FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to today's Swedbank Q4 Presentation Conference Call. For your information today's call is being recorded. On today's call we have Mr. Jan Liden, CEO and President. I would now like to turn the call over to Mr. Jonas Blomberg. Please go ahead, sir.

Jonas Blomberg - *ForeningsSparBanken - Head of IR*

Good afternoon and welcome to this preliminary year-end report for Swedbank of 2005. Today, as a last quarter, we have a trans-Baltic call. We have Mr. Erkki Raasuke with us in Hansabank. He is the CEO of Hansabank. And here in Stockholm we are Jan Liden, CEO of Swedbank Group, Mr. Christer Westholm, who is Head of Accounting in Swedbank, and myself, Jonas Blomberg, Head of Investor Relations.

We would like to start to make the presentation of the quarter that just finished and I'll hand the word over to Mr. Liden.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Thank you very much. We have a slide presentation that we want to show you. And I'll start doing that. I want to begin with to talk about the whole of 2005 shortly, and then go over to the last quarter.

As for highlights 2005, I think we are happy to report that we have increased our total market share for new savings in the Swedish household to 19%. Deposits, which were a problem last year we have managed to turn the situation around. And we have also been able to increase the lending in the group by 14% to SEK796b. And we also have a 15% proposed increase in dividend to SEK7.50.

If you look at the results in short, the four quarters compared with 2004, we see an increase in operating profit of 42%. If we exclude items affecting comparability there is still a healthy increase of 14%.

Income has increased 19% and expenses have increased 4%. Loan losses show a very good development and decreases to SEK294m, compared to SEK494m, giving us, in total, an ROE on 24.6% compared to 21.8%.

If we look at the highlights for the fourth quarter I think it's fair to state that we have a continued high profitability, high revenue and business volume growth all over the Group. Market shares are top priority in Sweden. And we have invested in trying to develop and increase our market shares in major segments.

Hansabank’s growth has been maintained, even accelerated. And we will be back to present to you a little bit more in detail of their success.

We have also been very careful in continue and conclude our Basel II calculations. And they -- and we have also taken part in this quantitative impact study number 5. And the calculations confirm our preliminary forecast that we will have considerably lower risk weighted amount.

And you see here on this slide that the aggregated risk weighted amount, based on the figures the end of the third quarter last year, we would actually have had a situation, if we were to use these new rules, that Group risk weighted amount would fall with approximately 30%. And that is, of course, very comforting that we can confirm these figures and it also confirms the status of us being a fairly low-risk bank group.

If we look at the results of the fourth quarter 2005, we still are happy to report -- this is comparing with the fourth quarter 2004 and I'll come back to the comparison with the third quarter. Operating profit, anyhow, has increased over the last quarter. The two years with 12%. And net profit has increased with 25%. And the ROE has continued to increase and is now 19.7%.

Hansabank's reported operating profit rose by 26% to almost SEK600m, compared to SEK473 last year.

If we look at the group P&L you see here, if we compare it with the third quarter 2005, quarter four and quarter three, you see that net interest income has decreased slightly with 4%. Net commissions is about the same. Net gains and losses on financial items at fair value have increased. And other income has decreased a lot. That is, of course, due to the third quarter we had the capital gain from the sale of Kundinkasso.

At costs, you see that they have increased. And the costs that have increased are what we call other expenses. This is, in our regard, a season variation. And the figure for the fourth quarter is approximately the same as the figure that we had in the fourth quarter 2004.

Loan losses, as we stated, very low. And you see here that the fourth quarter is just approximately zero and that is, of course, due to that we on the first three quarters have been having considerable reserves which we have now released. And in that way arriving at a sound figure for the year end, reflecting the situation.

We also announced some time ago that we have reclassified EnterCard, our joint corporation with Barclaycard, and we regard that as a joint venture. And we consolidate it according to equity methods, leaving only associate income in the group P&L from the third quarter onwards. And that does, in effect, have a negative impact on the net interest and on net commissions.

Here is just a figure trying to show you the items affecting comparability which is 2005, of course, capital gains. It is the profit-based staff expenses and changes. And it is also, of course, the result on the IAS39. In 2004 those were the profit-based expense, as you see. And if we deduct these items, we arrive at the figure where the result increased 14%, as I mentioned earlier.

If we look at the IAS39, first of all we have then an effect on the net interest income, where the change in net interest [income] for re-purchase differences, and the interest income compensation is taken away. The effect of that is taken away from the interest net.

And then we have on the net profit on financial items at fair value, you have the valuations of the different assets who are affecting the outcome. You have the valuation of assets at fair value, shares, lending derivatives and borrowing and then you also have, of course, the interest income compensation which -- where the money comes in on a different line in the P&L.

The application of fair value option is a subject that we have discussed often. And that was made possible during the last quarter. And the reason for us to use that is that the new accounting rules creates a volatility in the effect that does not really reflect what we think is the underlying economic conditions for our Company. Therefore we are interested in using it.

What we have done is we have taken approximately SEK368b of the Group's lending in the portfolio of fixed rate loans, and approximately the same amount in [rate] issues and bonds, which we then value at fair value instead of market value. And that is of -- does have the effect of decreasing the volatility coming from market valuation. Thereby we also increase the shareholders' opening equity by SEK775m.

If we look at lending and the development for the group you see here a slide where the lending in the group has continued to increase. And tot he right hand side you see that only on quarter one -- and all fourth quarters you see there is an annualized increase of 14%. If you just look at the fourth quarter that has increased a little bit, to 16%. You see that also especially in Spintab where you see the 11% transferring into 13%, reflecting our ambition to maintain, if possible, the increased market shares in the Swedish market.

If we look at corporate lending, including Hansabank, it has continued to increase and also accelerating the last quarter. And Hansabank's total lending is, of course, still on a very high level and increasing rapidly.

Savings. Funds under management have increased to SEK365b in total, although we are not, and you see that if you analyze it over the fourth quarter its 28%. This is of course a lot depending on the increase of the stock market valuation.

Household deposits have increased. And if we look at the market share in the Sweden, to take one example, the total new savings, as I mentioned before, have actually increased. So 19% now is actually our market share.

