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PRESENTATION

Jan Liden - *Swedbank AB - President & CEO*

This is Jan Liden from Swedbank. I welcome you all to this conference. I'm joined with Erkki Raasuke from Baltic Banking and from Mikael Inglander, the CFO, (inaudible), Chief of Finance and also Johannes Rudbeck, Investment Relations.

And what we thought to do is to start to give you short presentations on the slides that you might have. And first of all, we would like to talk about the summary. That is we think what the positive thing is that we have seen in this quarter fairly solid business development with our core customers, that is the corporates and the private customers in all geographic markets, which is very satisfying.

The thing that we have been discussing so much and intensive the last few quarters is in the development in the Baltic states and the -- I guess a good summary right now in the Baltics is there are no news really since the last quarter. The development is -- and no news is good news, and the development is continuing as we have expected, and as we have forecasted in our communication with you, which we think is good.

The funding programs and liquidity situation have been performing very well for the Bank and also the fact that we have been able to convert our outstanding debt for mortgage bonds into covered bonds, or a large proportion of mortgage bonds to covered bonds earlier this week further improves our situation.

The credit quality still remains quite good considering all the circumstances and we are still on the track, or actually right now below the track, that we have forecasted both in the Nordics and in the Baltics and -- but we see no reason for changing our projections. We can just summarize the first quarter being a little bit better than those projections.

On the negative side, I think it is fair to say that we have lower commission income due to weaker equity markets, and also on the corporate finance and acquisition finance activity.

Also we have taken the hit, at least to a certain extent when it comes to net gains and losses on financial items, where we have unrealized valuation effect caused by the changes in (inaudible) [for risk].

If I then move on to slide number four, you see that the changes in volume continues, though at a slower speed as we have seen before. If you look at the graph, you see that the lending for the growth has continued the first quarter to grow much -- and in the -- the pattern it has used as before, that is private clients in Sweden who mostly have increased -- continue to increase their mortgage lending. Corporate customers in Sweden also continue to invest.

In the Baltics, we see definitely a slowdown in the growth as we have projected, both when it comes to private clients and corporate clients.

The savings side, a slight increase in the Swedish deposits, about flat in the Baltics. For the asset management funds, there has been -- in Sweden and also in Baltics, there has been a slight decrease, mostly because of lower value in the underlying funds because of the decline in the equity market but also, at least in Sweden, a small net outflow of funds. As for the structured product, that continues to be developing well, though in a weaker market.

If you see on slide number five, you see the margins, they are slightly compressed on the lending side. That is mostly due to an increased funding cost which have not yet been transferred and adapted to a customer price.

As for the deposit interest rates, you see they've had an increasing interest rate situation that has led to higher interest -- higher margins and higher interest rates also in Estonia and Sweden, more so in Estonia. But the contrary in Lithuania and Latvia, and that depends on that we have actually had compressed interest rates as such in Lithuania and Latvia, and also increased competition which brings those margins down though to -- from a very high level before.

If you continue a little bit through the slide number six, you see a way to illustrate the credit quality of the Group. The bars do reflect in nominal terms the impaired loans and the provisions we have for loan portfolio.

And what you can see here is that, yes, we do have an increase especially in impaired loans. We still have a very conservative provision for eventual losses. And you see that also the line illustrates the part of the portfolio that is to be regarded as impaired loans. So we are virtually back on point -- 15 basis points, 16 basis points of the portfolio, a situation similar to what we had in September '05.

So from a low level, it is increasing. Still we think we [use] this conservatively (inaudible) losses for future losses.

On the next slide number seven, you see that loan-loss ratio described for the different countries in the Baltics; Estonia, Latvia and Lithuania, and you see the fourth quarter '07, the whole of '07 and first quarter of '08. And you see that the figures for the respective countries and we are in total for the Baltic Banking now on a level of 0.39%, which is an increase from the whole of '07, a slight increase.

We haven't changed our projections when it comes to net losses. We are still in that corridor which we have been communicated to you since late October last year, that we believe that losses for '08 will come in between 50 and 70 basis points. So far, the first quarter was slightly better.

The overdue ratio, as was illustrated by the graph for the whole Group, has also increased in the Baltic Banking and you see now 0.86% of the volume.

If you just take a quick look at the following slide concerning Swedish and Baltic Banking, in page number eight, we have a solid volume growth as you saw in Sweden. Net interest income fairly stable. Lower equity related commission income of course. And we also in Sweden have a continuous work with restructuring the branches in Sweden. And to partly we do that together with the independent savings banks and right this quarter we have actually sold a few branches to them, as you remember last year we bought banks. But in this quarter it led to a revenue of SEK440 million.

