

FINAL TRANSCRIPT

Thomson StreetEventsSM

SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

Event Date/Time: Oct. 24. 2007 / 10:30AM ET

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

CORPORATE PARTICIPANTS

Jan Liden

Swedbank AB - President and CEO

Mikael Inglander

Swedbank AB - CFO

Erkki Raasuke

Hansabank - President and CEO, Head of Baltic Banking

CONFERENCE CALL PARTICIPANTS

Geoff Dawes

Citi Investment Research - Analyst

Kim Bergoe

Fox-Pitt Kelton - Analyst

Derek De Vries

Merrill Lynch - Analyst

Per Lofgren

Morgan Stanley - Analyst

Aaron Ibbotson

Goldman Sachs - Analyst

PRESENTATION

Operator

Good afternoon ladies and gentlemen and welcome to Swedbank's Q3 interim report January to September 2007 hosted by Jan Liden, President and [CFO]. My name is Wendy and I'll be your coordinator for this conference. Throughout the presentation you will be on listen only. However, at the end of the call there will be an opportunity to ask questions. (OPERATOR INSTRUCTIONS)

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

Jan Liden - *Swedbank AB - President and CEO*

Well thank you, Wendy and welcome everyone. I will start you to go through a few slides that we have to try to illustrate this quarter. First of all you see that a kind of summary. If you compare the first nine months of this year with the corresponding period last year, our profit has increased 12% and it has increased due to strong growth in the income. Net interest income has gone up with 19%, net commission income 12%.

We have had very good development in business volumes, both in terms of lending and deposits and payment in all the markets where we're operating. During this period, who has of course been influenced by the financial markets' turmoil, we have had quite a good time in the sense that we have an -- have had excellent access to funding. And that is, as we see it, receipt on our excellent credit quality and also that we have had also our long -- since a long time worked up relations with other financial institutions gone up -- been very successful.

TAS-Kommerzbank is now a member of our Group and in fiscal first quarter consolidated. And we also are of course following the macro development in the Baltics, who we think, in terms of adaption, is a little bit slower than we expected.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

If we look at slide number three, you see here the way we try to summarize the effects of the financial markets' turbulence. And we have, most of all, all of these effects are actually valuation effects. And I really regard them as temporary because we will, of course, hold -- hold all the instruments to maturity. First of all, we have a fair value option in Swedbank mortgage. And that has been affected with SEK129m. We have in our central treasury also IAS valuation of interest rates swaps for inter-company lending has affected us with approximately SEK90m and we have revalued the corporate bonds in our bond portfolio in Swedbank markets.

We have also had a small effect in the sense that we have not been able to transfer the higher funding cost immediately to our customers, almost from a logistical point of view. But that we hope we can correct in the future. And of course, the effect in Swedbank markets in fixed income trading has been more difficult this quarter than the last one.

If we turn to number four, I think we tried to illustrate our positioning and our strategy in broad terms. We think we have a very stable base in these operations. I think that we can show that to you when we see the business development again this quarter. It is profitable. It is successful. And it is expanding.

In the Baltics they have still -- they have yet -- also, again delivered an excellent financial result and also have shown very good business development. We see also the effect of the macroeconomic situation in the sense that our lending volumes are increasing in a slower rate as we have predicted before.

And in Russia and Ukraine, still small operations but we see a very good potential for future growth. And we regard these as investment cases as we go along.

Turning to slide number five, we see the change in business volumes on the savings side. And there you see very good development in all the different areas in Sweden and in the Baltics. But you also see a negative deviation in the mutual funds segment in Sweden. And that is mostly because of -- that the indexes have declined during the period. And the underlying value of the funds is decreasing.

And in lending you see continuous growth -- steady growth in the -- as we reported in the last few quarters in both private lending in Sweden. And that is mostly, of course, mortgage credits in the Swedbank mortgage portfolio. Still, there is a very low loan to value in that portfolio with a 40% plus. And then we have the corporate in Sweden, who continues to develop well, also the private and the corporate sector in the Baltics.

In other, you see in that diagram -- you see -- that you see TAS Bank and the -- some other actors. But the big changes are here actually, TAS Bank in Ukraine.

