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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Swedbank's Full Year Results 2007 Conference Call hosted by Jan Liden, President and CEO. My name is Wendy and I'll be your coordinator for this conference. For the duration of the call, you will be on listen-only, however at the end of the call there will be an opportunity to ask any questions. (OPERATOR INSTRUCTIONS). I will now hand you over to Jan Liden to begin today's conference call. Thank you.

Jan Liden - *Swedbank AB - President, CEO*

Well, thank you very much and very welcome to this conference call. We have a few persons here. First of all, we have Kristina Siimar who is CFO of Hansabank Group. We have also Erkki Raasuke on the phone, phoning in from Thailand. We have Jan (inaudible), Financial Officer of Swedbank Group, Mikael Inglander, CFO, Swedbank Group and Johannes Rudbeck responsible for Investor Relations.

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I think that most of you have been able to read our presentation and see our presentation, so I will not go through with it in detail. I will just try to bring your attention to a few things I think is interesting. First, the first slide which is titled number three, is that we think that the summary of this year is that we had a very good development last quarter, and it was a good development both in Sweden and in the Baltic countries, and we had an exceptionally good quarter for Swedbank markets.

And also our operations in newly started operations in Ukraine continue to develop well. Also our operations in the other countries like Russia, other Nordic countries, Luxembourg, also did according to expectations.

If you look at slide number four, you can see the summary, which we think is important to get the perspective, that is the operating profit, the credit losses and the profit before loan losses illustrated in one graph and what we want to say there is actually that we do have quite a good capacity, not only in generating profits, which you have seen has been developed over the last two years, but also if you look at it from a risk perspective in absorbing negative disturbances, which we think is very satisfying.

The way we'd like to position ourselves, you see in slide number five, where we have this same story that we have been talking about for quite some time now, the very stable base and high profitability in Sweden, still about two-thirds of the profit comes from the Swedish operations, share of lending is about 80%, so we have had considerable growth also in lending here in Sweden last year.

In the Baltics, where they have continued their spectacular growth, both in business volume, but also profit-wise, and now we have a situation where almost a third of the profits comes from the operations in Estonia, Latvia and Lithuania, and the share of the lending is about 16% of the group's total.

And Ukraine and Russia who are still very small operations, still successful, but they are generating profit, but very small from a group perspective. So our ambition is that this will be a future growth opportunity.

There has been a big discussion in many ways regarding the direct effects of the credit's turmoil and on slide number six, you will see that these have been even less in the fourth quarter than in the third quarter. And we have divided them into the different categories they have appeared, and I will be happy to take detailed questions on that one later, but still the general response to that is that we are not exposed to that financial turmoil yet.

Business volumes, slide seven, have continued to increase. Credit quality, slide number eight, shows, which we want to show, several things. Number one, we have definitely changed in trend that we are looking at increased losses for the group.

We have also said previously and restate that that in the Baltics we do believe that if you look at the three countries in a consolidated way, they will experience between 50 to 70 basis points in loan loss ratios next year or this year.

We would probably see some increase or so in the Nordic countries, but on the other hand, if you look at the share of impaired growth, the loans you see that as an early indicator where we're going, so in part confirming what we see.

But you also see in terms of share and provisions that we are very conservative when we look at potential losses ahead. So we think we are well prepared for these times. If you look at, and I'll continue to look at slide number nine, you'll see the margins, which have on the lending side, slightly started to increase in at least two countries in the Baltics, and also, at least are stable in Sweden.

And the way we discussed what we see now is that is of course, shows that we have been able to transfer the increased funding cost to our customers, number one. Number two, that in some cases we are already beginning to increase our margins to our customers.

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And what we told you last quarter about the mortgage margins in Sweden, we sensed that we had kind of a stability pattern, that the new lending margins were not falling any more, even if they still were lower than the back book margins. We now see that that is basically confirmed, so that the new loan margins is not getting worse last quarter compared to quarter three.

Deposit side, you see that they are increasing in all countries, mostly so in Latvia, Estonia and Lithuania, but also in Sweden. And, as you know, we now had an interest raise, somewhat surprisingly in Sweden yesterday, and we think that that will further on the margins benefit us on the deposit interest rate margin.