Household deposits have increased from 10% last year to 31%, and the index-linked bonds have increased from 27 to 36%. And the funds have not developed that well and that we are working on this year very hard to change. But the major thing is that our total figure, the total market share, have actually increased, which we are very focused on.

If we then take a step over to look and try to explain the net interest income development, you see here this slide 14 that Swedish banking operations, if you look at the 2 quarters -- the 2 last quarters last year, a decrease of SEK185m.

Baltic banking operations have an increase. And that increase is actually even bigger than this slide shows. Swedbank markets, a continued increase. And shared services and international banking have a small negative net figure. And eliminations is mostly due, of course, to the new accounting rules where that a part of that interest that is transferred down to net gains from financial items.

Change, and if we look at the change now in Sweden first, you see that if thought we've had a considerable increase in lending volumes, that has not been able at all to compensate for the decreased lending margins. And the major factor here is, of course, the mortgage sector in Sweden. The company Kundinkasso, the debt collecting company, also had a positive influence before on the interest net income. And that is, of course, not there any more. And this accumulates to minus SEK185m.

If you look at the Baltic banking on the other hand, and look at what I would call a more true figure, we actually have not an increase of SEK11m as the previous slide shows, but actually SEK70m. And that is because when you look at it very internally in Swedbank's group we add on things which have to do with our acquiring calculation of the remaining shares of Hansabank. And that has nothing to do with Hansabank operations, of course. So a more true value is that they have been able to increase their interest net with SEK70m between the two quarters.

So if we look at the 4 quarters in total, we have basically the same pattern. A decrease in the Swedish banking operations with approximately SEK300m, an increase with well above SEK400m in the Baltic banking, Swedbank markets a slight decrease of SEK123m and shared services and other things and the eliminations, as I explained before but for four quarters now.

The net commission income has in total been very good and it has continued to increase with basically SEK1b. Payment processing still very good, lending commissions still on a high level, brokerage continued and a marked -- and a substantial increase in the last quarter. Asset management likewise. Insurance commissions still on basically the same level.

Other commissions in this presentation is, of course, a net of many different things. But the main factor here is the commissions we pay to independent saving banks when they perform according to our agreement.

If we look at the change for the fourth quarter, you see here the SEK1b I talked about in increase, and what we see here is then, of course, the same headlines. The payments, the first securities which is also considerably big. As you know, we consolidated First Securities from the second or third quarter -- second quarter, when we gained majority share in that company. Asset management brokerage and also other commissions, which is mainly what I told you before regarding the independent saving banks.

Net profit on financial items has continued to increase, when it comes to financial instruments in the trading and derivatives. Other financial instruments also have gone down a little bit. And the changes in exchange rate have also diminished slightly.

And of this SEK188m are attributable to the IAS39, which have helped us. It's a more stable figure this quarter compared to the previous quarter, so it's almost the same as the third quarter.

If we then come to costs, then we have divided it this way, as you see on this slide number 21. That the underlying costs in the Group, excluding the Baltic banking operations, is SEK2.6b the last quarter, which is somewhat stable, though the third quarter was a little bit less. But, as you see, it's approximately the same, and even a slight decrease if you compare it with the fourth quarter 2004.

Personnel changes, that is what we have this extraordinary cost when we help people in mostly the Swedish organization away from the Company. And then we have the profit-based staff costs which are increasing. The reason for increasing is, of course, many things. Number one is of course the increased result in the Group, in all business areas, but also that we have included First Securities where we own, as I said, 51% who have very high share of the bonuses.

The Baltic banking operations have increased their costs to SEK629m. And they also have their profit-based staff costs, of course, which is increasing due to the increased results.

The underlying result is increasing because we are investing heavily in the Baltic area in all three countries. And what we have said is, of course, that we are focusing on all three markets, but also building the operations in Latvia and Lithuania and trying to broaden our activities also in all the three countries. There is one-time costs in this quarter of approximately, I think, 4m. And I think Mr. Raasuke will be able to comment on that later on.

If we look here at the full time employees in Hansabank, you see the continuous increase due to our expansion. And we think it will continue to develop.

If we look at the cost/income ratio you see that our goal is for the whole group to arrive at 0.50. We haven't done that the last quarter. We were helped by capital gains the second and the third quarter. But still the figure overall for 2005 is an improved situation compared to 2004.

The credit quality is continuing to improve, reflecting in the figure in the P&L, of course. But also if you look the whole chain through that the growth figure, if you start from the real beginning, doubtful claims, have continued to decrease by 14% and is now SEK2.2b. Provision ratio for those loans that we have pinpointed have continued to increase, maintaining a very conservative position. And the P&L figure is, as you saw, almost SEK300m compared to SEK500m.

If you look at different business units and very quickly try to have a few comments regarding them, the last quarter. We have a healthy growth in business volumes in the Swedish banking for that market in both lending and deposits. We have increased product sales in the branch network. Actually the increase is over 20% in number of products sold, which we think is a very good beginning.

We have a thing which some people don't really -- sometimes get surprised of, and that is we have regional differences in margins in the Swedish operation which we think fairly have reflected the difference in risk, but also that they have been in different parts of the country. Now, in the new world where we have changed the policy of pricing to be not negotiable price, but rather a price which is given, and very attractive from the beginning, and the new prices where you get from, say, entering the new channels of Internet banking and telephone banking.

We don't have those differences any more in the new sales if you have a credit in one part of the country compared to another. Before, the situation was that the prices in the major cities, like Stockholm or Gothenburg, were actually lower than they were in other parts of the country. And now they are lower, if you like, if you understand my meaning, all over the country.

We have basically or even slightly diminished costs in Swedish banking and Swedbank in Sweden was named the bank of the year, which is quite unusual for a big bank.

We have a new staff incentive program introduced in the Swedish operation which we hope will further drive sales activity in the Swedish branch office organization. And I should say that with our calculations, it’s designed that way that it will not increase the costs for the Swedish operation so that we are actually taking down the possible outcome of the profit-sharing system.

Swedbank market had a very strong quarter the last quarter for stock trading, other, and also for securities had a very good quarter. Net commission income increased by 13%, and net profit on financial items continued to increase substantially.