In the margins on slide seven, you see that they are pretty stable. And what we see here on the lending side -- what we see here is, of course, stable margins. Kind of difficulty to pass through immediately the increased funding cost towards customers everywhere, but also in the Baltics. And I also mentioned during our conference before here that we now see flattening out in the pressure on the mortgage credits in Sweden. So they are actually on -- marginally a little bit higher on the new lendings than they were last quarter.

On the deposit side you see this effect of the different interest rates in the different countries. And they are developing positively.

The loan losses is still very -- on a very acceptable level, coming from an extremely low values the last few quarters. And that has now increased to still, what we think, a very low level, 9 basis points for the quarter. And on the period of nine months, it's 6 basis points.

For TAS bank, we're smart on that graph to the right. There has been provisions calculated as a share of the period's lending increase. It's kind of maybe unsophisticated model. But we have chosen to keep that until we know in detail the quality of that portfolio and how it is changing. And that is illustrated with -- on this bar and representing SEK80m this quarter.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

In the Baltics there is a few big exposures that have resulted in big provisions. So maybe that can be explained -- the increased figures.

If we now turn to page number nine, you -- we try to start to look at the different business areas. Swedish banking then, stable earnings, high profitability, good volume growth, lending and deposits. Market shares are still increasing in the most important areas. New retail mortgages improved to 33%.

Total household savings or new household savings have increased to 17% despite the fact that we had a lower value in the mutual fund portfolio. We make different customer satisfaction studies and one fairly big one was done -- the result of it was in September and we saw a good increase for our corporate customers in Sweden, who we increased that satisfaction index.

And of course here also, we see some of the negative effects of the financial markets turbulence in term -- in what I call the more temporary effect due to the fair value option. And the fair value option result last quarter, the Q2, was actually positive. And now, as you saw earlier, it was a negative result, SEK129m. So I hope that can be changed to the positive in the future.

Baltic banking operations continue the high earnings. Net interest income continues to increase. Cost to income ratio, very good. Good volume growth but the expected decline in the lending growth continues. We have also a lower pace in recruiting new staff in the Baltic countries and the loan losses were a bit higher but partly due to one impaired exposure in Estonia. And as I said the macro environment, especially in Latvia, is still quite challenging.

Slide 11 you see the credit quality expressed in two graphs here. And if you look at the lower one here, you see here that the Baltic is substantially higher the third quarter than it was the previous quarters and thereby increasing the Group's loan losses to -- a little bit, to 40 basis points.

On slide number 12 you see the decline in growth in the lending volumes as we have shown you before. And the development still continues, though we have said and we are still saying that we believe in an increase year on year 2007 over 2006 to something between 30% and 35%.

The market shares are illustrated on page 13 and they are stable. I think if you're interested, we can discuss each and every product but I think it's sufficient to say that they are stable and they are also confirming that we are the leading bank in all the three countries.

On page 14 we made some comments regarding the Baltic macro development. And as you see, we think that in Estonia you have seen a correction, which is very good. And we don't see that correction yet in Latvia. But we expect that to happen, at least under 2008. And still a stable growth in Lithuania. Still, our basic belief is that the Baltic economies will continue to approach the EU average. So long term growth is still to come.

Markets have been exposed, as I said before, in slide number 15. Difficult trading markets. We have re-evaluated the credit bonds mark to market. That has meant SEK60m in losses, or temporary losses as I prefer to call it. Lower fixed income trading volumes and the result in First Securities, also mostly in fixed income, has declined the quarter.

We have continued success with our structured products. So that is the equity linked products and structures that we are selling both to institutions and to private individuals. So we have actually increased that with 38% compared to last year.

We have also founded an entity which are dealing with corporate finance products through the Nordics and the Baltic which we think will lead to further coordination and further attraction by our potential customers.

International banking, on slide number 16, is also quite good. But of course the reason for that, or the major reason for that is, of course, that we have now included the TAS in Ukraine which has quite an interesting development amounting to SEK50m plus in the third quarter. And they haven't been there before.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

In the Russian banking, we reported earlier that they have -- the sanctions introduced by the Central Bank of Russia have now been lifted. We foresee that we can continue with our operations there even if they are delayed. And we also have a very good development in the Nordic branches.

