baltic countries, Estonia, Latvia and Lithuania, and Hansabank has been able to report, still, yet, another very good result. And we think that these economies will continue to grow, even if it will be in a slower pace, but still in an impressive way. And we think that we can -- are very well positioned to take part of that growth.

From a strategic perspective, we think that our presence in Russia and Ukraine would be able to, for us, be very interesting opportunities for long time -- or long-term growth and profitability.

If we turn to the next slide, you see that profit trends for the different quarters of the group. And I think when you see it displayed like this, there is a very nice development the last quarters that we can see, and especially then, of course, this last quarter. If you turn to the slide number 5, you see that the [distance] volumes when it comes to savings have had a healthy growth on the right side of the diagram. And you see the ultimate volumes to the right side. Sorry, I said left side. I didn't say left side. Growth has been in -- both in Sweden and in the Baltic countries, and the asset management funds -- have continued to grow basically due to the underlying value of the assets managed.

If you turn to slide number 6, you see that the lending growth have continued to grow the way they used to grow the last quarter, that is basically three separate components. First of all, private lending in Sweden, which is mostly, of course, mortgage have continued to grow in a very healthy way. Corporate lending have continued to increase because of the very good economic development in the Swedish economy and for the Swedish corporations.

And the same definitely goes for the situation in the Baltic countries, where you see that the lending both towards private individuals and to corporations has continued to increase; which leaves us with a balance to -- in lending that has, if you exclude some minor parts, for the first time come over SEK1000 billion. And it's distributed private lending in Sweden and corporate in Sweden. And you see the corresponding figures for the Baltic countries, who have developed very good.

If you turn to the slide 7, who is trying to represent and display the margin development, what you can see here is a continued pressure on the left side on margins in the Swedish side. And it's not only the mortgage side that has a continuous pressure.

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There you can see the development is going on as we have reported before -- no change virtually. And if you look at the corporates, you see that they have where we see a very also hard competition. And especially in the big corporate segment, where we have been fairly successful, we have seen compressed margins.

On the other hand, if you look at the Baltic states, you see them in the different countries, they have actually been able to maintain margins or even, in some case in Latvia, to increase the margins on the lending side. And that is also, of course, to a part at least, depending on the volatility of the Latvian situation and the situation in the Baltic economies parallel to that consistently very good market activity that we have. If you look at the deposit side, you see that trend even more pronounced. Margins have increased in all countries, including Sweden, due to interest rate increases. And that has, of course, been most pronounced in Latvia, where you saw the domestic interest rates go up and be very volatile during the period.

If we try to summarize the different business units, if we turn to page number 8, you see Swedish banking has continued strong volume growth; lending margin pressure in virtually every segment. Higher asset management and payment volumes have boosted commission income. We have had one, of course, we think due to change in suppliers of cash handling services and on life insurance. And staff costs are, in this presentation for the business unit, affected by [periodization] effects. The one thing good, of course, when you look at the saving side is that we have been able to maintain our strong position and being the leader in new savings for the households, where we have even increased our market share slightly in the last quarters.

Page number -- or slide number 9 really displays our ambition to improve our results on mutual funds where we, during the quarter, have launched a new Internet bank platform comprising, not only of the 90 different funds managed by Robur but also some 60 to 70 funds managed by other asset managers. And the availability of this platform we hope and think will further facilitate our place. We have also agreed with three other vendors to sell Robur funds on the Swedish market.

If you turn to page number 10, you see that the Baltic Banking results are displayed there in a very impressive manner that revenues continue to increase as well as costs. But they maintain that very good cost/income ratio of 0.40. The credit growth is slowing down. But we still think there are, of course, risks for overheating. But on the other hand, some activities have been taken in order to secure a soft landing scenario, which we think have actually improved its probability. We have a fairly good growth in savings volumes, which is also very good when you discuss the macro situation in the Baltic countries. We have still a very good credit quality. And we have also increased our costs in the Baltic operations by investing in [few more] staff in order to serve our clients.

The slide next to that, number 11, shows that even if we have a continuous increase in lending volumes in Hansabank region in all the different countries, you see that, percentage-wise, it's coming down. So if we -- as you perhaps remember at the end of the last year, we had a credit lending growth of 60%. It's now below, on a rolling 12-month period, below 50%. And we have stated before that we think it will be -- remain between 30% and 35%. And that forecast still remains for the whole year of 2007.

This slide number 12 shows Baltic Banking market shares -- impressive they are. But they are also showing that we are, so to say, basically taking part of the market growth and not really increasing -- and definitely not on the lending side -- increasing our market share. But it also important that we really want to remain a very strong operator -- actually the biggest operator in all the three countries.