Asset management and insurance, as I said, it has increased to SEK355b, and that is, of course, a new all-time high. 79% of Robur’s equity funds beat their comparative indices. And Robur’s fund average Morningstar rating increased marginally to 3.33, which is I think is the figure we have reached so far.

Let me end by just stating those key figures and key numbers. Return on equity very good and we hope that that will actually be the best compared with our peer group, which is six biggest Nordic banks. That is how we calculated the profit-sharing system. There's various difference from that that will, of course, affect that.

Cost/income ratio has continued to improve, even if you exclude these capital gains. Loan loss ratio we have talked about.

And one thing that we haven't talked about so much is our capital situation. And you remember that we ended last year with a primary, or a tier 1 capital ratio of 8.2%. And then we continued to go down so that we had the six month report last year were down to 5.8. That is due to, of course, our purchase of the outstanding shares in Hansabank. And now, at the end of the fourth quarter, we are up to 6.5. And we have already communicated that we see that we really want to be around 7%. So we will continue to increase to approximately that level in the future. And we have come a long way in that process, as you see here.

Now I want -- before I try to answer your questions, together with all of us here, I'd like to hand over the word to Erkki Raasuke, who is, as Jonas said, the CEO of Hansabank Group. And he has a few slides here.

Am I the one to touch the slides now or is it --? Yes I am. So Erkki, I hope we can coordinate this activity. So I'll show the first slide which is numbered 31, and perhaps you want to take over there.

Erkki Raasuke - *Hansabank - CEO*

All right. Thank you Jan. Good evening everybody. So I will continue with the Baltic and Russian results of 2005.

So I am starting with full-year results then for Hansabank Group. We experienced attractive market growth, already mentioned. Overall in our markets lending was growing more than 50%. And we also saw actually even surprisingly strong growth also in deposits and in savings.

We had a difficult year in respect that there was a very much pressure into the client margins, but overall very strong growth was offsetting it. And also we did some changes which we continue to do in the product mix actually to compensate that -- to compensate on the lower margins.

We continue our work in Russia in building up the organization there. We haven't set for Russia in 2005, as well as not for 2006, any very concrete numerical volume targets as it is the primary goal currently to build the team there, to have the strong and prudent processes in place.

We have made increased investments in our distribution capabilities as well as very much into the personnel, which already was briefly touched on. And what we are very pleased on is that Latvia and Lithuania businesses are increasingly contributing to their overall, with our sub-group result.

Before going further I basically just jump back to the first line, what I said is the rapid market growth is that we have in our first numbers also what the overall economy growth was in the Baltics. So it's expected to be real growth in Estonia line by 5%, in Latvia 10.5% and Lithuania 7.2%. Just to characterize the environment where we are working for -- working in.

So, going to that -- the next slide and full year highlights in numbers. So here you can see that the loan growth was compared to 2004, 58%, deposit growth 46%. Our net profit was increased by 26%. And these numbers are further on explaining by themselves.

You see that the cost/income was slightly worsening. And the reasoning there will come up later on, which was also was pretty already said, which is that some not expected negative news in the last quarter of 2005.

Alright, going to the next slide which would be the fourth quarter highlights. Very strong lending growth and an overall business growth continued. We had, in Estonia, 3.6m one-off operating risk provisions. And the reason for that is actually going back to the couple of years we had some misstatements in treating our leasing area, prepayments to the suppliers.

There was a small element of the FX ratio as well as there were some other misstatements. So when through changing the systems, and through also reconciling the situation there, we found out that we actually had historically overstated our results. And this historically means going back to the 1999 even. So over this a number of years this amount has built up, and now we actually restated it. But the 3.6m was affecting our base line clearly in the last quarter.

And also we had higher credit costs in Lithuania. And overall we also have mentioned that we had one client in -- fairly large client in Lithuania in difficulties, against whom we have been forming, during 2005, credit risk provisions close to 10m.

Lending yield and net interest margin supported by rising base rates, so as any other retail bank, we also benefiting if the interest rates will start to move higher. So we very much expect that to continue as well.

We did sign the agreement with EBRD in respect that EBRD will have a 15% stake in our Russian banking operations, not in the leasing, but just banking operations. And we actually currently just probably missing a few days to close the deal. And also there was a very strong performance of our -- some of funds which got the highest rate from Morningstar.

Now if we look at the next slide, highlights in numbers for the fourth quarter 2005. So you can also see net profit growth for fourth quarter 2004, 18%. Revenues up by 28% and expenses 26%.

When Mr. Liden was mentioning about the seasonality effect that the overall costs tend to be higher in the fourth quarter in Swedbank Group, then this is actually particularly based in Hansabank, has always been if you will also scroll -- if you would scroll back the -- our results a number of years. So in that sense, 2005 was no exception. But what was exception was this 3.6m operational provision, what I was talking about.

So if go to the next slide which is describing our market shares, so very shortly we were holding our positions in Estonia where we are still very, very large. Perhaps the very positive news was that we actually, from our 48% corporate deposit, thought that we were increasing our position. And also corporate loan, which is, perhaps, the most difficult and competitive area of our business. But we actually managed to increase our position by 1 point.

But overall we can say that, in Estonia, our target was to hold our positions and I think we were quite successful in that. When it comes to the Latvia and Lithuania, in particular in Latvia, there was a very, very successful year in improving our positions and doing it actually also with a high profitability.

Moving then to the next slide which is showing the regional distribution of Hansabank Group. So there is a split by deposits and loans you can see -- and it's a fairly similar number in terms of the revenues. Operating expenses are bringing already in some differences and operating -- out of operating profit and 46% is coming from Estonia, 28% from Latvia and then 20% Lithuania, and 6% from Russia. And overall the net profit 57% from Estonia, 27% from Latvia, 12% from Lithuania and 4% from Russia.

We just yesterday and day before went through very thoroughly our business results for the last year. And overall we also established this evaluation. So I can say that we were evaluating our business results in Estonia for last year -- in Estonia slightly above our expectations. In Latvia clearly above our expectations . In Lithuania we were in line with our expectations. And also our developments in Russia have been in line with our expectations.