Slide number nine, Baltic Banking. Again, Baltic, the profitability remained robust. There are ups and downs in that as well as everything else but still we have a very robust situation. The lending growth continued to decrease, though in nominal terms has continued to increase. The projections we stated as of the fourth quarter, that we said that lending will not increase more than 15% '08, we still think is very valid. It will not be more than 15%, this might be a subtle change of that message. This quarter the figure was 27%.

The net interest margins are as we showed you before, partly declining both because -- especially on the deposit side. And loan losses as expected. In the Baltics today they are, as well as in the other parts of the Group, now focusing very much on operational excellence and productivity increase and we think we have some interesting potentials to utilize. And one small part of that is of course that we also agreed not to increase the number of full-time employees in the Baltics. That we haven't done the first quarter either.

If I then move on to slide number 11 and you see international banking. We have still a continued good performance in Ukraine. We have in total International Banking also good, but you also see that Russian banking is coming down quarter on quarter and the reason for that is of course that the last quarter we had some recoveries in terms of expected costs for VAT refund and we took part of that away. We recovered SEK60 million. We still have provision for another SEK100 million, but we will recover that when and if we do recover that from the Russian authorities. We have also, as you might have noticed, announced that there will be a new head of our Russian operation, a Mr. Raimo Valo from -- of Finnish origin, who has considerable experience from Eastern European markets, including Russia. And we have also launched a program in Denmark, which aims at the co-operation between FDB and COOP to serve their clients with banking products.

As for Swedbank Markets I dare say that with the exception of the Corporate Finance products and to a part to trading on equity products, there has been a good and a profitable activity in fixed income and FX trading in the markets, which has been very good. And also in these equity-linked bonds where we have maintained our number one position in the Swedish market has been good. But the result has also been affected negatively by unrealized valuation effects.

And on the next slide, slide 13, you see a summary of these accounting and valuation effects. And you see for instance that in the Swedbank Market case, where their stock of bonds and securities have been revalued with an effect of minus SEK187 million this quarter, which is a bigger effect than we had the preceding quarters, as you see. In Group Treasury, intra-group lending, you also see quite a big figure of minus SEK253 million. That comes from the market revaluation of the derivative package securing the interest rate risk when we fund ourselves in euro and we pass on the euro at maturity times which suit the Baltic customers. Then there is a valuation of the derivative package and that has this quarter been considerable. In the Swedbank Mortgage case it's the same situation really. We have also a derivative package trying to match most of the interest rate maturities and there we have a negative effect also, but considerably less.

All these figures, the SEK187 million, SEK253 million and SEK22 million are related to some basic activity, and we think that they are unrealized and we also believe, and I believe, that they will be unrealized. So at maturity the value will get back. You see also that the Group Treasury liquidity portfolio management have this quarter, in contrast to the preceding quarters, resulted in a small gain of SEK69 million.

I think I'll switch over to slide number 15 and just show you that the funding effects is complex. First of all we have a higher price on our funding, higher price of risk. And that is illustrated by the fact that now if you issue covered bonds you have to pay approximately 10 basis points more than you had to do before Christmas on a two-year maturity. If you issue a bond from the [pan] -- the bank, the price has gone up even more with 35, 40 basis points. So the price has gone up. The increased liquidity reserve, which we have voluntarily taken on as a precaution, of course also has an associated cost, and that is also included in our result. And lastly, all these measures do have a lag effect before we can adapt our pricing towards the customer. So that has affected us. But the covered bonds we think is good news and adaptation to market conditions and again confirming the good quality and transparency of the Swedbank Mortgage portfolio. It will at least in the future reduce our funding costs compared with the alternatives. It facilitates also an access to more investors than before, which would further secure stable liquidity. And it also of course almost immediately increased our liquidity reserve.

I think with those few remarks before your questions I would like also to let Mr. Inglander have a few comments regarding the following slides.