And if I jump then over to the Baltic macrodevelopment, slide number 14, or even back up a little bit to slide number 13, just to be a little bit difficult, I want to then show you this graph because it really confirms what the management in Hansa thought a year ago and we have been trying to relay to you over the year, we believe that the growth in lending volume will stop at 35% at the most over the year, '07 over '06.

Now, you saw that we came in on 33%, so we have been very consistent in that sense. Our belief is now that that increase will continue. The increase rate will continue over '07, but at a much reduced speed, and that the present estimation is that the maximum of 15% growth is what we can expect if you consolidate the three Baltic countries.

And then to the back Baltic macrodevelopment, we have a slide here, which, well, we tried to in a short sentence illustrate that what we see now is that the growth of these economies is slowing down with Estonia in the lead, Latvia, after that and Lithuania at the last. And we think that is of course, a good thing, because that will help all these three countries to correct their macro imbalances in their economy.

We hope and believe that the inflation, the CPI growth, hopefully will peak the first half of '08 and then turn to the better.

Slide number 15, Swedbank markets had a very good result and you see that very well illustrated on slide 15 where you see we had difficulties in third quarter, which we recovered from in the fourth quarter, which is very satisfying and we had the best result ever 2006 and we're actually able to come to a similar good result 2007, which I think was quite an achievement considering the market's conditions.

And then I think actually I will leave this presentation and let Mr. Inglander take you through some of the main slides regarding the numbers before we have our comments and questions.

Mikael Inglander - Swedbank AB - CFO

Thank you and just some short remarks regarding slide number 18. We have a good net interest income development, as well as commission. I'll get back to that. Net gain, we can here see also the effects, which Jan described regarding the financial turmoil, which has affected us less this quarter and that is a positive development.

Also, I would like to point to other income where we have one item of withdrawals of technical character from insurance premiums paid previously, of SEK 150m, which is a positive effect, of course. Expenses, up, I will get back to that, but I also would like to turn your attention to the tax level which is year on year 22% on 2007, a little bit higher this quarter, but in line with what we had previously said.

If we go to page 19, there you see one of the components affecting the MII for third quarter. Swedbank markets did a terrific quarter, as already discussed. Page 20, there you see the same pattern as you have become used to when it comes to Swedish Banking and the MII development, very stable, higher lending volumes as said before. Margins still compressing because of the difference between front and back book even if new sales are more stable.

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Other changes is referring to hedge effect, but also due to the turbulence in the financial markets. Baltic Banking, here you have a new headline in comparison to what we showed you before, higher lending margins between quarters, so you can actually see now that we are able to increase (increase) both Latvia, Lithuania not yet in Estonia, but we have a positive view upon that.

Other changes is referring to treasure effects, mainly due to the variance in the interest rates and the domestic interests rates, which was gained from incomes to deposits.

Net commissions on page 22, up all over, which I think is a strong outcome of the year. And expenses in line with our loan expectations, Swedish Banking up just 3%, Baltic Banking with 23% and that also contains of course increased staff costs and the increased wages, which we normally have in Q4 and then the negotiations in Lithuania, Latvia, but the slower salary increase than we have seen previous years for the coming '08.

International banking, quite flat between quarters, but that is helped also by the refund of the AT and the Russian operation and the Ukrainian operation effects of course between years, but all in all, in line with expectations.

Page 24, there you see our (inaudible). I would like to point to your attention, at least our belief about what has been accomplished during the year. Swedish Banking, total income up 4% and total expenses up a little bit less, so increased cost income or better cost income ratio for this year, which we're proud of before loan losses.

That is loan losses is actually negative, which is a normal level of loan losses, but on year-end it has affected of course, between years still strong are we. Baltic banking, 50% up before loan losses and still 46 after loan losses and a very strong ROE.

International banking, according to plan as Swedbank markets despite the turbulence in the market, we have been able to actually increase profit between years '06 and '07, which we think is a strong achievement. And asset management is still going strong.