Swedbank Markets, on slide number 13, have had a continued good volume growth both in Sweden and Norway. And as I said, it has been a weaker fixed income -- weaker period for fixed income operations compared with the last quarter. We have managed to upgrade the Shanghai office. So that is now a full-service branch instead of just a rep office. And also I think an interesting observation is that last year was the best year ever for Swedbank Markets operations. And if we now compare the first six months of that year, '06, with '07, you see that we have managed to actually improve that result even more. Sometimes you are fooled by the volatility between the different quarters. But we are happy -- very happy with the performance of our markets right now.

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As I said the TAS-Kommerzbank displayed on slide 14, the acquisition was completed in the beginning of July. We will consolidate the operations from July 1. And you see some of the key numbers for the different quarters trying to illustrate the size and nature of that operation.

In Russia, on slide 15, we have changed the name. We have had an audit by the Russian Central Bank during March and April, which we have reported earlier. We have been aware of that. We have some shortcomings in the way we comply with local regulations. Therefore the Russian Central Bank has asked us to review that and to change that and improve on some of those (inaudible). And they have also restricted our operations for a three-month period. We have, as a response to that, provided them with an action plan and are now in the phase of implementing that plan.

Last slide I'd like to show you here is risk in the lending portfolio. On the left side, you see the group lending by collateral. And you see that we are, of course, very heavy on the real estate side and mostly there on the private segment, which we think is one reason for -- that we have been able actually to meet our forecasts when it comes to the change implied by Basel II implementation. So when you look at the calculations now, when we try to apply the Basel II regulations in virtually the Swedish operations, you see that the risk weighted assets are actually being reduced by some 30%, which is exactly in line with the forecast we did before; and therefore also leading to a primary capital ratio of 6.7.

I think I'm going to hand over now to Mr. Inglander to give you some figures representing the quarter results.

Mikael Inglander - Swedbank - CFO

Thank you. And then I would ask you to turn directly to page number 18 and the income statement of the group. And I would like to comment again, net interest income up the fifth consecutive quarter in a row; and also that we have seen a strong quarter for commission income, again. Net gains and losses have improved between Q1 and Q2 despite the fact that markets have seen a weaker development. But we have seen a very healthy development in the Baltic banking operation. I would also like to remind you of Q2 last year and the comparison between '07 and '06. You have to remember that we have valuation effects of the PCCs and holdings as (inaudible) which was extensive last quarter. So also there you have actually an improvement if you deduct that.

Staff costs up. I will come back to how costs development or expenses later on. Profit -- sorry, loan losses has increased between the quarters. But it is in line with what we have stated earlier on, that we will not continuously see recoveries as we have seen. It's still on a very low level. And I will come back to that also later on in my presentation.

Another remark is the tax, which is very low for this quarter. And that is due to recoveries. It's 21% for the quarter. But we still believe in our earlier prognosis on 22% to 23% on a yearly basis. And that means that our profit attributable to the shareholders is up 7%, which is something we are proud of; and also due to the fact that our securities has performed a little bit worse. But then we also don't have to pay dividends to the other shareholders, which has positive effect on this.

If you turn onto page number 19, there you see net interest income by business areas. And I will come deeply into the marginal decline in Swedish banking, Baltic banking -- again a very good development and quite stable in the other areas.

If you turn to page number 20, you see a deeper analysis on what has happened in the Swedish banking operation. And as already stated, you have seen a decline between Q1 and Q2 '07. And that is despite the fact that we have seen a very good growth in lending volumes. We have a pressure in lending margins, as already stated by Jan Liden. You can see that the margin has compressed with as much as 6 basis points between Q1 and Q2. And that between Q1 and Q4 last year, it was just 1 basis point. And actually the way we handle increases in interest rates on the base rate is increasing, have that kind of effect more right, show a picture, would be to take the half year development instead of between the quarters.

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You have again a positive effect of deposit volumes increasing and the margin effect is also there positive. Under the item other changes, we still have decreasing revenue from our hedge -- still positive, but it's decreasing during the fact that the have increased base rates. Also we have weak quarter in our pressure operation in Swedbank Mortgage. And I would say that that is approximately around SEK40 million lower than we have expected. And we expect it to be better next quarter. At least that's a hope from our side. And that means that we have been able to keep our interest -- net interest rate at the same level as Q1, even though we have seen those high volume increases.

