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CORPORATE PARTICIPANTS

Jan Liden
Swedbank AB - President & CEO

Mikael Inglander
Swedbank AB - CFO and Head of Group Staffs

Erkki Raasuke
Swedbank AB - CEO Hansabank

CONFERENCE CALL PARTICIPANTS

Derek De Vries
Merrill Lynch - Analyst

Sasu Jarvinen
Credit Suisse - Analyst

Per Lofgren
Morgan Stanley - Analyst

Jan Erik Gjerland
ABG Securities - Analyst

Kim Bergoe
Fox-Pitt Kelton - Analyst

Aaron Ibbotson
Goldman Sachs - Analyst

Elina Riutta
Evli Securities - Analyst

Jan Walter
Deutsche Bank - Analyst

PRESENTATION

Operator

Good afternoon ladies and gentlemen. And welcome to Swedbank's Full-Year Results 2006, hosted by Jan Liden, President and CFO. My name is Wendy and I'll be your coordinator for toady's conference. Throughout the presentation you will be on listen only. However, at the end of the call you will have an opportunity to ask a question. [OPERATOR INSTRUCTIONS]. I will now hand over to your host, Mr. Jan Liden. Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Thank you very much, and good afternoon everyone. What I would like to do, together with my colleagues here, a few of us, is to go through a slide presentation which I think you have got.

And what I would like to start with is on slide number three, which is titled Summary Quarter Four 2006. To just reiterate that we think we have a very solid development during the fourth quarter. And the quarter in itself was 13% profit wise, when compared to the fourth quarter 2005. And the same profit as the third quarter 2006, which we think, also was a very high performance.

A good thing is that we have been able to maintain a very good development in all the important business areas and business units. Swedish Banking has continued good profitability, higher business volumes and also increased market shares, which is as you know important for us.

The Baltic Banking has had another record quarter, in the sense that they have maintained their very strong growth, and also been able to increase their profits in a very good way. But we do also continue to invest to capture the market potential.

The Markets operations, Swedbank Markets, has had the best year also so far, a very strong fourth quarter and customer-driven trading in currencies, equities and fixed income. And we have also now established our broker-dealer company in New York.

Since the first, or after the first -- last of December and January 1, we have also announced that we have -- will try to invest in the Russian retail market, and also made an agreement with TAS-Kommerzbank in Ukraine to buy that bank.

What we also have done is -- or the Board -- the Council of Swedbank has updated its financial objectives, to reflect the long-term growth targets. And those financial targets you might see on slide number four, where you see that our most important goal is, of course, the return on equity and that is unchanged.

We want to also keep the goal of cost income ratio that should be below 0.5 that is also unchanged. We would like to do that with a Tier 1 capital ratio, which should be around 6.5%. So that is the slight change from 7%. And the reason is of course, that we have been able to now go through all the economic capital models that has been approved by the Swedish FSA. And we have used those models, also, in modeling different scenarios. And then seeing that as a buffer and a reserve at Tier 1 of 6.5% should be enough for also these very negative scenarios that might occur. That's why the Board has changed the goal to 6.5%.

Dividends shall constitute around 40% of earnings after tax, excluding nonrecurring items. And that is a little bit more clear than it was before, where we didn't specifically address the issue of nonrecurring items.

And we have added a new goal, that growth in sustainable earnings per share shall exceed the average of our peers. And the reason for that is to manifest ourselves that we are really looking for growth, that the strategy is directed to achieve the long-term growth.

If you turn to slide number five, you see the figures for -- when comparing the year 2006 and 2005. You see that we have actually slightly less profit than we had last year. And it begins with minus 1% when it comes to revenues. The reason, however, for the slightly reduced revenues is that we don't have any capital gains from nonrecurring items, as we did in 2005.

The costs have increased with 7%, and mostly that is attributable to continuous investment in the Baltic Banking operation, where approximately SEK780m [of this] expansion is. And also in Swedbank Markets, where we have invested another SEK400 --SEK450 -- almost SEK450m and the Swedish banking, who has continued to decrease its costs.

Losses have been very positive this year as well. And, therefore, we have reached a profit for the period which is slightly above SEK11b. If -- and that is -- sorry it's a SEK10.88b. If we had excluded this capital gain, the comparison, of course, with the year before had been even more positive and the profit should then have increased with 13%. So, the underlying profit generation, we think, is very good.

If you turn to slide six, you see an attempt to illustrate the growth in -- and the volumes in lending. You see that the Group has increased its lending by 15%. And you see the different products displayed on the left-hand side of the slide. And if you look at the volumes for household lending and corporate lending to the right side, its SEK919b, excluding our loans to financial institutions. And you see them also divided on different markets and different products.

Slide number seven is the same kind of slide for savings. A total increase of deposits in Sweden of 14%, in the Baltic countries 24%. Asset under management has increased in value with 13%. And structured products that is, in most cases, equity-linked bonds who have increased by 24%. And you see the volumes by the end of December to the right-hand side, which are now considerable volumes, not only in Sweden but also in the Baltic countries.

Margins have also developed. And you see that displayed on slide number eight. If you look at the lending margins, you see that they are under continuous pressure on a substantially lower rate in Sweden than in the three Baltic countries. And there you see, also, a slightly confusing sign in Estonia, but what they have succeeded with in Estonia is actually to change the mix of lending products. So, there is more for instance, of consumer finance relatively seen, which means that the margins actually have gone up.

If you look at deposits to the right-hand side, you see that the deposits are -- the deposit margins are slightly increasing over the years. Mostly due to the interest rate increases or hikes that has been done during the year. The slight deviation in Latvia is because the short-term RIGIBOR decreased in quarter four, and that had that effect on the deposit margins of course, in Latvia.

If you -- if we take a few comments about the Swedish Banking situation. You see that on slide number nine, operating profit, excluding capital gains, increases -- increased by 4% in 2006. So, if you compare apples to apples that is a fairly good development. Mortgage loans have been in focus, and as we have discussed many times before, we have succeeded in our attempts to remain the biggest operator in the Swedish market and have reached much -- higher market shares. The competition is still there and I would regard it as quite fierce.