Some key figures which I would like to point your attention to. Sill loan loss ratio is quite low with 7 basis points, even if it's going up, cost income ratio, as you can see improved, not yet in line with our long-term target of below .50, but we are going in the right direction.

Increased dividend to SEK 9 according to the Board of Directors proposal for (inaudible) and also capital ratio according to new principles are [8.5] and if you look at point 26, you can also see what we would like to put your attention to that we had 6.2 on the transition rules, but that was from 31st of December last year, of 1st January '08, we get another release of 31 basis points, which then takes us to the target of being around 8.5 as the Board has decided.

And I hand over to you, Jan.

Jan Liden - Swedbank AB - President, CEO

Yeah, the last slide is just a summary of the comparison between the years in slide number 27. Profit to our shareholders have increased 10% to SEK 12 billion. It's been done the right way because revenue has increased.

All the main business units, including Swedish Banking, Baltic Banking and Swedbank markets have had very good results, so it's very broad based good result we have. And I think we have also been very consistent in the [four] costs over the matters we have discussed over the years, and so we feel fairly confident about this year itself.

The last thing I want to say is that next time we are able to talk to you is at Capital Markets Day in Kiev on the 5th of March, so I hope some of you will be able to attend that meeting, and I guess that's all for the presentation and we'll be happy to take questions from you.

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QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes through from Erik Karlsson from AKO Capital. Please go ahead with your question.

Erik Karlsson - AKO Capital - Analyst

Hello. I had two questions, please. Firstly, on the Sweden you saw a 4 basis points quarter on quarter dip in your markets margin versus SEB talking about increasing margins on new business. What's your view on that?

And then secondly, on Baltics, you decreased provisions versus SEB in (inaudible) building up the precautionary provision. What is it you see in the Baltics that you think will not be deterioration in loan quality going forward? Thanks a lot.

Jan Liden - Swedbank AB - President, CEO

Well, if I start with the last question, I can start at least, and then perhaps I can (inaudible). What we have done is that we are again very well preserved and we expect that credit losses will increase, but on the other hand, we have to, in a way, adapt to the IFRS rules so we can't be as conservative all the time as we want to be.

So therefore we have recovered on group level some of the earlier provisions. Still we think that we don't see really the bad things coming, but we think we are very well prepared for the expected scenario. So that's what we can say about that.

And if you compare us to other financial institutions, I suggest you look at the preservation of provision degree when you compare us. It all depends where you come from.

When it comes to the basis points, I didn't catch that, but that was a back-end margin you were talking about?

Erik Karlsson - AKO Capital - Analyst

Yeah, back book margin.

Jan Liden - Swedbank AB - President, CEO

Yeah, and that is because the prices on new loans still are lower than the back book margin and that is what is happening. We have not since a number of quarters back been communicating what exactly the new loans margin is because we got a totally wrong discussion there, but what we are saying is that we think that the new loans margins have now stabilized. They are not coming down anymore.

Erik Karlsson - AKO Capital - Analyst

Okay, you don't see an increase in it?

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Jan Liden - Swedbank AB - President, CEO

When we see an increase, I will tell you.

Erik Karlsson - AKO Capital - Analyst

Okay, great stuff. Thanks a lot.

Operator

Thank you. Our next question comes through from Geoff Dawes from Citigroup. Please go ahead with your question.

Geoff Dawes - Citigroup - Analyst

Good afternoon, Geoff Dawes from Citi here. If I could ask three questions, please. First of all on Swedbank markets, and there's a very big jump quarter on quarter in net interest income. Can you just give us a little bit of clarity as to why that was?

And also in corporate finance, there was around SEK 200m fees; is that one or two large transactions or is that a more general broad based level of corporate finance?

And then secondly and thirdly on Baltic Banking, first of all, Estonian loan spreads went down quarter on quarter where they were up in the rest of the Division, so in Latvia and Lithuania. Can you just give us a bit of color on what that was and is there any specific trends in Estonia that you're not seeing in the other two countries?