Mikael Inglander - *Swedbank AB - CFO*

Yes, thank you. And then we turn to slide 17 and the income statement and some remarks there. If you look at the total income it's a good development regarding Q1, taking into account the current turbulence in the market. You have under other income a one-off effect which is important to remember, the SEK440 million of sold Swedish branches. Also in comparison with Q4 you have the one-off effect to remind you of that withdrawal on insurance reserves of SEK150 million to make the comparison right. In comparison with Q1 in '07 we are quite proud of actually showing up an NII increasing with as much as 16%. Of course if you look at the other revenue lines, net commissions, I'll come back to, a little bit disappointing, as well as net gains and that is also explained to a large extent by Jan with a SEK460 million in revaluation effect, which is a majority of course of that deviation. Costs, again important to remember the changes of the Group composition. Between quarter four and one, there is a decreasing cost in all areas, if you take one of the facts into account, I'll get back to that later, in comparison with Q1. One has to remember that we are, today, 4,195 people more employed in the Group than we were one year ago. That is, of course, the majority in Ukraine, but also the increased operations in the Baltics and to a small extent also spanning from our asset management operation, which today manages almost 50% larger funds due to the [Folksam] deal, also acquired (inaudible) this quarter. So it's another Group, and a better platform for future revenues. Tax, on the level as we have expected and discussed before, it's 21.2% for this quarter, which is -- sorry, 21.7%, which is in line with our own expectations. So stable results, given the circumstances.

If you go to next page, which is 18, our net interest income has been stable between quarters, I'll go deeper into Swedish Banking later on, but two remarks here. It's Swedbank Markets, which has considerable decrease in NII, and as you remember, there is cyclical volatility in Sweden between the revenue stream of NII versus net financial gains, and the last quarter was extremely good in this line, and that is the total effect there. Also in Shared Services, we have seen very good development, and I wonder why that is, and we have to remember that we have the dividend as such, it's part of our treasury unit until we have divided it, and that will take place later this quarter, so you have some one-off effects also in this area.

If you then turn to page 19, Swedish Banking, we have a positive effect between quarters, which is, of course, good, given the circumstances, but there is a few things I would like to remind you of. Yes, we have seen higher volumes in the Swedish operation. We have still a pressure on lending margins. That is also in our mortgage operation. There is still difference between front and back book, even if the front book margins are stabilizing, as we have said before, also an effect of change (inaudible) internal rates between Group treasury and Swedish Banking, we have changed the base rate from repo rate to interbank rate, which much better reflects the current situation in the market. The former rate is actually not a very good base for our own business measurement.

The same effect is also in the profit margins. The interbank rate is obviously higher than the repo rate, and you have a positive effect on the deposit margins, which is stemming from that operation. And that sums to a total change of SEK55 million. Some of you might wonder why there is such a high decrease in the Swedish Banking operation, excluding the mortgage operation, and that is, to effect, in the Swedish mortgage operation, you have seen decreased NII with total SEK120 million. SEK70 million of those is actually costs related to liquidity reserves and financial turbulence, which effect NII in Swedish Mortgage, and also the remaining SEK50 million is the compression on margins.

In Swedish Banking, I've seen a very good increase between quarters, and that is stemming from the change in repo rate to interbank rate, and if you take them together, liquidity portfolio, which actually is a benefit on the treasury level -- Group treasury, not in mortgage -- but changed internal rate repo to interbank, you can see that some of the facts between mortgage and Swedish Banking operation in the parent company is actually not there any longer.

If you now turn to Baltic Banking, we have seen a net decrease in NII, which is quite slow between Q4 and Q1, but of course, given the circumstances, we still have been able to increase margins on lending, even if funding prices have gone up, we have been able to push it on to some extent to customers, which has kept the margins up. Deposit margins have compressed, and there you saw the picture Jan showed you earlier regarding that development of base rates in, especially in Latvia there, and Estonia. (inaudible) rate, which has decreased between the quarters, and that gets the whole effect on deposits. We have seen a positive effect when it was on a much higher level, if you remember, in earlier quarters.

So then go to page 21, remarks on commission. Of course, asset management gets affected by (inaudible) decrease in prices, as well as brokerage commission. Corporate finance is very low in comparison with the fourth quarter. It's normally a volatile market, and the first quarter (inaudible) seems a little bit disappointing, but still we (inaudible) the underlying business is good, and hopefully we will see a recovery later this year.

Loan losses, page 22, still stable. It's going up in the Baltic operation, but still in the corridor as we have predicted before. And Swedish Banking, to some extent, it's going down, and it was a one-off, or a single credit, which was last quarter provisioned for.

Expenses, on page 23. Going down between quarters, and if you also in International Banking take into account the VAT recovery, it was going down also there, which is a normal effect and also shows that we have costs under control. Between quarters there are some effects in different areas, increased operations in the Baltics as well as International Banking, actually today, have a Ukrainian Banking unit, which was zero in the first quarter of '07, and in Asset Management and Insurance, we have the acquisition of Folksam Fond and then the other of the units, which to some extent give one-off effects in the first quarter in those comparison with Q4 and Q1, of course, '07. And in other, we have effect which is stemming from pension costs, which have increased for this quarter and will remain a little bit higher, and that is pension reserves, which has completely filled up due to expectations on the future cost, with approximately SEK40 million, and the rest I would consider as seasonality effects.