I have a slide later on with -- in slide number 17, describing a little bit more the TAS-Kommerzbank but I'll skip that in this presentation and hand over to Mr. Inglander, who will give you the numbers -- more detailed numbers.

Mikael Inglander - Swedbank AB - CFO

Okay. Thank you for that. And then I will ask you to turn directly to page number 19 and there you have our income statement. And there are a few remarks involving that. First of all, net interest income has showed a good development between Q2 and Q3 and that is in spite of the fact that Swedbank markets actually have seen quite a bad quarter with a downturn of SEK150m. So that you should keep in mind when you evaluate the figures.

The big difference here is net gains and losses on financial items at fair value. I'll get back to that, but definitely it's not following the pattern we have got used to, looking three quarters back. And then there are some explanations I'll dig deeper into.

On the cost side, again, I think it's important to remember the fact that we have, from this quarter, also included TAS-Kommerzbank in our figures, which is a cost effect of SEK134m. And without that you would have seen considerable decrease of expenses between the quarters, which is in line with what we normally see between Q2 and Q3. And I'll come back to the costs again.

Loan losses, as Jan described, they have shifted upwards, mainly due to the fact that we also consolidated TAS-Kommerzbank, which I'll get back to. And tax is, again, 22%, which is in line with what we had predicted. So the result between quarters has decreased with 8%, but if you'd also bear in mind, the facts -- one of the facts which we had discussed earlier, we think it's still a good development in almost every area.

If you turn then to page 20, there you'll see a breakdown of the net interest income. And as Jan stated, we see a positive development in Swedish banking due to volume effects which, to a good extent, also covers for pressure on margins in the lending area. Baltic banking operations, again, a very good development between quarters and mainly due volume effects when it comes to lending, but also increased deposit margins.

In international banking, there you have the effect of TAS-Kommerzbank, which is the total, or a little bit more even, than the difference between the quarters which compensates very well for the negative development in Swedbank markets which is down, affected by the financial turbulence with SEK150m.

Also a positive development in shared services and other due to profit sharing loan, which has given a good income for this quarter.

Turning to page 21, there you see the breakdown that you have been used to when it comes to net interest income in Swedish banking. And I think you'll recognize the pattern with good volume growth on the lending side. Still pressure on margins even if we feel that it's becoming less pressure on mortgage margins, but that hasn't yet affected our figures.

We also have a positive development of volumes in the deposits area as well as increased base rates, which has helped our own NII upwards and of course, a longer quarter, which we appreciate. And that actually is a positive effect net net.

Page 22. There you have the breakdown on Baltic banking NII. And also, here you recognize the higher volumes in lending, margin pressure on the lending side. But important to remember is this is mainly the effect of funding cost increased but not yet passed on to customers. The sentiment in the market is still stable or increasing margins which not is -- which is not reflected in the figures here.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

Slight FX effects, both on deposit and lending side and volumes on the deposit area increased as well as the margins. So all in all, a good development.

Commission income on page 23. I think the summary is very good development in asset management and payments, and a stable development in most other areas. In payments, again, we have seen a good development when it comes to volumes. And we have the same increase as we have been used to for several quarters in a row. Around 20% in transactions volumes when it comes to card transactions, and also good development in other payment products.

Corporate finance, normal volatile income, and here you see a weaker quarter but we think that will hopefully change in the future.

If you go then to page 24, there you have our net gains. The losses on financial items at fair value. And there you definitely have a lot of effects which has hit us during the last quarter, mainly due to the turbulence in the financial markets.

There are several areas which we'd like to highlight. First of all, our Swedbank Mortgage, which is down with SEK173m compared with the last quarter. And that is a valuation effect where we value our lending and funding with the mortgage bonds on the lending side and swap curves on the funding side. And the turbulence in the market has made them differ from the normal pattern.

Important to remember here is that funding -- sorry, this kind of valuation effect is used on here items which will be held to maturity. So over time this would net out to zero. Looking at the mortgage portfolio then, the maturity is an average 24 months. That gives you some clue of what will happen for the coming 24 months.

MasterCard share is a positive valuation effect since MasterCard was listed. We have also FX effects due to the CapEx position and hedging of the -- of that transaction, which was negative, but still, it's a good deal.