And then finally, obviously cost income ratio is quite high for the Baltic Division. What is expected for 2008 and also what was the level of wage inflation across your Baltic Banking operations for 2007? Thank you.

Jan Liden - Swedbank AB - President, CEO

That was a number of questions.

Geoff Dawes - Citigroup - Analyst

Yeah, sorry.

Jan Liden - Swedbank AB - President, CEO

No, no, it's okay. I'll let Kristina and Erkki decide who wants to answer the wage inflation. Do you want to do that, Kristina? What about the wage inflation or wage increases in the different Baltic countries?

Kristina Siimar - Hansabank Group - CFO

Yes, I can start with the wage inflation (inaudible). There was like annual increase in wages in Latvia and Lithuania. In Latvia it was about 12% and Lithuania, 9%. So if you compare it to 2006, the wage grew was a bit more than 17%. So if the outlook is as we're expecting, this figure is likely to go down.

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Geoff Dawes - Citigroup - Analyst

Sorry, that was 22.0% in Latvia?

Kristina Siimar - Hansabank Group - CFO

12% in Latvia and 9% in Lithuania.

Geoff Dawes - Citigroup - Analyst

Okay, great.

Jan Liden - Swedbank AB - President, CEO

12, 1-2. You got that?

Geoff Dawes - Citigroup - Analyst

Yeah, got it.

Jan Liden - Swedbank AB - President, CEO

Good. About the margins development in Estonia, I think, and the other countries, maybe you have a comment Erkki.

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

Yes, and what comes to the margin development and this is directly attributable the changes of the different sub segments of the portfolio. So basically we have been proportionally stepping back from some of the (inaudible) wider margin businesses and more of the business has been particularly in the fourth quarter has been conducted in the lower risk profile areas.

So I actually wouldn't read too much out of that as any kind of beginning or end of any particular trend, so I think that (inaudible) variation which comes in if there is individual margin transactions that happen to be in one or another part of the sub segment of the portfolio continue getting those type of movements there.

Can I ask again about your question about what was the cost income in the Baltics?

Geoff Dawes - Citigroup - Analyst

That was around the cost income being quite high in the last quarter, the fourth quarter, and cost exceeding revenue growth in, say, Estonia and what the outlook for that going forward was for 2008 already coupled with the wage inflation.

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

Yes, [partly coupled] with that, the cost income issue was not so much really in the cost, but rather in the income, and we had a bit disappointing results out of the trading part, particularly in equity trading as the equity market was diving and we with the (inaudible) trading took some losses there.

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And also secondly that involves with the actually equity and bond market related derivatives we also had a lower performance than what we expected. When it comes to the looking forward currently, than we are, we are staying committed with our target of 42 cost income to stay at that target level, and currently there has been no need to revise that. Back to you.

Jan Liden - *Swedbank AB - President, CEO*

Okay, thank you Erkki. Also we're, if you'll recall in your material you see on slide 11, that there were some costs in the fourth quarter that we made examples of so you see that also affected it apart from in addition to what Erkki said.

Your first question regarding markets and the net interest income and the net commission income. First of all, when you look at net for markets, when you look at net interest income, again, you always have to add up the net gains and losses on financial items on net interest income because it's very difficult on a quarter to quarter basis to see where they actually end up in the different businesses.

We know that is somewhat disturbing not to be able to do that, but that's the nature of the business and hopefully you can make that up.

Third we did have a very good last quarter, which was due to, you know, good trading. As for the net commission income, that is basically corporate finance and most of that corporate finance revenue last quarter or the increase rather, came from First Securities in Norway. And it's not only one or two transactions; it's several transactions.

So, thank you, Please next question.

Geoff Dawes - *Citigroup - Analyst*

Thank you.

Operator

Thank you. Our next question comes through from Kim Bergoe from FPK. Please go ahead with your question.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Hi, it's Kim Bergoe from Fox-Pitt Kelton. First of all, if you could touch a little bit upon your funding and liquidity situation. When I look, it looks like of all the European banks relative to the total balance sheet, you're amongst the highest in terms of how much you have to refinance of term wholesale funding in 2008. If you could touch a little bit upon that.