Baltic Banking -- there is another story. Now you can see a very good improvement in net interest rates -- high lending volumes contributing, but also increased lending margins. And that is especially in Latvia. Actually, they have decreased slightly in Estonia and Lithuania; but good increase in Latvia. Also we have seen very healthy effect on deposit margins, and the volumes also growing. Deposit margins, again, the increased RIGIBOR rate for the second quarter has been very helpful.

On the other hand, under the item of other changes, we have effects which goes the other way around due to the fact that we have an internal rate, which is based on RIGIBOR, but actually investing money to the rate of RIGIBOR hasn't been that easy. So we have negative pressure effect within that one small part of the revenue stream.

Page number 22, you can see our net commission income. And there you can see it divided into different areas. Asset management -- a healthy development, even though the last quarter was helped by a seasonality effect, which means that it wasn't as good as it looks. When you look to the future, you should more take the Q1 plus Q2 and divide them. And that's more showing the development. At the moment, payments -- good development going up. And that is based on increased number of transactions, even though we have seen a pressure on pricing, volumes are helping us. And the other areas are also showing positive effect apart from brokerage, where we saw a downturn also a seasonality effect.

Expenses on page 23 -- there you can see Swedish banking increasing with 7%. I think it's important to remind you of that there are some one-off effects in Sweden, already mentioned by Jan, which is due to the fact that we have changed the supplier of cash handling, but also non-life insurance, which is approximately SEK60 million and also seasonality effect when it comes to salaries in Sweden, which is SEK20 million in Swedish banking.

Baltic banking is up due to the fact that we have hired more people, but also a bigger operation in place. You have to remember also, when you compare with Q2 in '06, that we had one-off affecting Q2 in the Baltics regarding VAT provisioning of [SEK114] million. Swedbank markets costs going down. That is profit-based salaries going down. We have here also included the costs for opening up a new branch in Shanghai.

If you turn to page 24, there you can see the development of our loan losses. Even if there has been quite an increase looking at the table, you still see a loan loss level of 4 basis points, which we considered very low. And that is also our ambition to keep it on a very low level. We also have seen that recoveries are not as high as we have perhaps gotten used to. But that is also in line with what we have already earlier stated. So there is an increase in Sweden, actually a downturn in loan losses in the Baltics between quarters. Impaired loans stable, and again our low-risk profile it's confirmed by the Basel II calculations already mentioned by Jan.

Page 25 -- there you can see again what we have said about Baltic Banking, a very stable and low level. The volatility up and down still shows, I think, a good trend. But the volatility is due to single engagements, which we normally provision very carefully.

Going to page 26, there you can see a summary of all the business areas for the half year -- between the half years. And you can see that Swedish Banking is performing well. We have been able to keep a very high return on equity and also improved profits between the half year of '06 and '07. Baltic Banking, a very good development when it comes to income, but also expenses. You have to remember again, then, at the half year last year, you had the VAT provisioning of SEK144 million. So the cost and expenses has increased with 32%. But still that gives profit increase of 60% between '06 and '07, and the return on equity, which is quite high.

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Swedbank markets, again, an improvement between half year last year and the same goes for asset management, which means that we are quite satisfied with the results. Key figures, EPS, earnings per share, up 90%; cost/income ratio, which is in line with our long-term financial target -- at least for the first six months -- of 0.50; and the Tier 1 capital ratio, which has improved to 6.7% compared with last year. And then I hand over to you, Jan, for summary.

Jan Liden - Swedbank - President and CEO

Thank you very much. A summary picture is trying to restate what we have tried to argue during this presentation. Continued increase in group results comparing to the first six months 2006 were up 19%. Cost/income ratio also on target, or more on target than before; and strong development of business volumes in all the markets we operate; and continued good credit quality confirmed by the figures we show you these results and also by the Basel II calculations.

With that, I'll try to invite you to comments and questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Garth Leder from Redburn. Please go ahead.

Garth Leder - Redburn Partners - Analyst

Afternoon. I wanted to ask about credit growth in Latvia, where I understand there's a new law coming in that will require most loans, the borrowers, to state their income. And I wondered if you could give us an idea of how that will affect your credit growth in Latvia. How much will it slow due to that law?

Jan Liden - Swedbank - President and CEO

I think I'll turn the question over to Mr. Erkki Raasuke, head of Hansabank Group, regarding that. Please Erkki.

Erkki Raasuke - Hansabank - CEO

Yes. After we started to more precisely manage our (inaudible) to target our loan growth in Latvia in March this year, we put the target for ourselves to reaching a range of around 30%, 35% up or down from that. We actually still very much on this track. This law that you mentioned are changes into the law that they came in force quite recently. What we have seen is -- now I'm actually going beyond of our quarterly report and commenting July already. But we have seen actually quite a sudden drop in activities in the private individuals lending market. We don't know yet is it only us, or is it the rest of the market? It will take some time. So it seems that the law itself has had some, at least, visible impact. But will it recover from that or so, we don't know. What we are still keeping to is our target of around 25% over our loan growth in Latvia.