So overall actually our performance by our own assessment was slightly higher than we actually considered in the beginning of the 2005. You can see also the ROE numbers which are calculated based on the allocated equity and also the cost/income numbers in their particular countries.

Okay, going forward then to the next slide where we have a split, or where we are describing the revenue development. So net interest income fourth quarter '05 versus '04 growing by 30%. Net fee income very, very strong, 38% growth. Trading income was flat compared to the previous year and pretty much the same in -- or actually a slight decrease in other income.

So total revenues up 28%. And net interest income growth has been very much supported by very, very strong lending growth.

We -- already now we see as a first quarter, sorry, first month and a half in 2006 there is perhaps a slightly slower beginning of the year than it was the end of the last year, but expectation is very much there that 2006 is not going to be anything less than we -- definitely nothing less in absolute terms what we saw in 2005.

Going forward then, to the expenses. The similar comparison between last quarter of '05 versus last quarter '04. So personnel expenses have been growing quickly. There has been a major increase in the number of personnel. But overall also, if we see all three Baltics, as well as in Russia in our segment, there is a very strong push for a wage increase. The wage increase numbers are in -- basic average in these four markets are 10, or even slightly above 10%. So this is an area which we are very, very careful about.

On the kind of counter factor to this issue is that we have in our fastest growing area, which is branch network, where there was also a fairly high employee turnover there. So therefore also in the case if there would be even a bit of slowing down the growth in the market, then we just need to bit slower our hiring of new people. There will be an also kind of self-adjusting effect in our operations coming in. So actually we don't see that. We are managing the issue very closely, but we feel that we have a strong grip over that as well.

So, administrative expenses up by 14%. Data network, 18%. We also, while evaluating our business last year, we actually were fairly critical towards our standing in IT, and mostly that we actually have under spent or underinvested rather in some of the IT areas. This is not any significant numbers, but nevertheless we were not very happy with the developments there. Some of our opportunities because of the slowness of the IT support, perhaps we have not met some of our opportunities, or catch them. So overall expense increase 26%.

If we go forward then we have the remaining two slides on the lending. So you can see also in the graph what have been the absolute growth numbers. They are similar in Estonia and in Latvia, obviously because they are starting -- the base line is lower in Latvia and Lithuania, and in percentage terms their numbers are higher. And Lithuania is still actually more of an opportunity than reality today. But the growth will be there and we are very, very bullish about 2006, as well as the following years about Lithuania.

And in Russia also we increased a lot of our portfolio. But the size of that is actually not that material to our overall business.

And in the right-hand there on the same graph, you can see the distribution where the -- what are mostly contributing to growth during the fourth quarter. So in Estonia it was mortgages. In Latvia it was, in the fourth quarter, mostly on corporate business. Also a large chunk in Lithuania on the corporate business. And less than asset-based finance and others. Under other there is consumer finance and also then the student loans.

And on the last slide what I have is the development of net interest margin. So I was talking from that the interest -- our margins have been falling. And they are still continue to fall.

In Estonia and in Lithuania we have seen, when it comes to the mortgages, that it actually has bottomed out. And in Estonia we have seen the slight margin widening now again. But because Latvia base line is slightly higher and competition hasn't been that fierce there yet, so there is some room actually because the Baltics are seen and managed more and more all together. So probably Latvia has more room actually to become lower.

With that I have done this spot, and handing it back to Jan.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Thank you. Thank you Erkki, very much. So now we are ready to try to answer your questions or comments.

QUESTIONS AND ANSWERS

Operator

Thank you sir. [OPERATOR INSTRUCTIONS]. We will take your first question from Guglielmo Zadra from Morgan Stanley. Please go ahead.

Guglielmo Zadra - *Morgan Stanley - Analyst*

Yes, good afternoon it's Guglielmo Zadra from Morgan Stanley. I have four questions. The first one is on Hansabank. If we look at the net interest income and the margin evolution in Hansa, and it seems clearly much better when looking at the stand-alone operation than if we look at the divisional breakdown you provide in the document. And from the presentation you just made, you were addressing it -- you were explaining the difference with the goodwill charge which, in a way, reduces the impact, the net interest income in the divisional level.

Now, considering that this was an element which was already there in the third quarter because you have it on a quarterly basis, is it really fair to say that the increase, or actually the lower increase was due to this element? Because if it was already there I don't really see why you had such a slowdown of only 10m increase despite the strong lending growth in the Baltic operation.

The second is on Swedish operation and it's on the margin pressure. If you could give us a bit more of a color of why the pressure is so high, because I had the impression that the pressure was actually leveling off in Sweden on the front book, whereas from this number it seems much more fewer than we expected.

And second, on the strategic view you took to put the same prices in rural areas as they are in the City, what is the strategy behind it? I don't really see why do it now. Is it because you are loosing market share in those areas or for any other reason you could please elaborate on?

Third, is on commissions. You paid 71m in other commissions, and negative in the fourth quarter and you explained that with the payment due to the saving banks. So the question is is it a seasonal element which always intervenes in the fourth quarter or is it something that we should see as a recurring going forward?

Fourth question is on Hansabank on cost. I understand that there is some seasonality. I understand that there has been a lot of recruitment done in this operation, but still if I look at the other expenses in the fourth quarter, they show over 100m increase in the quarter which I still struggle to reconcile even considering higher investments. So if you could give more details on that. Thank you.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Thank you very much. I'll try to respond to the questions with the help of all of us here. If we start with the Hansabank. Obviously you find it confusing with Hansabank alone and how it's presented in the Group's books. And one of the reasons is, of course, that the charge, when we looked at it from a Swedbank Group perspective, it's a little bit different. So it was in the third quarter it was SEK38m and that was definitely too low because it was too high in the second quarter which was 130 something.

And so the number is -- quarter two, 138 or 32, something like that. The third quarter 38, and the fourth quarter 98. So now we think, and maybe you have a comment what it will be the first quarter in 2006 because that is not so sensitive I think.

Jonas Blomberg - *ForeningsSparBanken - Head of IR*

We have a picture about that and that would be in the level of the third - fourth quarter 2005.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

But how much will it be?