And then on your commission in asset management, a sharp drop there -- is there anything in particular we should be aware of? And then could you just repeat on the wage inflation, Latvia, 12, Lithuania, 9, what about Estonia, and also that sounds a bit lower than I would intuitively have thought it was, so if you could just repeat that; thanks.

Jan Liden - *Swedbank AB - President, CEO*

Well, let's start with the last question. So, do you have any further comments, Kristina?

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Kristina Siimar - *Hansabank Group - CFO*

Yes, basically it's 9 and 12, but I repeat, it was an increase of the people that we have currently, that's how much they're salary funds increased in October. If you're thinking annual personnel, costs accrued for the Baltic Banking, were 30% and out of the 30%, one fourth, roughly coming from (inaudible) and the rest of the number (inaudible). If you need, if you would like to have a more detailed (inaudible) by countries, I can come back to you.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay, excellent. Thanks.

Jan Liden - *Swedbank AB - President, CEO*

I also think that what we said during the presentation which might be of interest for those of you who couldn't attend it is that we also said that we expect that the growth in a number of employees in the three Baltic countries will be very marginal 2008.

So we think that we have expanded very professionally and that we, in fact, this year there will be no further increases in the number of staff in the three Baltic countries, other than marginal.

Coming back to your final liquidity question, no, I really don't agree, maybe I misunderstood your question. I mean, first of all, our funding has been very functional all through this last six months. All our capital market programs have been functioning well. We are very active, as you know, both on the mortgage side and as for the bank, have funding programs in Sweden, in Europe, in the United States, both CP programs and bond programs.

What we have done, as many others have done, is of course, going fairly short because of obtaining the loan funding has been more expensive than we have liked.

In the future, in the close future, that is the beginning of the second quarter, we will actually also convert a large part of our lending portfolio that is the one in the Swedish mortgage company to cover bonds, which will further facilitate I think our funding in a different way, actually.

When it comes to the liquidity situation, we started at the end of August changing our readiness and preparedness both in terms of more closely following it up so we have actually an annual report going directly to myself where we see the liquidity in all these different currencies.

We have also changed the way we want to see that and we are currently without problem, I dare say, following our procedure there. So we're actually in most days net lenders to the rest of the financial community.

Well, I guess that's what I -- and also perhaps one should be careful when you look at the offered prices. It's like looking at the price list, you know, which we are not utilizing. So our funding cost, I think, is very competitive in reality compared to other institutions.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay, thanks. I was just sort of referring to I can see an instance on Bloomberg, it's just that we sort of compare the number of maturing '08 to balance sheet across Europeans and you just came out very high, so just wondered.

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Jan Liden - Swedbank AB - President, CEO

Okay, maybe Mr. Inglander has another comment.

Mikael Inglander - Swedbank AB - CFO

Yeah, in the same range. First of all, as Jan mentioned, we are having to convert or current portfolio in the wholesale funding to a mortgage company under [Q2], and that of course, also made us go a little bit shorter in the Swedish markets where we are for the funding, which we think also this will be and have been very liquid also during these problem times.

Covered bonds will of course (inaudible) Sweden and outside Sweden when we are there, which will be very soon. I think that is one important thing.

Also the prices of long term funding is on long term funding found abroad or outside Sweden. We are helping the domestic programs where we have very well working markets when it comes to spreads they haven't moved turbulent times. That's also why we can say that we haven't been affected by the turbulence in that sense meaning that the given prices on the international markets, yes, they are public, but not used by us.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Okay, so am I right in assuming that you're going to be looking to also extend your duration, so your average duration is about 20/10 or something looking at the data I got. So will you look to push that out a bit?

Mikael Inglander - Swedbank AB - CFO

We will have, as we had today a fully matched book which means that we use (inaudible). Of course we could raise shorter funding, but we always swap away the interest rates. That could be changed if we deem it to be the most profitable for the bank in the future, and of course, covered bonds will give us then more options.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Okay, thanks, and the asset management commission?