We have changed the new -- the brand or launched the new brand Swedbank in Sweden, which meant investments in the Q4. And we have done a lot of long-term growth area efforts in Sweden, like consumer credit, credit/debit cards, non-life insurance, have launched occupational pensions and of course to continue on the corporate sector.

If you look at the next slide, there is the slight display of how market shares in occupational pensions developed, slowly but hopefully surely.

Page number 11 corporate Banking and SME, market share in the Swedish Banking, you see that there, I believe continued to maintain our relatively high market share, which is a high prioritized item for us.

Slide number 12 displays the Baltic Banking in summary. You see the slide is constructed, you see the revenues and the costs and the cost income ratio in the curve. And the profit has continued to improve in a very impressive way. We have a continued robust macroeconomic development. And we have, as I said, continued to invest in the market potential.

And you see that the numbers of employees actually have increased in the three Baltic countries, including -- and also our Russian operation with 17%. We think we have -- or are experiencing quite a tough competition, both in terms of business volumes, and also in our way to attract talented people who would like to work for us.

Major volume increases. And we think that is -- we see the beginning of a slowdown in pace, both in quarter four and maybe for the quarters coming. But the market is, of course, still very attractive.

On page 13 you will see that the market share is defined in the three Baltic countries. And the ones with dotted lines around them are representing the services and products, where we actually have achieved an increase in market shares, sometimes small you know, but still. And as you see, we are the market leader in -- and we managed to increase our market share in mortgage lending to households and to corporates in all the three countries, which we think is very good.

Page 14 is somewhat differently constructed. The graph there, which is actually display the net profit per quarter. And as you see the fourth quarter this year was very good representing that 2006, profit wise, increased by 54% over 2005. We have maintained our position, as one example, as market leader in corporate credit bonds, issuing in both Swedish krone and Norwegian krone. We have established a broker-dealer company in New York. And the Chinese authorities have approved our preliminary license for the Shanghai branch. That is the upgrading of our back office to our branch.

Two slides -- the following two slides, number 15 and 16, addresses the issue of Ukraine. What we have done is signed an agreement with TAS-Kommerzbank to acquire TAS-Kommerzbank. The main reason for that is, of course, to secure the long-term growth of our Company. We think the Ukraine is a very interesting market. We have been studying it for a long time. And we think that we now have found an ideal partner.

We want to do that by leveraging our different experiences and expertise, both from of course, Sweden and the Baltic countries, with our new found friends in the Ukraine. Ukraine is one of the best growth opportunities, we think, now in Europe. And the TAS has a very good fit with our focus on the retail and SME segments. And we think we have also been able to agree with the current highly experienced management team, led by Mr. Tigipko to continue their development.

The next slide then shows a little bit about Ukraine as a market. And you see that the real GDP growth is expected to continue the next few years in Ukraine, on a fairly high rate. You also see that, kind of a different graph on the right-hand side of page 16, where we actually plotted the situation when it comes to retail loans relative to GDP, year 2000 in the different East European countries.

And you see where they were to the left-hand side in 2000 and where they are in 2005. And that has been a positive development for these countries. And then we have plotted Ukraine where they are actually right now, which is virtually where the other countries were five years or more back. And we think that that implies that we can have a very good development in the future in Ukraine as well.

We think that also, of course, that we have a very clear strategy focusing on retail and SME segments. And that the track record of TAS-Bank so far, also implies that we will be able to continue a very ostensive development -- or expansive development.

In Russia on page 17, we think that we will -- have taken a decision to address different segments of the retail market. And will begin in the Moscow and St. Petersburg region. And our first effort would this year be to open up six or seven branches in good locations. And also, to start with Internet telephone banks and ATMS but do that from an organic perspective rather -- in order to [learn].

With that I'd like to conclude my first remarks, and leave to Mr. Inglander to comment on the quarter four's results in detail. So, please Mikael?

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

Thank you very much. And then we have to turn to page number 19. And there you have a summary of Q4, which consists of an increase again, of net interest income, even more than between second and third quarter with 4%. That is due to the volume increases. But still, there is a pressure on the lending margins and I'll get back deeper into that further on in the presentation.

Net commission income increased again, 9% versus third quarter. And that is especially coming from the strong developments in the Securities Markets. Net gains and losses on financial items also went substantially up, and that is due to that we have a good -- fortunate customer-driven trading. I will try to guide you even deeper into those matters later on as well.

And also the cost side, we have made considerable investments during the fourth quarter. But also we had to take into account the comparison between the quarters two and three. It's not that relevant that, we have been saying before regarding that Q3 was exceptionally low, and that also means that the Q -- half year by half year is not that high of an increase.

But again we have invested in the Baltic's and the markets to capture the growth, which is also seen when it comes to the revenue streams. And also the new brand name, which we launched successfully in Sweden, was contributing to the costs side.

Dividends, the Board has decided to put forward to the annual -- the AGM an increase of 10%, which is up to SEK8.25.

If you then turn onto page 20, there you have the income statement, again, and that's what's gone through it. There we have the net interest income increasing as well as the net commission and the net gains.

Other income has actually decreased between the quarters, and that is due to one-off effect and a write-down within -- of the owned company called VPC here in Sweden, which affected the figures between the quarters. That will not occur again we think.

Staff costs up 6%, mainly due to the fact that we have invested both in markets, but especially in the Baltic's, we've been hiring more people to capture growth, for both short and long-term. And other expenses up with 35%. And again, you have to take into account trademark changes of SEK100m, but also again, the changes between the first and second half year of last year.

Loan loses, still on a very low level. I'll get back to that. And taxes a little bit up, but again that is an accrual effect. But again we are inline with what we have said around 23% -- or below actually 23%. And that is also our prediction for the coming year. Hopefully a little bit lower, but it's from the margins, so I would prefer to say that between 22 and 23% also for the coming year.

Please turn to page 21 where we have net interest income by business area. And I think it shows a good development in all areas. Of course you could wonder why it's down at certain markets. But then you have to take into account the mix effect between different revenue lines as -- so that market also had a good income in both commission and net financial effects. So, we are not worried about that component as such.