Page 24, a short summary of the different business areas. Swedish Banking, given the circumstances between the years, is developing quite well. Of course, we had also the one-off effect, but the market in general hasn't been very helpful. Costs are under control, a slight increase, but in line with our own expectations of this. Baltic Banking, here again to remind you about the very good development year-on-year (inaudible), and also if you look at return on equity in both Swedish Banking and Baltic Banking in the current circumstances, being well above 20% we think is quite a good achievement. International Banking improving from day-to-day, in line with our own projections. The bank markets tough first quarter, but still a positive result.

And the key figure is, just one comment regarding (inaudible) in line, as we have already stated, with our long-term target of being around 6.5%, and the rest of the figures have to some extent gone down, but we think again showing a return on equity today of close to 70% or deducting one-off effects of 15% is quite a good ROE.

And then, Jan, if you would like to make a (inaudible).

Jan Liden - *Swedbank AB - President & CEO*

Yes, I guess we'll come back to the first slide, what we thought was a fair summary of the quarter, showing you the slide 26 which is the same as slide number one and two. We have a good quarter with solid business development in our core businesses. We have good expected development in the Baltics which is a good development. The funding programs function well and credit quality remains good. We are affected by the financial turbulence; most of that effect is unrealized losses due to valuation effects which we largely hope that it will come back.

So I guess we'll stop there and open up for comments and questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS).

Thank you. Our first question comes from the line of Johan Ecklar. Go ahead, please.

Johan Ecklar - *Merrill Lynch - Analyst*

Hi, it's Johan Ecklar from Merrill Lynch here. Just a quick question in terms of loan losses going forward; as you pointed out there's been a rather rapid increase in non-performing loans. Can you please guide us as to what trend you would expect here and what level of coverage you would be comfortable? Clearly a 230% increase or whatever it is in the Baltic divisions does seem like a worrisome find to me.

Jan Liden - *Swedbank AB - President & CEO*

Yes, it is worrisome, but again one has to be very careful when you talk about these things because you are comparing apples and pears in uncertainty. All loans which are impaired, which is essentially customers who are overdue, they don't go to a realized loss for the Bank or even a provision for the Bank. We think that it is an early indicator, and that's why we show it to you. We think that we, it will not -- and we feel pretty comfortable with our provision level, of course, and if you compare our provision ratio compared to impaired loans you will see that we still have a very high ratio compared to our peers.

The same sort of losses will develop according to what we have said now in -- since the third quarter. It's going to be between 50 basis points to 70 basis points in the Baltics. We have also said that for the whole Group we have looked at your, that is the analysts who follow us, the 23 or 24 numbers and said that if we take the average of your projection for the whole Group, I felt the last quarter I feel very comfortable and I still feel comfortable.

So we think we are on track even if this quarter was a little bit better than that track but still, we are stuck with our forecast as we said.

Johan Ecklar - *Merrill Lynch - Analyst*

And then just to come back, what level of coverage would you see as appropriate. You're close to 100% now. If it goes down to 80% are you still comfortable with that? To 70%? Where would you draw the line?

And then also if I may add a question, in terms of capitalization you're one of the more geared banks in the Nordic region and with everything that's been going on in the sector there's been a clear focus; people are now talking very much about de-leveraging. Do you see any of these needs to rebuild your capital base over the next couple of years?

Jan Liden - *Swedbank AB - President & CEO*

To start with your last question, no, not really. We think we have a good capitalization. We think when we make these projections under Basel II applying pillar 2 and all these measurements and reviewing our ECAP, doing our ECAP reviews, we think that we now and in the future will be enough capitalized so we're pretty happy with the situation as is.

We will of course formulate new targets or we will ask the Swedbank Board or council to formulate new -- or be active when it comes to capitalization, because the present ones are, of course, referring to Basel I measurements and they will, in due time I guess later this year also formulate it according to Basel II.

But apart from that we feel comfortable, also not the least to look at our stability from a P&L perspective where we continue to have this robust profit development.

When it comes to loan losses and the relation between provisions and impaired loans I think it is, I look at it as an indicator because it varies from time to time and you can't, it is actually pears and apples you are comparing. We make provisions for individual objects or exposures that we see are in trouble and you really can't judge that from the provision ratio expressed like that.

If you take that ratio and apply that on other financial institutions here in the Nordics you will see that we are very conservatively, in that respect, provisioned. We think it's prudent but we don't want to give any projections in that measurement. Look upon it as an illustration.