Unidentified Company Representative

That's 80 or 90.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Approximately 90, so that is kind of responding to you why that -- and the variations is because, well, for different reasons, but the differences might be explained that way.

We then come over to the mortgage margins. And I think Mr. Raasuke then told you about the Baltic situation. And the Swedish situation I think, number one, yes, we thought they were going to stabilize. And what we saw earlier was that they didn't at the end of this year. That is also our observation.

And since we have that ambition and target to maintain our market share, so new sales, we then changed our strategy a little bit so that we had to also announce more aggressive pricing. And in that sense that has been successful. So our market shares are now, from new sales, increasing the last month of 2005.

Whether we have hit the floor, if margins will continue to decrease or not it's -- I think it's still an open question. I believe -- my belief is that it will not continue down in the same rate at least, as it did, the last quarter.

As for the regional thing, I think that is the thing that we have to accept. That is not a chosen strategy from our part, in the sense that customers now are demanding basically the same margins and prices all over the country, regardless if you are in the very highly competitive market area of, say, Stockholm, or if you are in a less competitive area in the very Northern part of Sweden. And I think that is something that we ask the biggest actor or operator on our markets has to accept. And I think the change is, to a large extent, now completed.

And then you had about the commissions for saving banks. Yes, there is a seasonal thing, to some extent, because -- and that is not -- and the reason for the seasonality is because the independent saving bank, as such, make a decision, at the end of the [run], how their balance sheet should look like. So, for instance, they say that we have some loans that perhaps we should transfer to the Spintab book and things like that. So there is always a kind of seasonal variation. Somehow they can vary the net result of that, but yes, there is such a pattern, if you like.

If you look at the Hansabank costs which was your last question, the way I perceive it. I'd like to, while we now have the opportunity of having Mr. Raasuke here, for him to comment on that.

Erkki Raasuke - *Hansabank - CEO*

Can you please ask again the question?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Could you please repeat the question on Hansabank costs?

Guglielmo Zadra - *Morgan Stanley - Analyst*

Yes, sorry. I was just asking if you could elaborate again on the other expenses increase in the fourth quarter, because I understand the personnel increased due to new hiring. And I also understand there is a bit of seasonality in the overall Hansabank P&L. But could you just explain how can it be that it gets more than 100m more fourth quarter vis a vis third quarter, if there has been any one-off significant investment supporting such an increase?

Erkki Raasuke - *Hansabank - CEO*

Yes under this other, they were the same item, a number of times already mentioned, 3.6m operating risk provision, as you can see on the slide as well there. And that actually mostly contributes to the increase there. I think if you would take that off from the 15.9 then the number would be much more comparable to the previous year.

Other than that is, if we look into that, the remainings are really like business trips, training has been increased, marketing has been increased. And this has also -- the seasonal effect. Something more, actually, on the marketing is there is a special tax arrangement, or actually that's -- the legislation is rather set in this way in Latvia that a lot of sponsoring actually can be used as a tax deductive.

And -- but we know these numbers, if we know our planned results at the end of the year. It's basically put it where it's short is that then we can quite effectively actually invest into the marketing at the end of the year, and this is very, very tax effective.

But its overall contribution is actually not that significant. Mostly it's due to this 3.6m operational risk issue, in accounting, in leasing area in Estonia.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Okay. I hope that was satisfactory to you.

Guglielmo Zadra - *Morgan Stanley - Analyst*

Thank you.

Operator

We will now move to our next question from Mr. Fred Rizzo from Citigroup. Please go ahead.

Fred Rizzo - *Citigroup - Analyst*

It's Fred Rizzo from Citigroup. I've got a few questions similar to the first ones. First off, with regards to the amortization of the intangibles for Hansabank, how much more is there to go? Is that something that's quantifiable and over what time period is it?

Also on that issue why can you not take it evenly throughout the year?

And then lastly, why do you not report this in the corporate center?

Second question is with regards, again, to the Baltic expense evolution. I understand some of it the expense increase was to expansion. More importantly, looking forward how much more do you expect in terms of spending for expansion in the Baltics in 2006 and '07, relative to the '05 cost base, if you could quantify that that would be appreciated.

The last question is with regards to Swedish interest margins. Can you quantify the front book versus back book difference? And also, I apologize if I missed the net interest margins, I did not see the Swedish net interest margin disclosed anywhere. I do see the Hansa, but I do not see the Swedish. So if you could help me out there, that'd be great. Thanks.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes, I'll try to enlighten you a little bit. Your first question regarding the amortization schedule, I'll try to ask Mr. Westholm to describe what we are going to do.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

Well, the amortization is based on lending and on deposits. And we are following the actual -- the estimated or calculated lifetime of the lendings. And we are amortized over the lifetime of the lendings. That's why it's higher from the beginning and then its lower amount coming forward.

But we have a little schedule on that on our other -- over slides presentation, number 44, reference slides number 44, shows the amounts that we follow in the coming years, on both these items.

Fred Rizzo - *Citigroup - Analyst*

34 in this quarter's presentation?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes, that's correct.

Fred Rizzo - *Citigroup - Analyst*

Oh, okay 34.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

I believe for the next year it will be 320 some -- 326m, but then not again not evenly distributed over the quarters but falling a bit from probably 90, 95 to, perhaps, 80, 85 at the end of the year.

Fred Rizzo - *Citigroup - Analyst*

So SEK326 in '06 and how much in '07?

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

In '07 it would be 253.

Fred Rizzo - *Citigroup - Analyst*

253, and then we're done with it, right?

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

No, there -- still there is unfortunately 981 left for the years 2008 up to 2014, or 13, I think.

Fred Rizzo - *Citigroup - Analyst*

Okay.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

A 13-year amortization period.

Fred Rizzo - *Citigroup - Analyst*

Okay.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Are you happy with that?

Fred Rizzo - *Citigroup - Analyst*

Yes, so far.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Thank you. The mortgage margins then in the Swedish operations back book and front book. Yes, we'll get back to that. But the mortgage margin, where we are now at the back book is that the margin is about 80 basis points. And the new sales margin is a little bit difficult to talk about in the sense that we don't see as quite a few patterns. But I think that one should expect that we are down to something like 70 basis points towards the end of last year and we don't really have the figures now for 2006.