Slide 22. Here is the breakdown of Swedish Banking. And I think it's important to underline the fact that, looking back and during 2006, this is the first time we actually can see that the lending volume growth actually covers what the -- pressure on margins, which still is there. But the first -- this is the first time actually, we can say that the volume could cover for the whole decrease in margins.

Again up on deposits in both volume and margins. And the other changes that, we have discussed before, that is hedge effect and pressure effects, which is a negative figure for this quarter. And last quarter, as you remember, it was actually positive. So, all in all without this other effect, it has been a good quarter, at least as we see it.

Baltic Banking, page 23. Here you can see the same pattern as you have probably got used to, very good volume increases, still pressure on margins, but more than well covered for with the volume increase when it comes to lending. And the deposits again, are positive figures. So, all in all I think it's an impressive result.

Eliminations, this we have discussed earlier on, and we still have the same effects. And you can see that it's the same effect that we actually had in the third quarter. Of course, it could be a good thing to actually add the net interest income here, which is eliminated on Group level, which means that we actually have had even better developments when it comes to net interest income over the year.

So further also to page 25, net commission. Also, here you can see that it has been a very good year and also for the good last quarter of 2006. In the payment area, still there are some pressures on the margins. But we have also very good volume growth, especially in the card area with around 20% on transaction volumes quarter-on-quarter -- sorry year-on-year.

Lending commissions slightly down, but that is also larger deals done, which sometimes goes into net interest paid [net], and sometimes into lending commission in the mortgage division.

Other areas are [gone] up in the Group, you can see in which we have three really good quarters, for the quarters.

Then if we move onto page 26, we have net gains and losses on the financial items at fair value. Here you can see that there has been a substantial increase between Q3 and Q4 2006, which is driven mostly from customer-driven trading and especially in Swedbank Markets, which is showed later on.

Here it is the important underline that, you should, when you try to analyze this be aware of that. Most or some of the instruments, which are displayed here actually have components of income in both trading derivatives, the first line, net interest income and also the loss, and changes in exchange rates. So, it's quite a hard thing to actually -- to divide them in those different directions.

On a yearly basis, you can see that this, on the last line, went up 9% all in all. If you also take away the valuation of PCCs and the shares in Norwegian Savings Bank, it's actually increased with 29%. Which, we believe, is driven from operational point of view and that means it actually a very good result for this last quarter.

Go on to page 27. There you -- again can see it's divided into the different business areas. And especially in markets, it's pointing out, but also Baltic Banking with a good result for the quarter.

Page 28. Here you have our expenses again. And as you can see a very good development when it comes to increases on all lines. But again, you have to remember the fact that, we had this effect between the first half year and the second half year, which is multiplied between third quarter and fourth quarter. And it is investments done for capturing the current and the future growth, especially in the markets area and also in Baltic Banking. So, we're -- and you can also see, when it comes to cost income relationships in Baltic's -- Baltic Banking and markets, that the investments have had a pay-off time which has been immediate.

If you go to page 29, there you can see our loan losses developments. And we have said it before, it will never -- it will not get better. We said it last quarter as well. But we feel we are in a very low level, as you can see here, when it comes to losses. And it's also in quarters down the line -- in the long run, it should go up. You can see that we are very well provisioned for it at the moment. But all in all, our provisioning in total -- absolute amount actually has come down a little bit. But compared with non-performing loans it's nearly 200%. So, we believe that actually we are very well -- very well provisioned for it. And we don't foresee a [bit] for the coming year that this will affect us in a negative way. We are very confident about the credit quality as is.

Page number 30, there you have the different business areas financial summary. And between Q4 in '06 and Q4 in '05 you can see that there has been a very good development in all business areas, especially Baltic Banking and Swedbank markets.

Year-on-year I think it's important to underline Swedish Banking, which didn't start too well during 2006. It has been developing for the full year in a very good way, even though the increase of operating profit has been very close to zero if you take away the disposal of EnterCard and [Kundinkasso], but still on the right direction. Baltic Banking, on the full year has been a very impressive development. We would like to say that also Baltic, Swedbank Markets and as well as asset management.

Page 31, there you have a summary of our key figures. Return on equity is has gone down, but if you exclude the capital gains of disposing -- for divesting ATM EnterCard it actually got very close to the level we had during 2005. And that also goes for our cost income ratio, which has gone up from 0.48 to 0.52, if you exclude what are our one-off gains we are at the same level. Not satisfying but still very close to out long-term targets.

I think that I will hand over to you, Jan, to make a short summary.

Jan Liden - *Swedbank AB - President & CEO*

Yes. The last slide is [mine]. And in summary, we think that the Group has been able to continue a strong profit development. And the really good thing about it all is that we have good results in all our different main business units. Swedish Banking was [the biggest] of Swedbank Markets. We also have been addressing the long-term growth issues, by announcing that we are trying to increase our businesses in Russia. And also that we have agreed with TAS-Kommerzbank to acquire that bank.

So, with that I'd like to conclude and ask you for comments or questions.

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS] Okay, the first question comes through from the line of Derek De Vries of Merrill Lynch. Please go ahead with your question.

Derek De Vries - *Merrill Lynch - Analyst*

Good afternoon, it's Derek De Vries from Merrill Lynch. Actually I have two questions, both longer-term strategic questions. The first one is you talked, you reiterated your cost-income target for 50%, but when I hear you speak, you're speaking a lot about investing in growth long term, which has served you well in the past.

So, as you think out 2007, 2008, is it more about investing in growth? Or is there something in your established businesses, where you can really take a lot of costs out. So you think you can realistically drive that 50% cost-income ratio target, even as you integrate the Ukraine, invest in Russia, continue to invest in the Baltic's?

So that's the first question. And then the second question, in the past, where you've lost market share and really focused on it, you've been able to show remarkable recovery. And I'm wondering what the plans are in the Asset Management division where it does look like you're losing market share?