Credit bond portfolio valuation effect inside the markets, negative at SEK60m and then other valuation of funding, that is lending and here you have it on Group treasury level with SEK179m below. Again, the swap price affects this. And the net effect is then much lower than we normally have seen with SEK196m.

Expenses on page 25 and here you see Swedish Banking going down, normally what you see between quarter two and three each year. Baltic Banking, slightly upwards but not the same as you have seen before, also a seasonality effect. Swedbank markets down, mostly due to that we have seen lower provisioning for profit based salaries.

International banking, here you have the big effect on, actually, consolidated -- consolidating TAS-Kommerzbank with SEK134m. So again, taking that away, we have a decrease in expenses between quarters.

Loan losses on page 26. Here you can see a breakdown on the different business areas. Swedish Banking shows a very stable development with the net recoveries for this quarter. Baltic Banking, an increase between quarters, which could be considered considerable. On the other hand, as Jan mentioned, approximately [EUR3] is extending from one provisioning in Estonia, which takes away half this difference between the quarters and so it's in line with our own projections. International banking, up with SEK62m. And 80 of those, as you remember, are from TAS-Kommerzbank.

I think it's important to remind you also that if you have looked at the figures for TAS-Kommerzbank in Q2, the provision for TAS-Kommerzbank was SEK72m for that quarter. That is not consolidated here since we didn't own TAS-Kommerzbank until the beginning of July. But it's at least giving you an indication and it's a model based provisioning which has been done as Jan already has stated.

And going to page 27, a breakdown on the different business areas. Swedish Banking, first we -- third quarter last year compared with this year. It's slightly down. But if you take into account the consolidation of the Savings Bank on the cost side, as well as

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

effects on the -- due to the turbulence in the financial markets, we still see it's a good development in the Swedish operation and also an increased ROE, as you can see here.

Baltic Banking, again, a very good quarter in comparison with the last year.

Swedbank markets have suffered definitely from the turbulence in the financial markets, especially in the MII area. So that is, of course, a disappointment but we still believe that this will recover. And we also have a more positive view on the coming quarter.

Asset management, good development. Also here, you can see that we have a positive effect of (inaudible) which is here in those figures compared with Q3 last year, both on the income side but also on the cost side, which to some extent explains the increase in costs.

Key figures on page 28. I think a summary is that most of them are pointing in the right direction except for loan losses, which is an increase, not net recoveries any longer. Bear in mind that if you take away the effect of TAS-Kommerzbank, the provisioning level is still -- the loan/loss ratio is still just 4 basis points, which we consider as very low. And that also reflects the low risk we have in our portfolio, even if TAS-Kommerzbank is also in line with our own projections as we have discussed before.

Our capital situation on page 29. There you can see that the acquisition of TAS-Kommerzbank has affected our tier one ratio negatively with 73 basis points, in line with what we have said. We have issued hybrids during Q3 and improved the ratio by 23 basis points.

The net effect is that we are today, down from the 6.7 to 6.2, a little bit below our long term target of being around 6.5. But you also are aware of the gradual introduction of Basel II will give us some help to reach our target again beginning on next year with the release of another 5%.

Then I hand over to you, Jan.

Jan Liden - *Swedbank AB - President and CEO*

Yes, thank you. The last slide here is slide 30 and there you see that where we started this presentation. Still a good quarter to continue our good development during the year. Good business volume, increases in all markets, excellent access to funding during this credit or liquid crunch, TAS-Kommerzbank consolidated and still a difficult situation in the Baltics even if it is a very good result for Hansabank operations.

So with that, I'd try -- we'll try to respond to your questions and comments.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Geoff Dawes from Citigroup. Please go ahead.

Geoff Dawes - *Citi Investment Research - Analyst*

Sorry. Good afternoon. Geoff Dawes from Citi here. A couple of questions, both on the Baltics. First of all, on the provisions, you obviously outlined that there was a one off provision in Estonia which accounted for half the Q on Q increase. Could you just give us, first of all, a little bit more detail on that? So what kind of company it was, what the situation was and how it's progressing.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

And also, if you'd give us a bit more clarity on where you think the provisions will normalize and at what time period you think that will take place over.