Garth Leder - Redburn Partners - Analyst

And July is the first month when that law is in force?

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Erkki Raasuke - *Hansabank - CEO*

I don't remember exactly the date when it came into the force. But basically, July was the first full month.

Unidentified Company Representative

Twelfth of June.

Erkki Raasuke - *Hansabank - CEO*

Twenty --

Unidentified Company Representative

Twelfth.

Erkki Raasuke - *Hansabank - CEO*

Twelfth of June it came into the force. Then July is the first full month where we can see the effects of it.

Garth Leder - *Redburn Partners - Analyst*

Perfect. Thank you very much.

Erkki Raasuke - *Hansabank - CEO*

Thank you.

Operator

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

Sasu Jarvinen - *Credit Suisse - Analyst*

Hello. It's Sasu Jarvinen from Credit Suisse. Two questions to start with. First, on asset management, just looking the commission income trends here, if I exclude the SEK188 billion of extra [AUM]] from Folksam, it looks like your volumes have grown roughly 3.5% quarter on quarter. Then if I do the same exercise with the commission income line, if I take the [SEK14] million out there, it still looks like your commission income has grown roughly 25% quarter on quarter. So it seems that there has been quite significant increase in the underlying margin quarter-on-quarter. If you could shed any more light on this, that would be helpful.

And then secondly, on the Baltics, a small retailer, I was just a bit surprised to see that the growth in headcount in the Baltic operations has actually accelerated quite a bit with close to, now, 7% increase quarter-on-quarter, given that you are talking about postponement in Russian expansion and given that volume growth has continued to decelerate. Could you just add some color here where you are currently investing in the Baltics and what should we roughly expect in terms of headcount growth going forward?

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Jan Liden - Swedbank - President and CEO

Well, we'll certainly try to. So why don't we start with the Baltics and have your comment about growth the number of (inaudible - background noise).

Erkki Raasuke - Hansabank - CEO

Yes. The acceleration, what you can see here is having a seasonal nature. We're having -- we always in spring time, we are getting quite a large number of summer trainees. These are the -- primarily they are students who are coming to work for two to three months for a very low pay. But I mean legally, they are still our employees during that period of the time, and they are counted. So what we are really basically going beyond of that this -- that we think that our headcount in the Baltics is going to increase during 2007 in a range of about 1,350 or so, which is slightly higher than it was in absolute numbers last year. And mostly the people -- the vast amount of the people are going still to the front line branch network, which is probably 70% of that, if not more.

Then also the other areas which have a -- where we're really investing into is the technology IT, and also the -- then to the lesser extent already, but they are quite important -- some of the group-level initiatives, what we have in the current management in HR; like what we also have in the finance area; like also what we have in enterprise state warehouse area.

Jan Liden - Swedbank - President and CEO

Thank you, Erkki. Shall we talk about asset management as well. Perhaps we --

Sasu Jarvinen - Credit Suisse - Analyst

Yes, please.

Mikael Ingländer - Swedbank - CFO

Yes. When it comes to asset management, as earlier mentioned, we have a seasonality effect when it comes to the provisioning or the commission income. And I would say that it's not 25% between the quarters. A more correct comparison would be approximately 10%. So that is now the effects -- affect the figures in that way.

Sasu Jarvinen - Credit Suisse - Analyst

Okay. Very helpful. Thank you.

Operator

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

Kim Bergoe - Fox-Pitt Kelton - Analyst

Hi. Just a couple of questions again on the Baltics. You mentioned that you are seeing the macroeconomic situation improving. Just wondering what it is that you are seeing, and what we should be looking out for, in terms of seeing improvements there and reducing the risk of a hard landing? What is it that will determine that? Or what should we keep an eye on?

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Also I would like to know, if we try to forecast a soft landing, what are the implications of that? I take it that we should expect to see, then, the margin come down quite a bit, because clearly interest rates would come down. Would it be fair to say that the whole deposit margin pick up that you see and that you would lose that again?

And then one question about the costs in the Baltics -- what kind of wage inflation are you seeing for comparable work force? What is the annual growth in wages that you are seeing? And then just one additional question I guess we all have to ask is whether you have any subprime or CDO exposure to the U.S. Thanks.