Jan Liden - *Swedbank AB - President & CEO*

Well, both are definitely important and strategic issues. And if I may start with the first one, cost-income ratio, starting by not stating when we will reach the point 50 target we have. I still think that we still can make progress on that even in the close future. And the reason for believing that is, yes, there are certain synergies still to be taken out from our joint operation. But, mostly, I do think that we also can generate more revenues, both in the Swedish operations and in the Baltic operations. So I think, here, without again stating our targets for '07 and '08, except for the long-term goal, it is a good possibility that we can maintain, and even improve, those relations.

When it comes to market share recovery, in terms of Asset management funds, the problem we have is that we are the biggest operator in the Swedish market. We are also a big operator, but in nominal terms, very much smaller in the Baltic countries. And what we think we are doing now is trying to -- we think we now understand what has happened in the Swedish market, and we are trying to address those issues.

And, just to give you a flavor, we think that we have discovered that our gross sales to private clients do develop very well, but also the sales have, from that segment, have increased. So it's new customers coming in and old ones who are actually selling some of their funds, and investing them in other things, hopefully investing them in other savings products with our Bank.

The second thing is that, in total, the savings in Mutual Funds in Sweden in the -- with the private clients have actually decreased, and the savings in Mutual Funds with institutions have actually increased. And our position has always been to be very strong in the private clients sector, and not so strong [in lending] on the institutional side. Thus, we are now trying to correct.

And, thirdly, we are now focusing the branch network a lot on new activities, in trying to promote the new products that we have been, and will be, launching during this year.

Derek De Vries - *Merrill Lynch - Analyst*

So, just to follow up on that last point. With -- it sounds like you've identified the problems and you're working to address them. Do you think 2007 is kind of a transition year, and by 2008 you should be back to capturing your regular market share? Or is that ambitious?

Jan Liden - *Swedbank AB - President & CEO*

That is ambitious, but it's certainly also our target.

Derek De Vries - *Merrill Lynch - Analyst*

Okay. Thank you.

Operator

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

Sasu Jarvinen - *Credit Suisse - Analyst*

Hello. It's Sasu Jarvinen from Credit Suisse, just a few questions on NII and net gains and losses on financial items line. When we start from NII in the Swedish operations, you mention in the release that hedging and other effects decreased NII by SEK90m quarter-on-quarter. Could you give a bit more detail on this effect? How much was actually due to any potential treasury effect, which, I think, were positive in the previous quarter? And how much was due to the deposit hedges you have in place?

And if you could, also, remind us if you expect any further incremental effects on NII from the deposit hedges going forward, assuming that short-term interest rates continue to rise?

Then, looking at the Swedish NII [derivatives] just a bit more broadly, how do you see the recent mortgage margin trends? Where is the pressure coming from? And what do you expect going forward?

And, also, if you could comment on the competitive environment you see currently on the SME side and deposits, if there's anything new? That would be helpful.

And, finally, on the net gains and losses line, you show on your slides that change in exchange rate added roughly SEK0.5b to net gains and losses in Q4, seems quite a volatile line item as well. Could you just shed a bit more light into what type of exchange rate effects we are talking about here?

Jan Liden - *Swedbank AB - President & CEO*

Well, let's try some joint efforts here. If I start with the margin, mortgage margins, I think they are still under pressure. I think that the new loans issued are still done at a lower margin than the current portfolio is at, but I won't -- we won't go into further details on that. And I think that that will remain for a certain time. I think it's now a much more stable situation, though. So I think that the impact on our P&L would be much more possible to foresee.

As for the SME's, yes, there is strong pressure, because there is high liquidity in the market, yes, and these are still investing in our part of the world. They will continue, in my view, to do so this year. And so I think there will be continuous margin pressure there. And what we see is, of course, that the margins, both for the smaller companies tend to go down, to be more like the margins we tend to get for the larger companies. And that will continue. On the other hand, I don't foresee any drastic changes from the present situation.

Deposits is always interesting, in the sense that, we now have an upwards trend in interest rate, which puts the pressure on. Which is, essentially, good for us at the Bank, but it does put some pressure on us in order to adapt, so that our offer to the customer is attractive enough. But, still, I think that the last increase in Sweden will have a marginal, but positive effect on our interest net.

When it comes to the hedging effect, the SEK90m [worse] than it was last quarter, once we remember that it still is a positive effect, the hedge effect, but this is declining, as we have said all the time. So, of course, it's still is a positive number, but still SEK90m less than it was last quarter.

Apart from that, I don't know if any of my colleagues here want to comment on it. I think we have been most careful in trying to, as you say, and analyze that. My general projection would be that as long as the interest rate for it in it's -- at its current level or actually increasing, the hedge effect will continue to decrease.

But, apart from that, do you want to add something? I don't think that is something we want to communicate. When it comes to the net gains that -- and the FX component there, I think I should leave my -- let Mr. Inglander to comment a little bit on that and the volatility of it. First of all, I think before he starts, I think you should look at the numbers year-by-year, and there you see that the volatility tends to level off.

Sasu Jarvinen - *Credit Suisse - Analyst*

Sure.

Jan Liden - *Swedbank AB - President & CEO*

Even if there is a high volatility between the third and the fourth quarter last year.

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

Yes, I think that is the most important, actually, comment to make here that. First of all, as I mentioned already before, exchange rate component is one, within some of the instruments as well as interest rate, interest income, and then you have the value of [the operating] and derivatives for the first time. This all -- in all, you have to count them all together. And, also, as Jan mentioned, you have to, I think, look on a yearly basis. The volatility is, yes, quarter-on-quarter very high, but, on a yearly basis, it's not that high.

Sasu Jarvinen - *Credit Suisse - Analyst*

Okay, sure. Thanks.

Operator

Thank you. The next question comes from [Per Lofgren] of Morgan Stanley. Please go ahead with your question.

Per Lofgren - *Morgan Stanley - Analyst*

Thank you very much. This is Per Lofgren from Morgan Stanley in London. I have one question. And that is, a matter of fact, a follow-up question on the very first one, the question on how your growth plans fit with your cost-income target. And you were I don't know if I'm quoting you correctly here, but you said that you still have some cost synergies to be taking out in the current joint operation. And we know that you're expanding quite significantly in the Baltic's.