Johan Ecklar - *Merrill Lynch - Analyst*

Thank you.

Operator

Thank you, and our next question comes from the line Pierre (inaudible). Go ahead please.

Unidentified Participant

Thank you very much. This is Pierre (inaudible) from Morgan Stanley. Look, first of all, I have a follow up question there on Johan's question on the capital. I'm just wondering in the incremental change here, as far as I understand, please correct me if I'm wrong, that on a like-for-like basis so [clean] on transition [respect] you are effectively taking down your capital ratios with 30 basis points in this quarter from the last one. It just doesn't -- I'm just wondering whether if you could clarify a bit how you think about your capital going forwards, not only the static picture? It simply doesn't strike me as the right time to slim your capital.

And also one more question if I may, that regards -- that relates to the funding costs. You were talking here about the ten basis points increase, the cost for capital bonds, 30 basis points to 40 basis points for senior funding and also increased costs for a liquidity reserve. Do you have a new guidance to give us for, let's say pre-credit crunch, after credit crunch? What will be the effect on the overall funding costs? I remember before, as we have said, about ten basis points, it just sounds like there's more to come. Those are my questions.

Jan Liden - *Swedbank AB - President & CEO*

Those are very relevant questions. I don't know if they're so easy to answer to. If we start with the capitalization, the capital is increasing no mistake. Our equity is increasing because we make a robust profit every time and even if we deduct a possible dividend in the future there is still a considerable increase. If you look at it in percentage number I think what happen now is we're still at the 6.5% now if we include the transformation rules. So we're not slimming, and we don't intend to be reducing capital. We are, but we think that our ECAP reviews and our forecasts, which we now consistently share with the authorities, is that we will be able to make as much money to satisfy also our needs in terms of capitalization. That is our present prognosis but we will formulate new targets for capitalization so that they are totally in line with a full transformation Basel II.

Unidentified Participant

But it is correct, right, that as I said if you compare it on a like-for-like basis now you said on the transition [rules] effectively that the capital ratio as a percentage is going down right?

Jan Liden - *Swedbank AB - President & CEO*

That is true, yes.

Unidentified Participant

All right.

Jan Liden - *Swedbank AB - President & CEO*

That is true but again -- why is it going down according to the transformation rules? It's because we use a more sophisticated analyzing tool in determining the risk-rated portfolio, and therefore arrive at a different degree of o need for -- or a different relationship which means in turn that we actually increase it. So you can't take the worst of all things and ask of that to be the result. So I've said what I said, I think we think we are well capitalized, we have a buffer. We think that when we make the projections based on what we think we are going to earn and take the corresponding risk-weighted volume to that, we think we will be well capitalized, including a strong P&L which will help us to withstand and absorb also negative disturbances.

But I have to come back to your other question was a general question regarding the effect of funding in terms of impact on the P&L as such. And you asked for guidance regarding if we told you six to ten basis points before, what is the figure now? And I think I have to revert to my colleagues here a little bit to ask for a prognosis. I think it's fair to say that it has increased, as I tried to illustrate before, but there are pros and cons in these matters, as you are well aware of.

Mikael Inglander - *Swedbank AB - CFO*

(inaudible) it's Mikael Inglander here. I think it's very hard actually to make a correct prognosis because prices is changing day on day and we also increase margins on a customer level and then of course, the most important thing to us is to keep the margins, or if possible, widen them. And I think you can see at least some kind of a pattern in our recent development when it comes to the -- and I as such hope that be the case but it's very difficult to have a very clear picture of what the final cost will be, as such.

Jan Liden - *Swedbank AB - President & CEO*

But again, Pierre, coming back, your question was, how much is our funding cost increasing? And we have told you six to ten basis points before. I think it's going to be higher than that but again, if you, as I know you do, are watching the markets and the prices continuously, you see how volatile this thing is, so we really don't -- or I can at least not really make a good prognosis yet.

What I know is that we will most likely be able to transfer that increased cost to a customer base, though with a small lag effect.

Unidentified Participant

All right. Thank you very much.

Operator

Thank you. And our next question comes from the line of (inaudible). Go ahead, please.

Unidentified Participant

Hi, good afternoon. I have a few questions. I'll start with Sweden first. I would like to know the size and the composition of the credit bond portfolio on which you took the write-down of SEK187 million?

The second question would be regarding your staff costs. If I strip out the non-profit based staff costs there's a good amount of [regionflation] there but you seem to have accrued a lesser amount of profit based staff cost. Is this -- will we see a reversal going ahead? Or is this what it is for this core term?