Jan Liden - Swedbank - President and CEO

Yes. If I may start at the last question -- that subprime CDO exposure -- we have a very marginal exposure towards the American mortgage sector. And virtually nothing of that is -- the way we can figure it out -- is directly -- is exposure towards the subprime sector. So we don't expect any influence of that in the future. When it comes to both the questions regarding the Baltics, I think of course Erkki should give a detailed response.

But with your first question regarding how can -- what signs are we seeing? And I think one sign was illustrated by the question before. But what we see now is some of the actions discussed and decided by the authorities in Latvia and also Estonia are coming into action. And that is, of course, something very important that they actually do something, and that they are doing some good communication regarding those activities. There's a lot more to say, so I'd be happy to let --

Kim Bergoe - Fox-Pitt Kelton - Analyst

Can I just --

Jan Liden - Swedbank - President and CEO

Comment on that.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Can I just really quickly add, in terms of -- if we try to imagine a soft-landing scenario, how long does a scenario like that -- could that take. And what kind of growth rate should we be looking for in a soft-landing scenario, in terms of both lending and profit growth in the period.

Jan Liden - Swedbank - President and CEO

I think it's a very valid question. I think also Hansbank's macro specialists have done some interesting reports on that, which we can also study in detail. But please Erkki, have a comment.

Erkki Raasuke - Hansabank - CEO

Yes. I firstly will go back in a second just -- you started the question with macro improvements. I wouldn't say that there hasn't been an improvement as such, yet. What we do see, we have seen increasingly the signs which we interpret as supportive for a soft-landing scenario. And therefore, yes we can say that (inaudible) at least, that we are -- we're today slightly more relaxed than we were probably at the end of the first quarter.

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And if these signs are the managed credit growth responsibility in the market -- of the market players, not all of them but the majority of them, we have established and also strengthened the direct communication to the authorities in all three countries. Recently again, we have done the tour with them, with the prime minister offices as well as with the Central Bank. And also what we do see, we see actually their adequate understanding of the situation and very much kind of alignment in understanding what needs to be done and what it takes.

So and finally, also what we do see is we see rather different client behavior, which is also is taking the speed down. There is less of the risk-taking. There is more concerns about building the buffers and improving the liquidity positions, et cetera. So this has been all kind of comforting to support the soft-landing scenario.

Nevertheless, it's not still there. As it's probably no surprise, Latvia still -- because the imbalances are the largest, the highest risks are still open in Latvia, than Estonia and then Lithuania. Then to the soft-landing scenario by itself is that we actually have not tried really to draw this scenario down into the details. What we have been talking previously is what we think is a sustainable growth rate for the region. And there we are -- we're in range between 5% to 7% annual real GDP growth, which having still a strong convergence going forward, the Baltics should have as average over that, or they are capable to have it as average over the next three to five years.

So now we stay in balance is -- I mean, we are currently having imbalances and basically getting back to that track. In the meantime, there might be some more volatility. And also maybe economy will take certain pause that it just will not dropping to this level, but it also temporarily can come lower than that.

Okay, so much about the macro. Then I will go further to the -- you also asked about the deposit margins. Deposit margin has been helped by the higher local interest rate. But even further, deposit margin also has been helped by the increased Euribor rates. So there is actually -- the effect of that is even larger. And whatever is happening domestically there, this is -- you can build it in based on your own Euribor expectations.

And finally, the last part to your question was about wage inflation. Wage inflation is actually one of the primarily macro concerns in the Baltics. We have, because of our strong position as employer, we have been strong with capability to get people on. And we also have a fairly leveraged pay system for our employees, which has allowed us actually to stay lower with wage inflation than the market has averaged. But the market numbers really are currently around the 20% throughout -- slightly above the 20% throughout the region. So there is still part of the legalization of the incomes as well, which is slightly difficult to clean out. So probably on a really comparable basis, the real wage increase is not that high. But it is probably in high teens. That's all.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay. Thank you very much.

Operator

Thank you. Our next question comes for the line of Per Lofgren from Morgan Stanley. Please go ahead.

Per Lofgren - *Morgan Stanley - Analyst*

Thank you very much. Most of my questions have been answered. But I have one more left. And that is a question relating to what was said in the CEO presentation -- just one thing there. When you were talking about the margins in Swedish banking, you were mentioning that pressure is coming not only from mortgages, but also on the asset side. And also you were mentioning that you have been successful in the corporate lending space. First of all, was that correct understood? And is there something we should read into that in terms of are you competing on prices -- this kind of question? Thank you.