I have been under the impression that you have had such a -- like a costs savings initiative ongoing in the Swedish Banking operation, and that is coming to an end. Is this -- that correctly understood, or what's happening? I would appreciate if you could point us to where, potentially, most cost synergies could be taken out. Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Well, thank you. Again, without giving you the detail numbers, you are correct in your quoting me. You are also correct that we have had, and also continue to have, a cost saving or a more productivity increase in projects going on in Sweden. That has not ended, and I still think there is a lot to do there in the future.

We also work, on a Group level, to try to achieve synergies, which effects without doing something [stupid]. And, also, in the Baltic countries, they are doing progress in terms of trying to coordinate their activities between the three countries.

And I'd like to also to ask Erkki to give -- Erkki Raasuke, who is the CEO of Hansabank, to give a comment on these synergy projects, productivity projects that they are continuously doing in Hansabank.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

There are a few comments on that. Firstly, in 2007 or actually late 2006, we started [our full offer] a number of initiatives in there for -- of operational excellence. And they are mostly in initiatives into the mass market lending portfolio, but we, basically, run them further throughout our operations. At this point of time we are actually very much in the beginning, so I don't want to give, beforehand, too much of the promises or of premature implications about the progress.

The second, the longer, comment is -- would be the following. We have very similar, almost identical technological platforms, in all three countries. At the same time, if we do follow our -- this kind of technological ambitions there, over the last four or five years when we actually having, running this approach. Then there is pretty much no evidence that we have done any better over our peers. And this is -- it has a number of explanations, but one thing is that we have not managed to do two things.

We have not managed actually to capture the growth now, which has been really high in 2005 and 2006, and at the same time, to consolidate and really streamline our product portfolio. So, today, we can say that we are, because of the having the similar technological platform, we are even, I would say, in a slight disadvantage in the short term.

Per Lofgren - *Morgan Stanley - Analyst*

Yes.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Saying that, we are collecting the product ideas from three countries, and we are trying to develop them in a one [distant] point then. And, so, basically, this is -- and there's a lot of variety, and then there is a lot of different issues around it. I would say that this is a big-time opportunity still that compared to our peers. But we do have the same technological platform a lot of [will require] actually a lot of -- more functional management in a number of areas in the Baltic's.

This, again, is something what we want to push, and not without too much thinking about it. Because, on the other hand, what we have we have a really high level of entrepreneurship and local decision making, and responsibility taking as well. So, basically, [do] not push out with one initiative, another, I think, very central and important thing in our business.

But, so sorry for a long explanation, but my point is that there is a, despite Hansa is, today, or the Baltic operations, I would say, running the cost-income at the 45, we are in a very high growth region. And there is a significant opportunity, just already inside of the Baltic's actually, to become more efficient.

Per Lofgren - *Morgan Stanley - Analyst*

Right. Thank you.

Operator

Thank you. The next question comes from the line of Jan Erik Gjerland from ABG. Please go ahead with your question.

Jan Erik Gjerland - *ABG Securities - Analyst*

Thank you. My name is Jan Erik from ABG. I have two questions. The one is about the net gain on financial items at fair value. And I'm just looking into the business area, which you draw attention towards on slide 27. I'm just keen to understand what's driving volatility in the Swedish Bank business on -- towards the net gain and losses, because that has been very volatile during 2006. It's jumping up and down all the time. While the other components [are] Baltic business and Swedbank Markets, which, probably is, as you say, customer-driven activities. I'm just keen to understand what is the driving behind the Swedish Banking activity. If you can explain and give us some examples, that would be very helpful? Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Yes, well I think I can start and maybe get some help from my friends here. The spontaneous answer would be, in the Swedish operations, Swedish Banking operation, is that it is the changes that occur from the fair value option in the Swedbank portfolio that drives the volatility here. That is my --

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

Yes, that's correct.

Jan Erik Gjerland - *ABG Securities - Analyst*

Where is the other party of that basically? Is it on the net interest income, or is it in other lines you should then take it against? Or you have an increase here of 135, and I'm just keen to understand is there any relation [inaudible] or the other lines in the negatives?

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

No, it doesn't affect net interest income.

Unidentified Speaker

But where is the other line? [It's very] [inaudible] change in the value?

Unidentified Company Representative

Yes, but you have the liability side, yes, and all derivatives, but then it's not a perfect match when you do the fair value, [option] then you get this volatility.

Unidentified Company Representative

Then you get this [asymmetry] [inaudible] reaction.

Unidentified Company Representative

Right, in the best, the [some growth] that there wouldn't really be this volatility but this would be [just perfect].

Jan Erik Gjerland - *ABG Securities - Analyst*

But it's basically there you have a volatility you have to live with, because without the fair value option it would have been even higher.

Jan Liden - *Swedbank AB - President & CEO*

Exactly, exactly. You're very right. So we, well, as you know, as we have been discussing before, we really think that this fair value option was an achievement, and a necessary one. Otherwise it would have been very difficult to analyze our results.

Jan Erik Gjerland - *ABG Securities - Analyst*

Okay. Where is the [maybe] PCC's in which [gives PCC's] in these different areas? Is it in the Swedish area or Baltic's, Swedbank or in other?

Jan Liden - *Swedbank AB - President & CEO*

It's in other.

Jan Erik Gjerland - *ABG Securities - Analyst*

It's in other?

Jan Liden - *Swedbank AB - President & CEO*

Yes.

Jan Erik Gjerland - *ABG Securities - Analyst*

Together with the mix towards the net interest income, which probably is there as well, isn't it? The -- you show in the slide number 24 the elimination between the net interest income and --.

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

Yes, yes, it's there.

Jan Erik Gjerland - *ABG Securities - Analyst*

So it's those two items in the other?

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

Yes.