And the second part of the question, on Baltic headcount. It increased quite a lot in Lithuania quarter on quarter and pretty flat in the other markets. Is that an indication of your strategy going forward, that you are going to focus a bit more on Lithuania in growing the business out there? Thank you.

Jan Liden - *Swedbank AB - President and CEO*

Well thank you. I think I'll hand it over to Erkki here to comment on both the issues, both the provisions and the headcount.

Erkki Raasuke - *Hansabank - President and CEO, Head of Baltic Banking*

Yes, the one transaction which was -- where the provisions were high in Estonia. This is a real estate development company which is developing the residential real estate. And the issue for why it actually has been running through the difficulties was cost overrun. The construction period was prolonged, and therefore -- and there is also the major construction price inflation which eventually has been leading into a situation whereby the developer has had difficulties to pay off the needed addition on equity. In that sense, it is -- I wouldn't -- the question is when the credit losses will ever be a one off. But this is general issues we probably should not have in the future for the reason is that the construction cost price increase has stopped.

And actually, the market itself, in terms of availability of the -- for construction -- the capacity, has been clearly improved. But now they start -- it is now converting into the next -- the risk is converting into the next level where there is a question as to the house developed or rent developed properties, can they actually resell them? But this is not an issue with this particular case. And we have quite a positive outlook, actually, for this particular case to develop further.

But you asked also about the provisioning level. It's that we are in the change of the cycle. And the cycle has been building up for -- over the number of the year, and what we can really say is that what was the average provision and the right provision over the cycle, when the cycle has become full. The best guidance we can offer and what we also have been offering previously is that we are targeting to not lose more than 35 basis points as average over the cycle to the lending business. And do not want to go in any more details with that.

In terms of the headcount, you're very much correct. It's that the headcount increase has been highest in Lithuania. And what it indicates is that if Estonia and Latvia both are -- quite strongly are breaking down the previous growth. In Lithuania it's that the growth -- the strong growth is still there. There is a strong demand there. And also, we have been building further our implemental distribution network.

Also in the Lithuanian part, there were some of the seasonalities. We have been centralizing some of the functions and also this has been seasonally actually peaking. While we have hired more people to the central functions and we have not yet been able to reorganize. That basically freed headcount from the regions and from the distribution network.

Geoff Dawes - *Citi Investment Research - Analyst*

That's great. Thank you. So would it be fair to say that Estonia and Latvia, the headcount is pretty much topped out for this part of the cycle, whereas in Lithuania there is still a little bit more headcount increase to come?

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

Erkki Raasuke - *Hansabank - President and CEO, Head of Baltic Banking*

Broadly, I think yes. I think that both Estonia and Latvia are probably in the coming few months is that we still see some of the additional growth. We have been and we are in the process of opening a few more branches, etcetera. But we are basically not positive of that.

Yes, it's that we are working hard with our Operation Excellence program which has some time lag. It basically should start to free up people. And so if you look over the next three, four months I would expect that both Estonia and Latvia will still be able to climb higher. And then they will basically flatten out after that.

Geoff Dawes - *Citi Investment Research - Analyst*

That's great. Thank you very much.

Operator

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

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Hi. Again, some questions on the Baltic. I was just wondering, the margin dynamics. You touched a little bit upon it. If you look at that slide explaining the changes in net interest income, and just look at the volume effect on the lending side and then the margin effect where we had year on year volume effect positive of 295, a negative 27 margin effect and then quarter on quarter in Q3, volume effect 67 which I guess is pretty close to the run rate. But then again, lending effect 28, so even slightly higher than the year on year effect. Is that all sort of -- that funding cost effect? How should we be thinking about that sort of ratio between volume and lending effect going forward? Is this a new trend? Are we starting to see more pressure on -- with more and more -- with the banks maybe focusing more and more on the better credits? Just if you could touch a bit upon that.

And secondly, am I right to -- reading the statements and from what I can hear from what you're saying that you have become slightly more cautious on the outlook? I seem to remember in the past you've been saying -- seeming very confident about this soft landing. Is that correctly understood or is that me reading more into it than there actually is? Thanks.