And the -- as for the cost development in Hansa, again, I didn't get your question. Wasn't that the same question we had before?

Fred Rizzo - *Citigroup - Analyst*

No, the question before, I think, was just understanding the current increase in the other cost base. My question was more so with regards to '06, '07 where that cost --

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

The whole forecast. Well I'm not sure that we are really preparing to give you the forecast on the cost development. What we -- so I guess you will have to be satisfied with a general statement that we plan to continue to increase our investments in Hansabank, so they have planned for a continuous cost increase through the whole of 2006.

Fred Rizzo - *Citigroup - Analyst*

Without actually giving me a cost-base forecast could you maybe discuss a little bit in terms of number of branches you're going to open, number of heads you're going to hire, things of that nature?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes, sure. But I think Mr. Raasuke would be better equipped than I to do that. So please Erkki, could you please give them -- could you please comment a little bit according to that?

Erkki Raasuke - *Hansabank - CEO*

Yes, I think in many sense actually 2006 should look fairly similar to the 2005. Without going too much more in the specific, in this volatile environment, volatile, okay, volatile is maybe not a good word, but in a fast-moving or fast-developing environment is that the business has been mostly managed and leaded on the base and the ratios. What we are looking is that we are -- we're not looking actually to worsen our cost income. So this is a target of itself. And basically we are seeing that the expense increase will be very close to what we are forecasting also on the revenue side.

There is one other item I want to touch currently already, which will be more of the issue to explain at the end of the first quarter is that because of IFRS changes and becoming fully compliant inside of the Group as well, what comes to the lending fees. So lending fees so far, if once they were collected that we are -- they went straight into the fee income received in our P&L.

Starting from 2006 we are amortizing the lending-related fees over the life of the loan products. This is a -- on the cash flow terms exactly it's the same. We have received the money from the client. But because of the different treatment this is going to have some effect on our P&L, on Hansabank P&L starting from 2006.

We know this -- we have estimated these numbers on a current basis, but we will touch this topic more in connection to that, to the first quarter.

Coming back to the expenses. Once again, very similar to the 2005. We see a further expansion in terms of the number of people. Still Latvia mostly to take the lead with the smallest distribution network and branch network, and then Estonia and Lithuania follow. And in our current plan it is also in terms of full-time employees the increase is expected to be in the similar range like it was in 2005.

Fred Rizzo - *Citigroup - Analyst*

Okay, just on your net interest income, the lending fees. I'm looking at the Hansa-specific press release in euros. On page three, does that blow out, I don't see the -- I will or will not see the fee income related line item in there, is that --?

Erkki Raasuke - *Hansabank - CEO*

No, you don't see that because it's all of the lending fees, they are currently not part of the net interest income in 2005. But they will become part of that in -- starting from 2006. And we will report these numbers end of the first quarter.

Fred Rizzo - *Citigroup - Analyst*

So in '06 fee income will come off a bit, simply because you're going to be amortizing it but NII will benefit?

Erkki Raasuke - *Hansabank - CEO*

Exactly.

Fred Rizzo - *Citigroup - Analyst*

Got you, great thanks.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Okay?

Operator

Our next question today will come from Kim Bergoe of Fox-Pitt Kelton. Please go ahead.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Hi, just a few questions. The first question very shortly, if you could comment on what happens to income in the asset management division in Q4, if there are any changes. I remember you stated during the year that you'd booked more fees into the retail division, but just if there's any recent from the fall there?

And then secondly you previously commented a little bit, without being very specific, about the hedge or the asset liability management that you're running, which I guess specifically relates to Spintab. Just if you could give us any idea of whether that has sort of played into the numbers in Q4?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Can you speak into the microphone because the sound quality is very poor?

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

All right is this better?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I hope so. I didn't hear your second question. You asked about the --?

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

I asked about is the sound quality better?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Slightly.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay. I was asking about the hedge on the asset and liability management that you'd commented a little bit on previously that you'd done. I just wanted to know if that has played into the numbers in Q4 and had any effect on the net interest income number that we're seeing.

And then thirdly just again back to Hansa and to the outlook, you previously commented that you expected to see going forward, also at or above 15% earnings growth. It sounded to me like a little bit more subdued. And I just wanted to be -- get a bit more flavor for -- for that. You know if you've seen any changes compared to what you previously commented about the longer-term growth outlook in the Hansabank business.

And then just to be sure I've got it right, did you say that you expected revenue and cost growth to be fairly equal? And also if underlying costs grow at the same head count, should we expect that to be about 10%? Was that what you were -- what you were saying? Thanks.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Maybe if I start and leave to Mr. Raasuke to develop a little bit. What you call subdue is perhaps the fact that we are now one group. And we don't really want to be very specific about forecasts. What I can, I think, assure you in general terms is that we do have very aggressive plans, and Hansabank itself has made very aggressive plans for its future growth, in terms of both revenue growth and profit. But we don't want to be too specific on that because we, as a Group, don't like to do that.

As for the revenue and cost growth in Hansabank, Mr. Raasuke stated very clearly, yes he said they are somewhat parallel. So there we will increase revenues and we will increase costs. And I'm sure that he can develop a little bit more on that.

You also asked about the -- the, before I leave the word over to him about the hedge -- the hedge that we have had and that is positioning ourselves to the interest rate development. And I leave to Mr. Westholm to make -- we really don't want to -- to emphasize that too much but I think that what we can say here, you can say now Mr. Westholm?

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

Yes, you can say compared to the fourth quarter 2004, we have a hedge effect of approximately SEK200m, SEK190m better posted this quarter. It's a little higher that way.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

So SEK190m positive versus Q4 '04?

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

Right.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay and commission in the asset management, just very quickly?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes well I was a bit unsure. What was your question about the commission?

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

No, it's just that if you look at the net commission number, it goes from 338 in Q2 and falls to 305 in Q4, and usually Q4, at least what we've seen with others, and if there any sort of performance fees or anything like that, usually Q4 is a bit better than Q3?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Nothing like that. That is just totally -- that is just related to the portfolio. And the portfolio has grown in two ways. First on net new sales. But also, of course, in this case, mainly due to the increased value of the portfolio. It's just the fee is a percentage.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Just that Q4 is actually lower than Q3.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

No it's 880 compared to 820. Maybe we're talking about different -- different --?