Mikael Inglander - Swedbank AB - CFO

Yes, and that, I think we could answer quite frankly saying that we have had some difficulties with the accounting due to the large deal we made with folks (inaudible). I think it would be more fair actually showing the average of the full out quarters as the development of commission income on the asset management. So they are a little bit too low in the fourth quarter.

The '07 figure is correct, but the quarterly figures are not correct.

Kim Bergoe - Fox-Pitt Kelton - Analyst

Okay, excellent. Thanks.

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Operator

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

Per Lofgren - *Morgan Stanley - Analyst*

Yes, thank you very much. Very quick question -- most of my questions have been answered. I just have one left. Could you just remind us what is the duration of the mortgage book, now. I'm just looking in your Swedish Banking Division and I see here back until fourth quarter '05, MII has been in decline related to what you call spend by formula. So could you just remind us of the duration of this book? Thank you.

Mikael Inglander - *Swedbank AB - CFO*

The approximate average is still two years, 24 months.

Per Lofgren - *Morgan Stanley - Analyst*

Oh, thank you.

Operator

Thank you. Our next question comes through from Ronit Ghose from Citi. Please go ahead with your question.

Ronit Ghose - *Citigroup - Analyst*

Great. Thank you. It's Ronit Ghose from Citigroup. Just a couple of questions on Swedish banking, within the other income line in Swedish banking in the fourth quarter revenues, could you just explain what the jump was. I read what you said in the text of the release. If you could explain that, it would be helpful.

Secondly, in the trading income, again, in the Swedish banking business, there's been a big jump due to, again, reading a text, the mark to market on fair value and various items in the mortgage division. Is there any offset between that trade income line and the weaker MII in the Swedbank mortgage results which was down 6% Q on Q?

Third question, again, within Swedbank, Swedish Banking or mortgages, you had quite an acceleration in volume growth, maybe seasonal after summer, but fourth quarter and third quarter seems to be better, stronger than your annual growth rate during the year.

And I just wondered in terms of how you were seeing the dynamic between pricing and volume. Was that some kind of deliberate or tactical move to go for volume in the fourth quarter? But that's it; those three questions would be great. Thank you.

Jan Liden - *Swedbank AB - President, CEO*

Thank you. Let's start from the beginning. Other income; it was actually a repayment on the (inaudible) for the insurance, the insurance we have offered Swedish customers for when they have a mortgage with us. And then the premium that we have paid our own insurance company has been too large, we see now.

So the consolidation of that insurance company (inaudible), so we reactivate or we covered (inaudible), and that's what you see now and the approximate amount is SEK 150m all coming up at the fourth quarter on other income.

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So still we have a very good consolidation of that insurance company, so we'll see in the future, to be again conservative, but prudent. When it comes to trading income, no, in terms of the mortgage portfolio, there is no connection between the net interest income and the trading result. So you can't make that conclusion.

When it comes to the loan growth in Sweden, I think yes, we had a fairly strong quarter. Also in the private sector when it comes to mortgagees, but also very much so when it comes to corporate, who continues to invest; I mean we have the problem that you face and see in many countries in the world and definitely Europe today.

We have definitely a disturbance in the financial market and the financial operators, but the real world keeps going on and the companies keep on investing and so does both the big and the small Swedish corporations.

Ronit Ghose - Citigroup - Analyst

And just on volume growth, previously you talked about, your colleagues rather, had talked about mortgage growth this year for about maybe more like 7-8% and volume growth a little bit totally overall in Swedish Banking around the same level, and given the slow-down we're seeing in economic forecast and the four-year results, we would have assumed maybe 7-8 or even slower volume growth, do you feel as you head into the year that actually you're most optimistic than some of us are in the financial markets?

Jan Liden - Swedbank AB - President, CEO

Well, no we foresee lower increase in all the three Balkan countries, again, I am repeating maximum 15% '08 over '07. When it comes to Sweden, we talk high single digits instead of the 14% or what we had there '07 over '06.

But again, I used to tell, so I'm in there, too. But again, I also used to tell everybody that I've been wrong four years in a row or five years in a row now, so don't trust me too much on that. But that's where we are, high single digit growth in the Swedish loan book.