Erkki Raasuke - *Hansabank - President and CEO, Head of Baltic Banking*

To the first one, I would actually like to take it into smaller pieces than the question, and commenting on overall of the margin development. So what we have, we have a number of developments happening at the same time. Barely increased funding, which we think is that we have a fairly good basis of that, actually putting forward most of that to the clients with a small time lag, but mostly on that on the corporate side.

Secondly, what we also see is that the credit risk globally is going to be -- is being repriced and we also think that this actually gives -- this environment gives us also opportunity to -- and having the slowdown also to realize the margins, go up towards of the -- to the corporate. And this is something what we actually see happening on a currently weekly basis when we will see an overview that the credits and credit position making process and this is -- credit curve is going to become steeper and the high quality end is probably not going to be too much softer touch. And there is -- the strong competition will remain there.

Now where we -- where there has been -- actually the negative margin development has been otherwise extremely profitable consumer finance. And the main reason for that has been, is because consumer finance is a local currency but fixed rate product. And while funding cost has been increasing, actually we have been only partly able to -- because the local shopping rates have really jumped, we have been only partly able to push it forth to the clients.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

So when the -- and I think Estonia was doing just that just recently. It's more a gradual process in Latvia and Lithuania. But I mean the overall is that the margins are very strong in that so it hasn't been -- maybe it's a bit -- partly a lost opportunity but not really of the -- it doesn't hurt, really, that profitability pattern of the business itself.

Mikael Inglander - *Swedbank AB - CFO*

So basically to sum that part up, I think is that we are -- the margins, as such, are not a concern but rather, actually, opportunity going forward through a majority of our business profile. And the slowdown and the overall repricing of the credit is a quite great background to have for that.

Moving on to the next question is that the overall of the outlook is that generally, our expectations are very much the same. So if we go back three months or even to six months, in the meantime what has happened is, again, is we have been, like Jan was telling previously, that we have been expecting some of these adjustments to actually come in earlier. And unfortunately, they have been -- it has been taking slightly more time to happen.

Therefore, also probably this time left for the -- for taking down the speed is no shorter. And this, itself, brings a slightly more uncertainty also about the future. So I would say is that our expectations are very much the same as they were, but we feel today that the uncertainty span has been actually widened between the different potential scenarios than we were having them six and three months ago.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay. That's very clear. Thank you very much.

Operator

Thank you. Our next question comes from Derek De Vries from Merrill Lynch. Please go ahead.

Derek De Vries - *Merrill Lynch - Analyst*

Thank you. It's Derek from Merrill's. I want to touch on slide 35, the funding and liquidity. I guess before we get to that slide, if I look at the CDS spreads on Swedbank, at the start of the summer you were very much right in with all the other large listed Nordic banks. And that kind of continued throughout the summer. Everyone went up together.

But in the last month, your CDS has gapped out by 10 to 15 basis points relative to all the other Nordics, including SEB. So I was wondering if you had some insight into why your CDS would be gapping relative to your peers, if there's anything in the last month that would explain it? So that's my first question.

And then my second question, you make the bullet point statement, Swedbank is a net lender in the interbank market. And I was wondering if you could elaborate on that. Specifically, are you willing to lend on a three month view in the Interbank market or is this just you guys have some excess liquidity so you're parking it overnight? That would be very helpful.

Jan Liden - *Swedbank AB - President and CEO*

Thank you. I'll start with the last question and hand over to Mr. Inglander here. Yes our liquid -- yes this is very much reciprocal. Why we're doing -- if you go back to slide number 34, it gives you a kind of situation analysis. What we have is that we had half the portfolio of -- in our balance sheet. It's basically the Swedish Mortgage Institute. And we fund that entirely for many years through the capital market with programs and bond. Half of it is funded internationally and half in Sweden.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

And all those programs have been functioning during this period. And then if you take the rest of the Bank, we have -- we are a large deposit Bank and 90% of all our remaining lending portfolio is, if you like, covered with deposits and equity. So therefore, we really don't need to have that high activity with other financial institutions in lending and borrowing. But we still do that and have been doing that for a long time. And we do it for many reasons, but also to secure our liquidity situation and have very large buffers.