And lastly, on the margins, if you could breakdown the margin that you have between mortgage and others? And if you could talk about the trends in mortgage margins?

Jan Liden - *Swedbank AB - President & CEO*

Thank you. Do you have any -- you said you had any other questions for -- regarding other parts of the company?

Unidentified Participant

I'll come to Baltics in a minute, please.

Jan Liden - *Swedbank AB - President & CEO*

Okay, we'll take one thing at a time then.

Unidentified Participant

Yes, thank you.

Jan Liden - *Swedbank AB - President & CEO*

Okay, the composition of the bond portfolio which we have re-evaluated in market -- I can't give you the exact numbers but there are a certain amount of corporate bonds, there are a certain amount of mortgage bonds which we have and I don't -- well, I think I can tell you the size of it, it's a corporate bonds of approximately SEK30 billion, it's a portfolio of certificates of about SEK10 billion and it's mortgage bonds of about SEK6 billion. So all-in-all, SEK46 billion in those categories is the portfolio where we have re-evaluated it. And the net sum of it was those eight, sorry, SEK187 million.

As for the margins on mortgages, and the breakdown there, what we see now, the last five months in Sweden, is that we have a very stable margin when it comes to new credits issued. This margin, however -- so that is a good thing, it's not sliding anymore, it's not more compressed margins compared to the previous period. Still the bad thing is that these credits are still a little bit lower, not so much anymore, but still a little bit lower than the back book margins. So we have a compressed -- still a pressure downwards on the total interest net from mortgages.

Your second questions, I was a little bit confused about, and I'll try to answer and you have to correct me if you if you think I'm in the wrong direction here. You asked -- is the way I understood it, about the staff cost and the bonus cost in relation to that.

Unidentified Participant

Yes, the portion of profit based staff costs seems to be a lot lower than your usual -- than you have usually.

Jan Liden - *Swedbank AB - President & CEO*

Which is -- and we have all our systems in place in all parts of the company, calculated in a slightly different way, depending on the business area, but we do put aside what we think is the outcome for the period. So we don't make it any more difficult than this. So, in this case, this is what we believe the outcome will be. So -- and I can't tell you about the next quarter.

Unidentified Participant

Fair enough. Just to clarify, there, SEK46 billion portfolio, that is different from the liquidity portfolio you have, right?

Jan Liden - *Swedbank AB - President & CEO*

Yes, oh yes. The liquidity portfolio is something quite else.

Unidentified Participant

Yes, it is different, yes. Just making sure. And [secondly] (inaudible), I just drawing a parallel to Handelsbanken, who seem to have stabilized their mortgage margins on the whole mortgage book, whereas for Swedbank we still see a declining trend. I was just trying to get an idea of when this effect will stabilize and we'll see some stable margins for the whole mortgage book?

Jan Liden - *Swedbank AB - President & CEO*

Well, you know, I will never, in a conversation like this at least, comment on our friends who are operating in the same market.

For us it's a bit hard to tell. My hope is of course that that will come sooner than later and we're getting closer. I guess that's the only response I can give you right now.

Unidentified Participant

Okay, fair enough. Just on the Baltics, it seems to me that the total overdue loans have jumped over (inaudible) around 10% of the total loan portfolio. It seems pretty high, I was just wondering if you could comment on that?

And secondly, Baltic growth for obvious reasons has slowed down pretty sharply, I was just wondering if you could comment on the risk of this being single-digit rather than double-digit coming -- going forward.

Jan Liden - *Swedbank AB - President & CEO*

Yes, I can. But I think the man who is more suitable to do that is Mr. Raasuke who is present also with us, so I'll pass on these questions to him.

Unidentified Participant

Thank you.

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

This is what comes to the (inaudible) and I think that for the quality of the base data we should look at periods of over 30 days, over 60 and over 90, so as a standard we're looking over the 60 days.

I am saying that this [year] we have a, particularly in Latvia as well as in Lithuania, we have quite a substantial part of our client base also who are also banking in other banks, and also might have a [salary account, so an] income actually, also accumulating into the -- partly into the other banks. So what very often is happening is that, while servicing the loan or the credit products, the one or two day's delay of just making this payment from one bank to another.

If we talk about real substance of the various (inaudible) sixty days and over. Yes, they have more (inaudible), it's from 0.7% of the portfolio to 0.86% I believe, yes, by (inaudible).

Unidentified Participant

Yes, by [15]. But (inaudible) sounds to me as unusually high.

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

Unusually high?

Unidentified Participant

Yes, as in for the total (inaudible)? It's double over the last two or three years, if I'm not mistaken?