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Jan Liden - Swedbank - President and CEO

Yes. I'd be happy to clarify what I meant. And that is true, that we see pressure on all lending margins right now. And we have -- our discussion has been focused on the mortgage sector. And what we're saying now with the mortgage sector is that the situation remains as is. We see that the trend continuing. And right now we have said that we have a drop in margins, which is currently around 2 to 3 basis points a quarter. And we see that having continued.

As for the corporate sector, no, we're not really in the sense doing a kind of price initiative on the corporate sector. But what we see is the more present we become with the larger companies and corporations, of course that means pressure on our margins, because they tend to get better prices. And apart from that, there is also a lot of liquidity in the Swedish market. And because most -- many Swedish corporations borrow more, because they are now investing more than they did before, that has of course attracted a lot of suppliers of financial services, including lending; which means that the margins are under pressure. And we have a lot to defend, because we are such a large operator in that field, but also to gain in order to attract new customers in different segments, including the big corporations.

Per Lofgren - Morgan Stanley - Analyst

Thank you very much.

Operator

Thank you. Our next question comes from the line of Aaron Ibbotson from Goldman Sachs. Please go ahead.

Aaron Ibbotson - Goldman Sachs - Analyst

Yes. Hi, there. I've got four questions actually, of which three, I'm afraid relates to the Baltics or Latvia more specifically. But if I start with my first question, you mentioned that your treasury operation had found it increasingly challenging or the environments increasingly challenging, cursing to some SEK40 million less contribution than you expected. I was wondering what are the reasons behind this? And if you see the pickup of these challenges in July; because obviously the credit markets have been extremely challenging over the last month. And I was wanting to know how your funding has been impacted by that. We've seen some significant spreads going up.

Then on my three questions on Latvia -- first of all, if you're sticking to your 30% to 35% growth for year end, it looks like you're looking for a sharp slowdown of the coming two quarters of some low single-digit growth per quarter. I just wanted to make sure that I've got that correct. And secondly, you talk about these macro imbalances. And as far as I understand the situation, the biggest imbalance is the current account deficit in Latvia. And with 20% wage inflation, and if you're looking for 5% to 7% wage inflation, and if you're looking for 5% to 7% GDP growth, I'm interested to know how you see that imbalance disappear, at least diminish.

And then finally again on Latvia, I'm interested to hear that the application for mortgages has gone down significantly when you needed to have verification of income. So I just wanted to know what proportion of your Latvian, or say Baltic, retail mortgage portfolio has mortgages where you have, say, non-disclosed income or full details about the income of the lender. Many thanks ---or borrower.

Jan Liden - Swedbank - President and CEO

Thank you very much -- interesting questions, all of them. I think we will start with the question regarding the treasury effects. And then leave to Erkki to try to respond to your questions on Latvia.

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Mikael Inglander - *Swedbank - CFO*

Yes, and to answer that first of all, it's related to Swedbank Mortgage where we finance ourselves mostly through bond issues. And normally we have a normal rate or normal interest rate income in that area, which is approximately SEK40 million higher in average. And that is why we believe it should be on that level, because nothing essential has changed. And it's more regarding when and what kind of maturities we have issued over the period.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. So you haven't experienced any slowing of demand or you having to price your bonds slightly different because of the development of the last, say, two months then? I looked at some of your bonds on Bloomberg. It looks like the spread had gone up a little bit.

Mikael Inglander - *Swedbank - CFO*

No, that is not the case.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, perfect. Thanks.

Jan Liden - *Swedbank - President and CEO*

Erkki.

Erkki Raasuke - *Hansabank - CEO*

Yes. I will go one by one then. Starting then with yes, if there should be a single-digit growth number to the end of the year, basically this is a percentage calculations what we're talking here about lending growth was peaking in the late last year, October, November, December. Basically, if we're calculating the running 12-month loan growth, then this is currently included. And while when now we are going and approaching through the year, and so basically this is for month-by-month and if it -- or when we go through these months, it falls off. So what it means, in other ways, is that if we continue -- which we intend to continue -- we devote the sizes monthly new origination, what we are doing right now, we are reaching that around 35% in Latvia.

Then the next one is -- you asked about is the current account deficit wage inflation that how these imbalances will go away. Basically there is -- the key question is consumer confidence. The current account deficit has been filled by the offer credit, which is now turned down -- or is actually managed differently than it was previously; which has been also supporting very much the wage inflation and overall consumer confidence. So confidence is and also should fade further. What is the challenge there is that otherwise one could think is, that this adjustment could happen actually quite quickly and through very short period of time, that you cut the credit further. And then there will be -- some of the people will lose jobs. There will be increased unemployment. Consumer confidence will go down. The imports will go down, et cetera -- the things we are adjust.