So to your question, whether we would be willing to lend in longer period -- three month period, for instance, that is totally dependent on which financial institution we are talking about because we have developed very good relationships with many and we've also -- we are very reciprocal and can do business together. If a new financial institution or someone with which we haven't done so much business with, we might not be so interested in that.

Derek De Vries - Merrill Lynch - Analyst

Which is, just so I understand, if one of the banks that you have a good relationship with and you hold in high credit standards came to you this afternoon and wanted to borrow three month money, you'd be happy to lend it to that institution?

Jan Liden - Swedbank AB - President and CEO

We would definitely consider it, yes.

Secondly, the question regarding the--

Mikael Inglander - Swedbank AB - CFO

Yes, regarding CDS and the pricing of those instruments, I think, looking at the market the last two months it has been very volatile. And of course, it's not up to us to comment if the market is right or not. If the spread has increased, of course that could be some kind of missing information. I hope we have given a lot of information today which could help this to correct if there is anything wrong with the current pricing.

I think Erkki in -- no?

Jan Liden - Swedbank AB - President and CEO

No. But I think -- in all fairness, I think it's also related to the Baltic issue because the investors politically or not, is of course aware of that situation which we have in the Baltics. So I think that could be a part of the explanation and that is why we are trying to be as transparent as possible. And so far, I gather, we have been right.

Derek De Vries - Merrill Lynch - Analyst

Good. Thank you very much.

Operator

Thank you. Our next question comes from Per Lofgren from Morgan Stanley. Please go ahead.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

Per Lofgren - Morgan Stanley - Analyst

Thank you very much and good afternoon. I have a couple of questions. First of all, I would like to ask you about the political situation that you see in the Baltics. As far as I understand something is happening with the current government in Latvia. Could you please just do a quick summary for us with regards to that and what that potentially can lead to in terms of implications for your ability to slow things down in the Baltics?

Second thing, a more detailed question. That is, when going through the NII in the Baltic division, you mentioned the effect on decreased lending margins for [Rada] and effect on you not passing on the increased rates to the customer yet. Is that also the fact for the corresponding disclosure in the Swedish branch division?

Finally, I would like to ask you I see that you have a capital market's day planned for March. You do not have an agenda for that date yet I guess but, if so, would you like to share it with us? Those were my three questions. Thank you.

Jan Liden - Swedbank AB - President and CEO

Okay. Let's take them one by one. I think that the political development in Latvia definitely, of course, is active. But one of your colleagues wrote an analysis which I think is right. I think it was titled "management regarding our company is doing the right thing, politicians are not".

Without really reviewing the political achievements -- maybe Erkki has a comment -- there is, and there have been, and there will be quite a lot of activities in -- on the political arena. It always is when a country economy faces problems. And maybe Erkki can comment a little bit on it.

When it comes to the passing on effects, I regard this mostly a logistical problem. When we can do it, it will come. It will, of course, come and it will definitely do it. And we've seen also a kind of reasonably good acceptance for doing that. So I don't see that as a problem in any longer term.

With regard to the capital markets day, I think and also I had Mikael showing me that if you want to look at it in Sweden, the effects have so far been a little bit smaller in Sweden than in the other countries, but still they are passing effects in all our countries. With regard to other capital markets day perhaps Mikael has comments on that, on the subjects that will be discussed.

Mikael Ingländer - Swedbank AB - CFO

In general, we would like to describe where we are heading with all our operations. Of course, also about our Ukrainian operation which we know much better and have a better insight to explain. But definitely, Baltics. Where are we? Where are we heading? But also Sweden and markets will be covered.

Jan Liden - Swedbank AB - President and CEO

All right. Do you have any other comments, Erkki, on the political situation in--

Erkki Raasuke - Hansabank - President and CEO, Head of Baltic Banking

I'll say a couple of comments on that is that first I'll try to be only factual and not give you a feeling. And why is that, is that because of the times, we are actually the most motivated, more than ever, to do a very, very good cooperation with all of the -- I wouldn't say not with all of the political powers but rather, basically, with the governments. And being fair is that, yes, we have been having a row of the meetings in -- now with the central banks. I think this is -- it's more active than it has been in the past. But also, with the government and this is something that we have actually almost never had in the past, really, because

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

there hasn't been too much of the agenda. We do have this agenda today and this is how do we actually manage the economic environment? So therefore is that I would rather not give any opinion in this but once again, we are very motivated to have a constructive relationship going forward.