Ronit Ghose - Citigroup - Analyst

Great. Thank you.

Operator

Thank you. Our next question comes through from Aaron Ibbotson from Goldman Sachs. Please go ahead with your question.

Aaron Ibbotson - Goldman Sachs - Analyst

Hi there, and most of my questions have actually been answered but I've got two follow up. And I just had noticed on loan losses in the Swedish Branch operations. I know they're still very low in historical perspective, and in absolute.

But nevertheless, you had some 5 basis points or something, 6, so I just wanted to see if there's anything in particular way you see if it's credit cards or if this is SME banking or where you sort of see these loan losses pick up, if anywhere.

And then just a clarification on the Baltics. Is it fair to summarize that you do not expect costs to outgrow, say the lending growth of 15% or are you expecting cost growth in line with say the 10-12% wage inflation you had this year since you're not adding new employees?

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And then finally if you could give the number, sorry if you gave it on how much of these one-off characters in the Baltics, the VAT refund and also, I believe you had some other one-off expense that you highlighted. Increased productivity, I think you said. I've got the Swedish release here. I'm not sure what it says.

Jan Liden - *Swedbank AB - President, CEO*

Okay, that's not easy. One-offs, the one you're referring to, was in Russia. It was a recovery of 6.-something Million Euro, which was actually when they succeeded in convincing the Russian tax authorities to pay us the refunding of their VAT in which we previously had provision for.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Yeah, I know.

Jan Liden - *Swedbank AB - President, CEO*

And we still have about ten, I think, SEK 10m in provisions which you know, they haven't paid us back yet. But we hope that they will and when that happens, we will of course, recover that provision, as well.

When it comes to the loan losses in the Swedish market, we don't see any particular trend yet. It is slightly, the impaired loans are slightly increasing, but nothing really that you would actually regard as a major trend.

What we have experienced like we have done in the Baltic countries, as well, is single exposures that have gone wrong. And in this particular case, it's been one or two in the Swedish market the last quarter. So no trend in consumer credits or something like that that you were asking of.

When it comes to the Baltics cost income ratio or development. I think Erkki answered the question and he'll be welcome to complement me or to complete to further develop that. I mean I think he also -- they feel confident in achieving their .42 in cost income ratio also this year, which I think is very good. So we hope that that will happen. Do you want to say something else about that, Erkki?

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

(Inaudible) then yeah, we (inaudible) up and down environment we are, we do continue to manage mostly based on the ratios, also business finance of business lines. Therefore, we haven't established a fixed cost target, particularly being a percentage point over the last year, and obviously the forecast in our economy.

But we do also consider in the picture is fairly high internal flexibility and also is direct (inaudible) both ways is that to increase capacity would be the case, but also further reduce or actually shut down the capacity if the market growth is going to be smaller than what we are participating right now, and then the primary target, as well as commitment is actually the [medium term] target of 42 cost income.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay, perfect. And that one-off in the Baltics, I'm not sure ...

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

And if I could, one-off was actually to complement beyond this that the VAT refund was actually a part of international banking reporting. I mean in Russia we reported '06 as a part of the Baltic Banking that from the third quarter of '07, this was reported ...

Aaron Ibbotson - *Goldman Sachs - Analyst*

Sorry, you said on page 11 let's you have costs of one-off character.

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

Okay, what we mean when we're running in second half of '07, we're running at two pretty sizeable projects also which enrolled outside help and one of them was in Operation of Excellence and another one was (inaudible). And basically both of these external help bills became due in December and they were actually also driving up the costs there.

Aaron Ibbotson - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question comes through from [Sylvia Stockhoff] from Lehman Brothers. Please, go ahead with your question.

Sylvia Stockhoff - *Lehman Brothers - Analyst*

Hi, I had just one question -- just wanted to know what is the contribution of the higher deposit margins that we have seen in the Baltics, and is there a guidance on what level of deposit margins that we'll see in 2008?