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

That's the part of the cycle. Yes, we are -- that is also something that we actually have been forecasting for ourselves as well, so it's not really a surprise.

Unidentified Participant

Okay. Okay, and on the Baltic loan growth?

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

On the Baltic loan growth, yes --

Unidentified Participant

The question was that it seems like the risk is towards going to a single-digit loan growth rather than a double-digit.

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

Yes, what define as a risk. I think that -- what were you just repeating what (inaudible) saying, is that we're expecting between 10% to 15% loan growth. January was -- and February were fairly quiet. We have seen more activity in March, this just also might be just noise and not any kind of trend setters. No changes also, really in there. Basically there is no insight on (inaudible) what would change that from 10% to 15% expectations that we currently have. I think that the time going forward really will clarify that. It makes a change also, it will communicate that. I think it is quite comfortable, the currency is actually falling into this corridor.

Unidentified Participant

Okay, thanks a lot.

Operator

Thank you. And our next question comes from the line of Aaron Abbotson, go ahead please.

Aaron Abbotson - - *Analyst*

Yes, hi there. I've got three brief questions. Firstly on the headcount in The Baltics. I was just thinking, are you actually planning to continue to have that going down. Or do you expect it to be stable or are you still tentatively forecasting a slight increase.

Secondly, a question on just the profits. It seems like you've grown your lending if you do quarter-by-quarter by around SEK35 billion and zero deposit growth, and year-over-year we're talking about SEK35 billion into profits and some SEK45 billion out of profits and then SEK160/SEK170 billion of lending. So, it's just trying to see how you guys are thinking about funding your lending growth. Would you consider slowing down the loan growth and adjust it to say deposits plus mortgages, or something similar?

And then finally on just the same type of question you talked about competition in last year in Latvia and Lithuania, and that was the reason for margins coming down. Have you at all considered at this stage of the cycle stepping away from market share temporarily if the competition then, from my guess, not one of the two largest banks in Latvia particularly but also in Lithuania. Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Well, thank you. I started (inaudible) continue. If we start with the deposits and lending ratios. First of all, we look upon it as a Group in total, No. 1. No. 2, you were touching the right subject, if you look at our Group we have this large mortgage portfolio in Sweden which is half the lending portfolio, and that we found exclusively on the capital market which has been -- we have been doing for a long time and we think -- and that is the way we see it going forward as well. And if you take that out and see how well we are funded through deposits and for our lending purposes, you see that 80% of the portfolio is actually, could be seen as funded by our deposits. We of course, do have a residual where we pick up from the capital market and we do considerably more. So we are very active on the capital market.

We have -- yes, we have an internal control mechanism for our lending growth. Both quality-wise and profitable-wise. Those chose not to (inaudible) but yes, we have made those considerations. When it comes to the headcount in the Baltics, I think -- I think Erkki should respond to that because it's part of his operation and his continuous operational excellence program.

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

(inaudible) currently the Baltics are (inaudible) '08 and even if we sneak further to the '09 and if we see that the business volumes potentially growing at the levels of let's say, (inaudible) around 10%, maybe below that. There is absolutely no reason to increase the headcount. So I think quite frankly we can say, we stay either with the current headcount or if the market environment were to turn more negative then there is room to definite also the (inaudible) stuff.

What comes to the competition and the market shares, then this is quite some time ago actually where the majority of the market share targets from the score cards of the business, different business units have taken off, except one. There is there, which is (inaudible) there and this is -- these are the market shares what we call as a daily banking market shares. We are a universal bank which business model is strongly relying on the large client base and the transacting client base and basically, the most important market share out of that is demand deposit market shares, both in corporates and in private individuals, and so we are very keen of keeping them and maintaining them. This is quite some time ago, we do not conduct the credit business based under any pressure, if we were to keep market share. The volumes are coming down, the volumes are coming down because also the demand is fading away, and basically the loan growth is really determined by the demand being their, firstly, and secondly also that being the quality there, allowing us to originate that.

Aaron Abbotson - - *Analyst*

Okay, thank you. Sorry, can I just clarify, Jan, on the question of the profits, because you grew non-mortgage lending by some SEK25 billion or so this quarter and deposits, you didn't grow at all. So, would you consider just on the coming two or three quarters, will you -- are you hoping to fund say, 80% then of your non-mortgage lending growth by deposits. And if you don't get the deposits in will you rein in on lending or how should I understand that answer?

Jan Liden - *Swedbank AB - President & CEO*

Well, I think you should understand that we always strive for obtain a balance between loan and deposit, that is a sound banking business. I cannot answer you now whether we will be on 80% that year end or not. But we will definitely strive for trying to increase deposits.