The trick for that, for the policy makers and to the country really is, is the issue with the potential immigration. There is already quite a sizeable part of the population, which has actually left Latvia. They're actually sending in the proceeds, which is still the country's benefiting out of that, which is further worsening the current account deficit, if it's done this way. But it's worse case in Lithuania, where it's actually estimated the number be close to 300,000 people left. There is over 100,000 people estimated

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left from Latvia. And basically, if there is too sharp of this cool down, what happened that this is the primary concern, that the what-if basically country would lose another 100,000 of the working hands. So that would be a real crisis. So that's the reason why actually this adjustment has to -- itself also has to be smooth.

And finally you asked about application of the mortgages. Now it's -- the volume has not become down, because we have been counting in unlawful incomes of the people or so, that the primary reason what we see is that just technically the application process has been further complicated. There is no electronic way of actually getting this income approval paper. People actually have to go to the agency and have to actually get it onto the paper. So what we saw, we saw and we interpreted increased activities before the law came into the force. And now we have a certain pause there. Will it pick up or not, the interest actually of the clients, we will see later on. But this is basically we are currently, because administratively, the process has been just further complicated.

We don't see actually the major issue there about the -- now the clientele, because of this law, would radically change. No.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Just sorry. Maybe I'm an idiot here. But just to clarify the last question. So your current borrowers, how did they go about verify their income before this law come into place? Or were you not -- did you not have to do that?

Erkki Raasuke - *Hansabank - CEO*

It was the client supplied us the information, which shows, in some cases it was verified, in some cases it wasn't. Now there is a law which requires that, in the loan file, there has to be particular document issued, I believe, by the tax office, yes? And that basically this process has been complicated further. Previously, we mostly relied either to the client, or if we needed, then we verified that with the employer.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Thank you. The next question comes from the line of Richard Henze from ABG. Please go ahead.

Richard Henze - *ABG - Analyst*

Thank you very much. Good afternoon. I just have one question regarding Latvian property prices and Latvian lending growth. I've heard from some sources that Latvian property developers report a 40% less sold startings within started houses than a year ago. I'm just wondering if you have any idea how this would affect volume growth going forward.

Jan Liden - *Swedbank - President and CEO*

Thank you for the question. I'm afraid I don't know the answer to that. Perhaps Erkki does.

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Erkki Raasuke - *Hansabank - CEO*

I don't know exact numbers as well. What I do know is that, yes, both Estonia and Latvia have been reporting the real estate developers -- residential developers have been reporting less sold apartments, prolonged sales periods, et cetera. And there also have been -- the real estate prices have been ticking down. There are different campaigns are offered. There are some cases, there are campaigns -- for instance, like for one day, basically, the house or apartments in a house are offered 15% or 20% cheaper. Okay, next day the prices are lifted back again. But basically, you can see that there is people trying to be creative about -- this is actually marketing their stock.

But how would it affect our volumes going forward, we think that if there has been too much of the demand for that, and there has been a rapid also supply, so that we hope that this is going to normalize now. So what we will probably see is a different growth rate, not any more 90%, 80% per annum, but more in a range also what we are currently targeting or even below of that.

Richard Henze - *ABG - Analyst*

All right. Thank you.

Operator

Thank you. Our next question comes from the line of Johan Ekblom from Merrill Lynch. Please go ahead.

Johan Ekblom - *Merrill Lynch - Analyst*

Hi. Just two quick questions. First on Baltic Banking, we saw commission income increase quite sharply quarter-on-quarter. I just wonder if you could comment a bit on what the driver is of the acceleration in commission income, and also if this new level established with the Q2 numbers is sustainable going forward, and we should build our forecast off of that.

And secondly, in terms of asset management -- I understand what you said before about having a very strong quarter in the business. I was just wondering, in terms of the assets under management coming in from the Folksam agreement, what sort of gross margins should we expect on that -- if it's significantly lower than what we've seen in terms of previous quarters of around just over 40 basis points?

Jan Liden - *Swedbank - President and CEO*

Well, if I may start with your last question, and then perhaps we can talk about the commission income in the Baltic operation. We have been very strict in not releasing any information regarding the deal together with Folksam with regard to remuneration. So I'm afraid that I really don't have any comment on that -- without for the fact that the volumes that are now under our management have reached the impressive number of SEK188 billion. So I'm sorry, we will not comment on that.

As for the commission income in Hansabank as such, I'd like to turn to Erkki here.