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

No I was just -- I was looking at the total -- the division asset management and insurance. I know it's not only the insurance bit here. But just Q4 commission over Q3. I've got 305 in Q4 against 338 in Q3.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Okay, well just hold on a minute. We'll get the same paper to talk about.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Page 19 in the release.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Let us contemplate that a little bit so that we can give you -- come back to that a little bit so we don't answer out in [the blue]. I think I've found what figures you are relating to. Can we just hold on a minute for that and please let -- if there was something to add regarding the --

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Christer Westholm - *ForeningsSparBanken - Head of Accounting*

Well perhaps I can comment a little bit about that. As you can see also in the fourth quarter, we have an increase in other income. And I think that's related to our Insurance business, where we have reclassified some commissions from the commission line down to other income here for the Insurance business.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

But that was done in the fourth quarter.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I don't know, Erkki, if you want to comment more about the cost growth in terms of the number of people or things like that. Is there anything you want to add to that?

Erkki Raasuke - *Hansabank - CEO*

Yes, perhaps that I think that the acceleration was very light, what comes to that, the current personnel, that it's reasonable to expect the expense increase related to them about 10%. What I also want to say, if you see our overall our personnel cost, is that about three quarters of that this is the base salary. And about one quarter of our annual total personnel cost is performance-related pay.

And this performance-related pay proportionally has been very high through last year. If we would have actually a sudden turn in our activities, which obviously we don't expect, but if we would, then there is also some additional [inaudible], because naturally this promised reserve would be reduced quite significantly. So being more clear in numbers that the overall personnel cost together 2005, 122m, 92m out of that was base salary and 31m was bonus reserve.

And also we were looking after this increased bottom line growth. And what I can say out it is that once we were talking about these 15% expectations, we really didn't mean only one year. But when we did discuss about it previous also, we looked at that in the medium term. We are still in this medium term so that actually nothing bad or nothing wrong has happened with this expectation.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

But more detail you won't get from us today.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Okay, well thank you very much.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Thank you, okay we have further questions?

Operator

We do. Our next question will come from Jonas Erikson from JP Morgan. Please go ahead, sir.

Jonas Erikson - *JP Morgan - Analyst*

Hi. Jonas Erikson, JP Morgan. One question on, you mentioned Basel II impact, and I don't think anyone is surprised that you will have a positive impact. What would be interesting though is if you any, now that you have more numbers on that, if you have any discussion so far with the rating agencies, because so far we haven't really seen the regulatory minimums bringing the restriction on capital. So would be interesting if you have any view on in terms of what kind of capital might be released or not.

Also on the mortgage margins, can I just get repetition? You said new margins were around, was it 70 basis points versus a back book of 80, because it looks really when I look at the numbers and strip out Hansa, it looks like there should be more pressure than that. I don't if I miscalculated, but if you could just confirm that please?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I don't get the last sentence, what should I confirm?

Jonas Erikson - *JP Morgan - Analyst*

That new mortgage margins, new business on mortgages have been written around 70 basis points versus back book 80. Is that correct?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Well, that is correct. It's actually slightly below 70 basis points, so would be the correct answer, towards the end of last year.

Jonas Erikson - *JP Morgan - Analyst*

Sorry, when you say mortgage margins are you looking at the full Spintab book or only households?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Then I talk about only households.

Jonas Erikson - *JP Morgan - Analyst*

Okay.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes. Now, let's see. You asked about the Basel II --

Jonas Erikson - *JP Morgan - Analyst*

Yes.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Impact, yes. We don't really have too much more to say because what I related to, which I think is also to try to respond to your enquiries, is what -- can you confirm the initial calculations that you have made yourself and we have been making but commenting on. And the only confirmation we can do is now when we did this QIS-5, and that is only relating to pillar one, then we add on pillar two, as you know, in the model, which we haven't done. That is not included in the Basel II. Then we -- so I can't comment on that.

So the numbers we try to reflect to you that is almost the 29% reduction in risk-weighted amount. As an outcome of that screening would then imply that actually we could release the same amount of equity, of course. But then we have not included pillar two, and, of course, that has to be confirmed by the Swedish FSA. So you will have to look upon this as hopefully the first in a series of confirmations of the quality of our risk exposure.

Jonas Erikson - *JP Morgan - Analyst*

The reason I'm asking is that there's been quite a lot of discussion about Basel II in relation to margin development. And obviously one conclusion for banks with a lot of capital release is that there will be a lot of excess capital which could be good if it was distributed to shareholders, but could also mean that margins will come down even further than we've seen so far. So I'm just trying to get a feeling for in terms of rating and FSA what the potential actual capital relief can be?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes I understand that and I think your observations is quite correct. And I don't know. We are one operator among several. My hope is, I cannot confirm that, is that margins won't come down much more than they are now. I think it will be more difficult for other operators on our market to do that in a sustainable way because I think the ones who have the strongest capacity of living in this environment is actually ourselves. But we will see.

Jonas Erikson - *JP Morgan - Analyst*

Do you get the feeling, when it comes to the mortgage margins, after having discussed with the SBAP I mean we've been quite used to seeing them as the most aggressive player in the market and I don't get the feeling that they're writing business below 70 to 75 [days]. So it seems like you're the most aggressive player in the market right now, despite being the biggest. Is that your perception as well?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I think we are actually, and that is because we want to defend and, if possible, increase market share. We have approximately 30% plus in terms of -- in the household sector. We want to stay there.

And we want to -- so what we have done then with the consequences that I tried to mentioned before is front book margins go down. You don't have the regional difference that we used to have before. We don't have the pricing, which is a result of a negotiation between the individual client and the bank. And hopefully that transformation, if I may put it that way, which we saw necessary to introduce in order to keep that business within our bank, I hope most of it is done right now.

Jonas Erikson - *JP Morgan - Analyst*

Okay thank you very much.

Operator

We will now move to our next question which is a follow-up question from Kato Mukuru from Citigroup. Please go ahead.