Secondly, we have targets on volume growth and -- but that is expressed like in quality terms and in profitable terms. So that we -- and that's the way we go forward. But apart from that I am -- I don't really think, I can share so much more with you presently.

Aaron Abbotson - - *Analyst*

Okay, thank you.

Operator

Thank you, ladies and gentlemen. (OPERATOR INSTRUCTIONS).

Thank you. Our next question comes from the line of Rodney Alfven. Go ahead please.

Rodney Alfven - *Cheuvreux - Analyst*

Yes, thanks. I have two nitty-gritty questions. First of all the tax rates, and I'm sorry, I came in late so if these questions have been asked, please forgive me. But I'm looking at the tax rate which is supposed to be 22%, and you said that you have some gains from over the year. If you can just elaborate about that and what kind of tax rates you foresee for the rest of the year.

And then also, coming back to the deposit situation in the Baltics. Cheuvreux is about -- there's a difference in the three markets, and what kind of price competition do you see at the moment in terms of the increased savings rates and so on.

Jan Liden - *Swedbank AB - President & CEO*

Well, let's start Rodney with the [post] -- the difference (inaudible) Latvia and Lithuania when it comes to deposits, so please, Erkki.

Erkki Raasuke - *Swedbank AB - President & CEO Hansabank, Head of Baltic Banking*

Yes, overall, the growth of the deposits in the Baltic market has been very sluggish from the middle of '07 already. We do not have yet the full market data for the three months this year, but the first two months there was a deposit growth in Latvia and in Lithuania was slightly negative and it was almost zero in Estonia. We -- that's it, overall environment. Now we ourselves are in, as a savings bank, our background in Estonia and Lithuania, that's quite a different platform what we're again having in Latvia where we have been, most of the building from -- the deposit base by ourselves. It has also seen a -- on the branch network whether we have been in Estona and Lithuania have been basically mostly cutting branches and we have been building the branches. We have, if you look also, there were other people working in the distribution as well, it's all -- Latvia, they were all having a -- almost 800 people less in comparison to that in Lithuania and at the same time there are similar business volumes.

So what I'm saying with that is that we are so much more stronger position in the deposits in Estonia and Lithuania because we are [lodged] on a huge transaction bank, 60% market share in Estonia and having a slice of the pot of the demand deposits, which are the cheaper. Latvia it's -- our position is also number one but it's not that dominant.

What comes to the competition, and yes, the interest rates on the deposits have been moving higher, which they naturally should do, and also because as -- also some role should play also there the inflation. And inflation, as you know, is a (inaudible) digit in -- all around the Baltics and in comparison with that, the local market interest rates are even bit surprisingly low currently there, just 150 200 basis points higher than euro interest rates.

But it's not really (inaudible) competition in that sense that -- because the deposits have not been growing, so [where we're] buying each other out but the Bank does not generate these deposits more and as well known, the whole market is dominated by the Nordic players. So here it seems that most of the players have a fairly similar view on that. So I think there, yes, the interest rates have been moving higher but I wouldn't say that there is a really tough competition for the deposits.

I think the picture is slightly different in Latvia, where there is a more sizeable part of the domestically owned banks. What we can see is that they have been -- some of them have announced that they're actually stepping out from the mortgage origination because of the funding issues, and we also have seen is that some of these local banks are quite eager to pay considerably higher interest rates than the rest of the market.

Jan Liden - *Swedbank AB - President & CEO*

Well, thank you and maybe we should talk about the tax question you had also, Rodney. Mikael?

Mikael Inglander - *Swedbank AB - CFO*

Yes. And as we have stated before, our target of being between 22% and 23%, we have over achieved it a little. We had minor recoveries, there were a few and there were more than one and the total effect of them were approximately SEK50 million for this quarter.

Our prognosis for the rest of the year, that would have meant that we have been more on -- in line with 22.8% rather than 22%, if we didn't have those recoveries. The prognosis for this year is that we will hopefully be in the neighborhood of 22%. That is doubtful for the rest of the year, which is the current level including those recoveries we had this quarter. Okay.

Rodney Alfven - *Cheuvreux - Analyst*

Thanks.

Operator

Thank you. We have no further questions on the line. I'll now hand you back to your host, Jan Liden, to wrap up today's conference.

Jan Liden - *Swedbank AB - President & CEO*

Well, thank you very much for listening in, and for the questions and comments, which were very relevant indeed. So thank you very much for today.

Operator

Thank you, ladies and gentlemen. You may now replace your handsets.