Jan Liden - *Swedbank AB - President, CEO*

Yes, if I may start with something you didn't ask; that is the deposit margins in Sweden and we see them slightly increasing as well, and the reason for that is of course, that we, in spite of the fact, that we have very attractive savings accounts, we don't give any interest rate to customers on the transaction account and when the interest rate goes up, we make more money.

As for the Baltics, I think Kristina or Erkki could give a comment. Please, Kristina or Erkki. Hello, Erkki.

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

Yes, on deposit margins, we don't expect any particular changes there. What are the current developments is that obviously while the global credit markets are more nervous, the general interest towards the local deposits in the Baltics also has been increased. Our strength is that we are the single largest deposit holder in all three countries and particularly we are strong in (inaudible) these transaction accounts where we do not pay their interest.

So we actually feel ourselves ourselves quite comfortably. I think that still if [we] guess about which way the deposit margins will develop further, I would guess that there's going to be further more competition than what we have seen in '07 and definitely more than what we have seen in '06, what exactly -- difficult to say.

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Sylvia Stockhoff - *Lehman Brothers - Analyst*

Okay. Any idea what is benefit you've got in 2007 over 2006, the total deposit margins in the Baltics?

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

Mikael maybe you can actually help that because this is where the MII has been taken into the split.

Mikael Inglander - *Swedbank AB - CFO*

The total difference on a yearly basis, say approximately SEK 260B.

Jan Liden - *Swedbank AB - President, CEO*

Ask him to refer to the slide, Mikael.

Mikael Inglander - *Swedbank AB - CFO*

Slide 21 in the presentation.

Sylvia Stockhoff - *Lehman Brothers - Analyst*

Okay, great. Thanks a lot.

Operator

Thank you. Our next question comes through from Rodney Alfven from Cheuvreux. Go ahead with your question.

Rodney Alfven - *Cheuvreux - Analyst*

Yes, thank you. A very short question -- when accounting for taxes, you had a slightly higher tax rate in Q4 due to higher relative higher rate of profits coming from Sweden, and we're going into 2008 and onwards, what kind of tax rate should we assume?

Jan Liden - *Swedbank AB - President, CEO*

We haven't changed our projection of that but it still will be between 22 and 23%. We ended up at 22% for '07, as you have seen, and they're in the same range.

Rodney Alfven - *Cheuvreux - Analyst*

Okay. Thank you.

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Operator

Thank you. There are currently no further questions. Operator Instructions). I have a question coming through from Chintan Joshi from Lehman Brothers. Please go ahead with your question.

Chintan Joshi - *Lehman Brothers - Analyst*

Hi, a late, quick question. Can you remind us your commercial real estate exposure in the Baltics presently? Thank you.

Jan Liden - *Swedbank AB - President, CEO*

Yes, we can. We have a slide, I think, in the presentation materials. The slide is 31 and there you see group lending by sectors in the Baltics, so that is all the three Baltic countries consolidated and there you see that real estate management in the portfolio represents 15% of the landing portfolio.

Chintan Joshi - *Lehman Brothers - Analyst*

And of this, how much is commercial real estate?

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

If I go into that, (inaudible) take into that half and half, so that is a reported SEK 3M and about half of that is development which is the lion's share of this development is residential development and then the second half is about operating or cash flow earning real estate, an other 1.5 billion Euros, and this is mostly commercial real estate. It is the shopping spaces; it's the offices; it's also the hotels, etc., warehouses, etc.

Chintan Joshi - *Lehman Brothers - Analyst*

And if I can just follow up on that, are you seeing any problems in these portfolios?

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

What we do see is we see the duration in the residential development part. We do not see the duration in our commercial real estate in any of these parts of these operating cash flow parts. So far, not a single problem there.

Chintan Joshi - *Lehman Brothers - Analyst*

Okay, thank you.

Operator

Thank you. That was our final question, so I will now hand you back to your host to conclude today's conference call. Thank you.

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Jan Liden - Swedbank AB - President, CEO

Thank you very much. Thank you for your questions and I look forward to see at least some of you in Kiev in the beginning of March.

Operator

Ladies and gentlemen, thank you for joining today's conference.

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