Jan Erik Gjerland - *ABG Securities - Analyst*

Okay. The second question is about the margin increase you have in Estonia. Just keen to understand what kind of level of portfolio you have on consumer credits. It seems that the overall margin is driving upwards, [inaudible] because of this high margin on consumer credits, but you should also have [then] a large portfolio now after a while. And so I'm just keen to understand the growth in that, and how the mix effect is, underlying, if you exclude the consumer finance part to the Estonian [market]? Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Well, Mr. Raasuke will try to give you a detailed explanation of that.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Just to start with, I guess to repeat, is that there is a structural change, meaning that the consumer finance portfolio has been growing quicker than the [lower loan] portfolio. And, because of the very high yielding, it does give its effect.

The second part is also that, overall, out of the housing finance, what we do, private individual housing finance, the part of the what we call the higher margin business that has been continuously growing. These are the products like [Homemaker set downs], I mean they are -- this is the home financing which is sold on top of the -- of conventional mortgage loan.

Jan Erik Gjerland - *ABG Securities - Analyst*

Okay, so it's the top end of the loan to value basically?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Exactly. Its higher end and basically, today, in Estonia, it's these higher margin products are sold [about] up to 20% of the -- compared to the conventional mortgage.

Jan Erik Gjerland - *ABG Securities - Analyst*

Has that business been increasing very much the last year basically?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

I wouldn't say it's very much we have been trying to push it there. And I think that the natural question to ask is that, okay, what was the risk profile what you are taking there?

Jan Erik Gjerland - *ABG Securities - Analyst*

Yes.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

I'm actually -- I'm very -- how to say? I'm very calm on that because due to the hard work of last 24 months, and, really, I would say also, eventually, successful marketing that we actually have been able to break away of just adding up to the mortgages. But, rather, due to the marketing and product offering and differentiation, we have found a [slightly] been able to de-commoditize the market again.

So we have absolutely no worry about the risk profile of that business. Because I think that in a non-commoditized market very much the same lending would be done just on top of the conventional mortgage and very close to the mortgage terms. But we have been able to more turn it not to the Nordic, but rather to the U.K. and U.S. Model, whereby it is a different product, with the margins between 150 to 300 basis points instead of [where the] mortgage is say sold between 60 to 80 basis points.

Jan Erik Gjerland - *ABG Securities - Analyst*

Is still the higher loan [loss] reflected, in that you have the higher -- a higher consumer and higher margin business within your book? Is that -- that's what driving the losses upwards? Just minor, of course, but is that the reason behind the increase?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

No, no, no. The increase is mostly coming because of the natural increase of the portfolio. So there is not a single sign actually of weakening quality on the portfolio level. It is entirely due to the increase of portfolio.

Jan Erik Gjerland - *ABG Securities - Analyst*

Yes, okay. So it's not the underlying consumer that portfolio, you don't add to it it's more on the total portfolio?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Exactly, exactly.

Jan Erik Gjerland - *ABG Securities - Analyst*

Okay, thank you. That was all.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Thank you.

Operator

Thank you. The next question comes from Kim Bergoe of Fox-Pitt Kelton. Please go ahead with your question.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Afternoon. Just one more, a couple more of questions on Hansabank, I remember a couple of years ago, you sort of hinted that we should expect to see cost and income growth in Hansabank brought in line. And I was just wondering whether that's still the question? I can see you'd lowered the target cost-income ratio for Hansa.

Also, if -- just wanted to know, if you recognize some of the concerns raised by SEB about, in particular, Estonia and the macroeconomic imbalances there?

And, also, if you could elaborate a little bit on that slowing loan growth, what you would -- give us a little bit of a guidance as to where you would see that going forward.

And, on the commission side, just wondering if you could give us a little bit of an idea of how much, in Q4, that was driven by your Norwegian operations? Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Okay. Well, let's start with the Hansa issues and Erkki please.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Okay, firstly, the cost-income is -- well, this is then has been the minimum target of [the strength] to definitely -- do not worsen cost-income, and have revenue growth higher than operating expenses. Through 2006, in that sense, actually, the year was very good. And, also what we have been pointing out, we did EUR16m provisions to the -- well, the provision [the ration] we gave which, currently, we do have a positive outlook. So we -- if you would take that out, then, in place of 36% of the expense increase, what we have been reporting, if we -- you eliminate that then we would have a expense increase of 29%.

And, yes, and that would also contribute to that 43.X cost-income for the full year without these VAT provisions. And, basically, what we just felt is that talking to the rest of the Estonian and Latvian operations, we [stopped] around below 45 [which fell] to the 45% cost-income itself is not [inaudible] any more. So, we rather, actually, have the targets [slightly away] and not reaching that, but working on that and being comfortable in there. That is the explanation about going forward on the cost-income.

And, final comment still about the cost-income, I think that it's, because it is a high-growth market and it's going to remain, the Baltic's will remain high-growth markets as well. We, our own understanding, the cost-income we actually see as a lower -- as lower level importance indicator. Not to undermine the cost issue as such, but itself, the cost it is the primary, it is ROE what you generate today in invested capital. And it is ability to grow the bottom line first of all. And then the cost-to-income comes after that.

When it comes to the concerns to the market, and then I really don't know exactly what SEB has been commenting, so I would rather say that's how we see it. We have been voicing our -- voicing is not a good way, but we have been talking about the same

-- or also concerns [multiple] concerns about Estonia and Latvia I think for the last nine months now. And, obviously, the concerns are still there.

And what we do look is that our current expectations, which, I think that these are reasonably founded, would expect the current high-growth rates above, or close to 11%, in Estonia and Latvia to come down within the first six months of this year to the -- more to the region of 8 and 9%. And if this is not going to happen within first two quarters, I think that then the risks for [a post] in economies is significantly higher than it is today. But, as I said, again, we do expect it to come down, and we also to have some signs that that was possibly already happening.