A few facts about Latvia is that there was a head of the corruption working group or this was an agency or -- how do you call it -- was fired in Latvia. And the -- it has been interpreted in the market is that because this task force or agency was going too close to the leading party, which is also the head party of the current Prime Minister. I don't know what is the truth or what is the wrong, but this has been causing certain unrest. And also, this -- because of that, they are -- the Prime Minister was coming back earlier from the US Summit.

And there also have been -- by my understanding, two ministers have been recently, at least announced that they are stepping down. It hasn't been finally. I think one is approved. Another one hasn't been cleared yet. But there was a -- how do you call it -- trust word or a -- in the -- yes, in the Parliament, which was -- which went through -- supported the current government and the current government and also the Prime Minister was commenting, is that they now, with the (inaudible) will deal with the budget for the next year, which they are very responsively and very rightly holding to their 1% surplus over GDP. So that's so much to say, I think.

Other -- out from Estonia and from Lithuania, it's currently rather stable. I think that based on these meetings, also what we have had, I do give the opinion here is that I think that they are doing a good job, actually, together with the rest of the market players of handling the situation.

Per Lofgren - Morgan Stanley - Analyst

Right. Thank you.

Operator

Thank you. That was our last question. (OPERATOR INSTRUCTIONS) We have another question coming through from Aaron Ibbotson from Goldman Sachs. Please go ahead.

Aaron Ibbotson - Goldman Sachs - Analyst

Yes. Hi there. Just got one or two brief questions. Firstly, just on the Baltic loan provisions, sort of coming back to this. But Erkki, previously you've said that you sort of expected 2008 to be around 50 basis points of credit cost. I know this is nothing you can project precisely but is this sort of the midpoint of your expectations still or has that moved?

And secondly, I just wanted to clarify on this mortgage, 129. Did any of these losses come through in the Swedish branch operations? And sorry if you have mentioned that but I just didn't really exactly understand if any of these 129 or 90 hit the Swedish branch operations in the divisional breakdown. Thanks.

Jan Liden - Swedbank AB - President and CEO

You start.

Oct. 24. 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

Erkki Raasuke - *Hansabank - President and CEO, Head of Baltic Banking*

I'm not really -- stick to any of the provision levels for the 2008 or 2009. This has been particularly also from, in fact, what I was commenting earlier is that the reliability of the different scenarios has been increasing. So also, we do foresee the different provisioning level of loan losses connected with the different areas eventually is going to be rolled out.

What I have said, and what I will say is that, yes, that the over the cycle target is 35 basis points. We think today that this is an achievable target. It has been -- we have been clearly below of that for the past four -- at least four years. And this has been part of the cycle. We are now moving to the other part of the cycle and it is quite clear -- or it is not quite clear, but we at least expect this, that we will go above of that -- of our target level. But over the cycle -- and we think that we have at least 18, 24 months to see the other part of the cycle or the negative part of the cycle. It's true that we still will remain inside of our target.

So I will -- and basically going more of -- I don't want to go more into the detail, but also that would be a kind of cross-generalization if we would do these estimations for the Baltics because we think actually the portfolio is going to have quite different characteristics, also with the down time between the three countries.

Mikael Inglander - *Swedbank AB - CFO*

I think the loss market is quite important when you try to figure out your estimations. And if I go back to your other question how these valuation effects hit the different business areas. So yes, it's true that the fair value option is where the mortgage, which was SEK129m negative, SEK173m difference between the different quarters, that is hit -- that is registered in the Swedish banking area. The SEK90m of the valuation of the other interest rate swaps is to be found in shared services and staff because that's a true treasury operation. And the, of course, the re-evaluation of the corporate bonds could be seen in market results.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Thank you. There are no further questions. I will now hand you back to your host to conclude today's conference call. Thank you.

Jan Liden - *Swedbank AB - President and CEO*

Well thank you very much for listening. Let's call it a day. Thank you.

Oct. 24, 2007 / 10:30AM, SWED_A.ST - Q3 2007 Swedbank AB Earnings Conference Call

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2007, Thomson Financial. All Rights Reserved.