Erkki Raasuke - *Hansabank - CEO*

There is nothing particular standing out in commission income. It's over all the larger activity which has been there. And actually on different items, it fell equally. And basically, the overall pattern is the same -- pretty much the sub-items under there have been growing equally. Is it now the -- on the new platform, that's difficult to comment.

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Johan Ekblom - Merrill Lynch - Analyst

Okay. Thank you very much.

Operator

Thank you. The next question is a follow-up from Garth Leder from Redburn. Please go ahead.

Unidentified Company Representative

We've gone full circle.

Garth Leder - Redburn Partners - Analyst

Thank you. I wanted to follow up on the Baltic states property markets and your lending that's asset-based, which I'd guess is quite a large chunk of it. I wonder whether the activity or your expectations of slowing growth are driven more by expectations of price changes of property or of construction activity, or maybe something else.

Erkki Raasuke - Hansabank - CEO

It's the primary -- one of the big contributors actually to the slower growth is the affordability that the prices were running ahead -- basically kept running ahead. Then more affluent part of the population was quicker, actually, with improving their living conditions. Further, what we saw is that -- and what we still see is today -- the newcomers to the markets are the ones who have been just qualified with their income levels. With their capability, take on the loans. At the same time the property prices have been running ahead. And basically, it has very much become the affordability issues. Basically, meaningful purchase with these prices is not affordable anymore to the -- or it's affordable to the too few people. There are no buyers at these levels.

Garth Leder - Redburn Partners - Analyst

Could you say how much of your lending in the last year has been high lend-to-value? Say, more than 80%?

Erkki Raasuke - Hansabank - CEO

We should actually go down to the details country by country and maybe even area and area of the portfolio. The overall LTV numbers have -- just to indicate you about the average LTV levels. So they're still lowest in Estonia. They're highest in Lithuania, where the market is the youngest. In Estonia, we are above 50%; around 55% is average. In Latvia, we are there around two-thirds; 66%, 67% is average. In Lithuania, as average, we are about 76%. That's the new issue on soft 2007. And the back books are considered lower.

Garth Leder - Redburn Partners - Analyst

Thank you.

Operator

Thank you. We also have a follow-up from the line of Kim Bergoe from Fox-Pitt Kelton. Please go ahead.

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Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Another follow-up I'm afraid. I just wanted to confirm on the lending growth in the Baltics that the 35% we are talking, that is the number, the year-end number, year-on-year that we should be looking for. And also am I right to presume that implies that new lending at the moment is incredibly low? Is that fair, if looking at inflows and outflows into the group, that there is actually a very, very low activity right now in terms of new lending?

Erkki Raasuke - *Hansabank - CEO*

No, I wouldn't say that there is a very low activity. The activity is considerably lower than it was late last year and early this year. But it's actually -- if we now see the last months throughout the Baltics, they have been pretty similar, except now basically July, what we are already was taking the view in. And I was commenting that a mortgage growth in July was visibly lower because of this administrative measures taken there. But once again is that -- please do not look this kind of percentage annual growth what we're currently reporting to, because they are affected by the very high loan growth late last year.

What we're talking about, we're talking about in a region of 35 to the Baltics full year; which is going to divide into the three Baltic countries. Estonia going to be lowest. Latvia is going to be around in that region. And Lithuania is going to be highest, because Lithuanian penetrations are actually -- today about just half of Estonia loan penetrations. And on combined basis, they will make up about 35%.

Jan Liden - *Swedbank - President and CEO*

I think Erkki has made a very clear statement here now.

Garth Leder - *Redburn Partners - Analyst*

Yes, thank you.

Jan Liden - *Swedbank - President and CEO*

Do remember that we had this very high growth at the end of last year. And when you will be looking at this year's performance, you have to take that very strong last quarter last year into account when you make the comparison. And then our forecast is if you, at the end of the day, compare the year-by-year, we will reach the 35% target. But that will mean significant lending volumes the rest of the year as well. So that's -- and also please remember what Erkki's statement on the question before regarding loan-to-value measurements, that what he reported was actually new sales during 2007 in the different countries and the [backbone] loan-to-value numbers are significantly lower; so that we're not misunderstanding each other.

So please --

Operator

Thank you. We have no further questions at the moment. (OPERATOR INSTRUCTIONS) There appear to be no further questions coming through, so I will hand you back to your host to wrap up this conference call. Thank you.

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Jan Liden - Swedbank - President and CEO

Yes. Thank you very much. Thank you very much all of you attendees for your questions. I think this has been a fruitful discussion. Thank you very much and good afternoon.

Operator

Ladies and gentlemen, thank you for joining today's call. You may now replace your handsets

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