When it comes to the loan growth, then we have not given any other indication is that, we expect that the Baltic, throughout the Baltic's, the absolute loan growth in 2007 to be reasonably similar to what we saw in 2006. And this is across the market. This is probably the view on the market, as we intend to more or less to be in our market shares, again on combined level. So, basically, that's the very same expectation is, also towards our own operations. And now I would talk a bit about the commissions.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Can I just maybe add a question to that? Do you see the central banks having more in terms of trying to curb lending growth?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

We had a ---- we have had a -- well, basically, continuously having really close, closer than ever I would say, discussion with the regulators with the central bank. [Estonian] Central Bank has said if [inaudible] there is that they are not going to do anything, anything further. What they say is that they share our view of -- we share their view, is that there is going to be a soft landing in Estonia.

And they -- their argumentation is based that they have been deeply studying different other cases, whereby, like they call it when the sum of the norms or, yes, the norms or [inaudible], had been rising to the abnormal level. And then they say that their research is showing that these type of regulations actually have, very short term, have given some result, but the medium term has damaged the economy. And that's what they are -- have been now repeatedly communicated. So if we did expect some moves within Estonia, then, today is we don't expect them to do anything.

The different -- the situation is slightly different in Latvia. Obviously, where the situation is it's more stretched. And the central bank there might do some more moves. I mean, mostly, is the issue is actually about the higher inflation, which, in Estonia, is now on the high four, but in Lithuania -- sorry, in Latvia, it's in high six.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay. Thank you very much.

Jan Liden - *Swedbank AB - President & CEO*

Well, your last question was about the commissions in Norway, the First Securities. And I think the figures are in the investment material that -- but you know that First Securities had a very good quarter this year. Total revenues have been SEK180m. Of these, were net SEK210m less commission income for First Securities for the fourth quarter, compared with the third quarter, as it was [SEK137].

I guess that answers your question [inaudible]?

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Yes, thank you very much.

Operator

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

Aaron Ibbotson - *Goldman Sachs - Analyst*

Yes, hi there. I've got two questions. The first one relates to other costs. And here I'm referring to slide 20 in your slide presentation, reference slides. Your other cost seems to have grown around 19% year-over year, and it's actually only 11% in the Baltic region. And even if I adjust for the SEK100m of extra marketing or, say, SEK60m compared to last year, I end up with 18% underlying other expense growth.

So I just wanted to get an idea of what is driving this expense growth and what should we expect going forward? This is predominantly things like IT costs and premises costs, etc. So are we -- is this a run rate we should expect going forward? Or were there any significant one-offs, for instance relating to IT expenses in Q4? Thank you.

Jan Liden - *Swedbank AB - President & CEO*

Okay, I guess I'll hand that question over to Mr. Inglander, what the other expenses are.

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

If you look at the other expenses as it is, it's premises, site expenses, telecommunications, postage, advertising, marketing and also depreciation and amortization.

Asking are there one-off costs for this quarter? Yes, if you look at depreciation and amortization that was a one-off cost in one of the partly owned savings banks, which will not be reoccurring. It was around SEK37m, which was a write-off on an asset. But all in all, I think you should look on a half year basis, as I told -- discussed before, actually to find out what is the running rates of the costs is.

Most of the costs are stealing from the fact that, we have had a very high level of activity, both in the Swedish banking unit as in the Swedbank market. So I think that is what we can give as an answer regarding costs.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. And these other costs of SEK770m that's up 25% year-over-year, is there any chance we can get any insight into what that is, of the other expenses, so to speak?

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

No, not any deeper, as we have already disclosed for you. Because then -- in that figure you have a lot of different items, as we're building branches and so on. And some of that we had a high activity during Q4, in most all every -- all and every area, comparing with Q3. But if you take an average over the year, I think you'll get more fair description of the [inaudible].

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, thanks a lot. I've got one follow-up question on the -- just on the Baltic banking. First to clarify what was just said in the last question. You said that absolute loan growth would be similar to that of 2006. Did I understand that correctly?

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Put this in market terms, in euro terms?

Aaron Ibbotson - *Goldman Sachs - Analyst*

In euro terms? So we should be looking --.

Jan Liden - *Swedbank AB - President & CEO*

[Inaudible] on terms, yes exactly. If it was 100 units last year, we expect it to grow also 100 units this year.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, perfect, thank you. And just the second question also relating to the last questions, as we've said, we've heard commentary from competitors that particularly Latvia has been -- had seen clear signs of overheating. And you've actually also mentioned that in Q3. And I just wanted to understand it.

It seems like you're taking significant market share, both in consumer lending and in corporate lending, which I would assume is the most risky ones, despite quite fierce competition. I just want to see if you have a different view of the risk levels in Latvia, if there's anything that worries you there? Thank you.

Jan Liden - *Swedbank AB - President & CEO*

In the consumer finance, we actually haven't been really taking some market share. We -- our market share has been slightly increasing in mortgages, but overall the mortgage finance is that, there is competition, but also [inaudible] alignments in the Latvian market. Like GE Money, etc. And it's quite fierce competition in there.

When it comes to the corporate, then --.

Aaron Ibbotson - *Goldman Sachs - Analyst*

I'm sorry, I'm just referring slide 58 here, it looks like you're taking 4% in 2006 on corporate and about 2.5% in consumer lending.

Jan Liden - *Swedbank AB - President & CEO*

Yes, okay, consumer finance is, in that sense, also that we are -- our overall deposit market share in Latvia is actually about -- as you see, close to 30. So when the consumer finance was coming significantly lower, I think this is [apart] it's an [inaudible] there. But, once again, there are more [inaudible], so I wouldn't say that we are actively taking the market share, really, no. Rather utilizing the distribution.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

When it comes to the corporates, then it's very difficult to comment this. It's the [reverse] selection of the -- of our credit -- our finance credit versus others. And we have a very strong feeling that that is not the case. Rather, what we do see is that, due to the different -- Specifically, this is -- I think is visible in Latvia, that due to the slightly different strategy or really slowing, or, I would say, cutting the costs quite fiercely, always that affects the front line of the operation. And if the decision making is moved further away and etc. etc., what we see is that there is an increasing number of unsatisfied clients who -- with not necessarily a bad business, which can be financed.

But this, actually, has been playing a big role in, also in Latvia, in change of the market share. So it's not that the banks are in distribution and client service equally capable, and then there is just a differentiation between the risk appetite. There are other very strong factors there.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. Thanks a lot.

Operator

Thank you. There are no further questions in the queue. [OPERATOR INSTRUCTIONS]. I now have a question from the line of Elina Riutta from Evli Bank. Please go ahead with your question.

Elina Riutta - *Evli Securities - Analyst*

Yes, hello, this is Elina Riutta from Evli Bank. I have a question about deposits. You say in your report that competition in the Swedish deposits and lending market remain fierce. And I was wondering could you say a bit more about what the situation is with deposits?

Jan Liden - *Swedbank AB - President & CEO*

Yes, it is fierce. And the situation is that we have been -- we have managed to argue a kind of consumer logic in Sweden, which means that we have very attractive deposits savings accounts, with good returns and high interest rates. But we also have a transaction account which gives zero. So we regard the transaction account in -- for the Swedish private clients as the switch, where they distribute their funds, either into investments to amortize their debt, or to pay interest rates, or to consume -- for consumption, or to save. And if they want to save in a deposit account they have a very favorable account.

That means, of course, that the money which is in these transaction accounts, in the increasing interest rate situation give us a higher margin and that is the positive factor. The negative, if you like, factor is that we have very competitive conditions on the savings accounts, where most of the money is placed. And we think that is necessary for us to. We changed our strategy, as you perhaps remember, about three years ago, and we have since then continuously gained market share, which we think is essential and important for us.

Elina Riutta - *Evli Securities - Analyst*

Okay, thank you.

Operator

Thank you. The final question comes from Jan Walter from Deutsche Bank. Please go ahead with your question.

Jan Walter - *Deutsche Bank - Analyst*

Yes, good afternoon. Jan Walter, Deutsche Bank. I joined late so probably many of these questions have been asked. The first one is on NII and margins. Would you say that it's fair to assume that the drop in Q4 margins have been larger than the drop in Q3, i.e. that we don't see accelerated margin pressure, now looking at Swedish mortgage spreads? That's the first question.

The second is, last quarter you said that the funding effect in Spintab was around SEK70m to SEK75m. Could you perhaps give us guidance on what the effect was in Q4?

Third question is on what was mentioned earlier here on the press conference. The new Swedish -- business plan for the Swedish banking operation. What would be the most important issue that you want to address? Is it that costs are too high, or revenues too low on the current cost base?

The last question is, how's the bank targets? Are they still 15% pre-tax profit growth, and 20% ROE, or have they changed?

Jan Liden - *Swedbank AB - President & CEO*

Okay. We'll start from your last question, so Erkki, [inaudible] the targets for Hansabank.

Erkki Raasuke - *Swedbank AB - CEO Hansabank*

Yes. For the Russian -- sorry, for the Baltic and Russian banking, late last year we upgraded the internal targets. We haven't made too much fuss out of that, because they are not on the Group level targets. Very shortly, just operating profit growth has been lifted from 15% to 20%. The target and the cost income has been lowered from SEK45m to SEK42m. The other targets, ROE targets and those within the [inaudible] target have remained.

Jan Liden - *Swedbank AB - President & CEO*

Okay, thanks, and then I'll try to answer your questions -- some of your questions at least. The structure of the Swedish branch network, and the comments I made that we are, of course, going to develop that going forward, as we have been doing.

One of your questions was is this revenue driven or cost driven? And, of course, we -- that was revenue driven in my way of thinking. What we're doing is trying to move the branch offices to where the clients want to have them, but we're trying to man them with [competence], satisfying for all people, which mean changes, definitely.

Will that reduce the cost of the branch network? No, I'm not sure it will reduce the cost of the branch network. I think the cost savings that we can do in the Swedish operations is not through the branch network. But we will definitely change the structure and the way the branch networks are organized.

Another very important thing, I think, which is going to happen, and which we have planned for, is the interaction between the Internet bank and the branch networks, so that actually more transactions can be carried out in the internet bank facility. And also that transactions can be started and completed in either one of the distribution networks, and also that they can use each other in figuring out events in the, for instance, internet bank that will be completed in the branch network.

So we have a lot of activities planned there. But the final answer to your question, that is revenue driven. I don't expect the costs to go down, but I expect the returns to be greater.

As for the net interest margins, the fourth quarter compared to the third quarter - we're touching a kind of sensitive ground here, because we don't really want to comment too much on the margins we achieve on new credits, and on the ones in the portfolio. We have a consistent pressure on margins. It is not so very dramatic right now, in the sense that it's dramatic changes, but it is a continuous pressure and that I think is -- must be very clear. And, of course, we try to balance that out in trying to achieve the optimum mix of volume and margins.

When it comes to the funding effect in Spintab [inaudible] we expect to -- we made a statement but that was -- I would like to give that issue to Mr. Inglander. He has -- I cannot answer that question.

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

When it comes to this issue, effect, which also is [described] then net interest income analyses as negative in total for this quarter, with [SEK90m] correct, last quarter it was plus [SEK46] between quarter 3 and quarter 2. That is due to funding effects in -- but also, hedge effects which still is very positive, but decreasing due to the recent base rate.

We haven't disclosed any figures regarding the special effects this quarter, [inaudible] but if you look into [Baltic] that interest rate have actually in absolute numbers, gone up between the quarters, even though we have had a [better] margin. So, of course, there is a funding effect in that revenue for the last quarter.

Jan Walter - *Deutsche Bank - Analyst*

Okay, thanks a lot for that.

Operator

Thank you. That was the final question. So I will now hand you back to your host to wrap up this afternoon's conference. Thank you.

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

Well, thank you very much for your contribution and your relevant questions. Again, I guess what we want to say from our end is to repeat that we are happy with the Q4 results. We think that it's very robust, very stable. And the very best thing about it is that we do have good development in all our major business areas that is Swedish banking, Baltic banking and Swedbank markets.

And now we're halfway into the first quarter of this year, so I guess we'll talk again in a few months' time. Thank you very much.

Operator

Thank you. Ladies and gentlemen, this conference has now finished. You may now replace your handsets.