Kato Mukuru - *Citigroup - Analyst*

Hello Kato Mukuru. Good afternoon. I just wanted to ask a question that my colleague, Fred Rizzo, touched on. With regard to the amortization following the Hansa purchase that goes against NII, why isn't that done at that corporate level, pretty much because you have a very good growth story at Hansa and this tends to distract from it. So why not allocate these charges at a corporate level? Thank you.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes that might be a good idea because we are -- what I have learned in this presentation is that we are not perceived, that's absolutely clear, and that is not our intention, of course. We think we have explained it in our report but obviously not good enough. So that might be something to consider in the future.

Kato Mukuru - *Citigroup - Analyst*

Thank you, definitely. Thank you.

Operator

Our next question will come from Jan Erik Gjerland from ABG. Please go ahead.

Jan Erik Gjerland - *ABG - Analyst*

Thank you. It's Jan Erik from ABG here. I have a few questions on the net adjusted income. And one is the impact of higher market rates going forward. And I'm just curious if you have hedged away a lot of it. As you said, the positive effect was 190m from Q4 last year. So just wanted to touch base on going forward what sensitivity you have on higher market rates?

The second one is basically on corporate margins for the SME sector. Just wanted you to touch base on how you see development in the margin is there?

And the last thing on NIIs is the -- if you could tell us a little bit more about the margin pressure of the 129m you see, is that evenly distributed through, between mortgages and corporates, or it is more skewed to one area?

Then the second question is basically on trading if you could give us a little bit more flavor on trading versus the NII, and the situation you have shown on slide 10?

And the third one is your risk-weighted asset growth versus your higher dividend payout ratio and your tier 1 ratio of 6.5 approximately. So we just wanted to spend on these three areas.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Well we'll try to do our best then. If we start now with the -- with the SME development. I think we, number one, have a positive development. We have positive volume development. We have, of course, price competition, but not that bad. And we have never had that actually so it's not that highly -- it is competitive but the situation is much more stable than, for instance, we have talked about concerning the mortgage sector.

So I think that if you want to -- if you want to nail the reduction in the interest net in Sweden to different sectors, the main target for that is, of course, the mortgage sector. And it's not really new sales. It's also when our customers change and roll over their credit and getting a new maturity period with a lower volume that is the thing that hurt us most. And hopefully that means that it is also, perhaps, slowing down a little bit that negative change.

So then when it comes to the trading we -- let me understand what your question was really was so I can say that correctly?

Jan Erik Gjerland - *ABG - Analyst*

You have some impact on net interest income in your slide 10, where you show, for instance, on the repurchase [difference] [inaudible] and on interest income compensation of 151 negative. And in the trading line you end up with 233 positive.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I understand exactly.

Jan Erik Gjerland - *ABG - Analyst*

Just I want to get a flavor of how much the IFRS changes have given your hit on your NII versus your gain on your trading, so you can highlight that a little bit?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I'm not too sure. What we can say though is that, because you understand the changes of course, we used to activate those numbers in the interest net. Now we're not doing that at all. And then you have the effect you see here on the net interest income line. That is, we used to have a cost, of course, for the repurchase of the differences.

And we used -- or we could have of course, and then we used to have a revenue for the interest income compensation which we activated according to the lifetime of the original loan. Now we take that as a one-time revenue on the net on financial items for fair value.

Now the future I think is, if that is what you ask, I think that has to do with the turnover rate of the mortgage loans. And I think, I'm not really prepared to give you any forecast there. But things that will influence that is, of course, how -- what development do we see on the interest net margin, when -- because if customers do see that the interest net is still coming down they will try to catch that good price and, therefore, prematurely roll over their loan and pay interest and compensation.

If they will do that in the future as much as they have done in the last quarter, I really don't know. But I think it's related to the interest rate development. And since, at least, my expectation is that that will continue to increase slightly, I don't see that that will happen so much. I will, on the contrary, expect us to see that that figure interest rate compensation will go down and people will actually crawl out a little bit on the yield curve, and roll over until -- on longer maturity times. That would be my expectations, but I really can't tell you for sure.

Jan Erik Gjerland - *ABG - Analyst*

Okay, that means that this line, but not -- if people doesn’t do it it will disappear, rather than turn up negative as I see some of the lines in the trading?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes exactly.

Jan Erik Gjerland - *ABG - Analyst*

Yes, thanks.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Sorry, there was something?

Jan Erik Gjerland - *ABG - Analyst*

Hedging, hedging yes.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

The hedging effect. Maybe, Christer, you want to?

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

Yes, an increase of the interest line with the 25 basis points will affect the positive effect of the hedge -- will affect the hedge effect negatively by approximately SEK100m per year.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes the effect on the hedge would be, of course, negative if the interest rates goes up, with approximately 25 basis points equals SEK100m a year. So that would be the direct response to that.

Jan Erik Gjerland - *ABG - Analyst*

Okay.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Okay?

Operator

We will now move to our next question from Andreas Hakansson from UBS. Please go ahead.

Andreas Hakansson - *UBS - Analyst*

Hi, it's Andreas from UBS. I just wanted to follow up a question on the amortization. Again, it's where you refer to. Danske is doing a similar thing to what they all have bought or acquired in Ireland and they write it off over their cost line, where we are no more normal to split it out from stated costs. So I don't really understand why you do take the lending side of net interest income and the deposit side on costs, and can't you really connect it into one item within the cost line?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

I will ask Christer to defend our view.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

We have looked at the lending and have tried to make an estimate of the fair value of the lending stock. And we have identified such an amount. And that's naturally, according to our accounting standards, that should be reported as a negative interest income because what we are evaluating really is the interest margins on the stock of Hansa Bank as of the acquisition date, the end of April. So in that way I think it's fairly natural to charge that to net interest income.

The reported cost, I don't think, we can't change to the value of the deposits, so that's looked upon as an intangible asset and it's amortized then against costs.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

But anyhow, that's the way that we have done it, Andreas, and what we have already done now is to clarify what is the impact, which I hope now is clear. Number two, we will try to state it even more clear in the future so that everybody understands the impact of it from the beginning.

Andreas Hakansson - *UBS - Analyst*

Yes. Thanks.

Operator

We will move to our next question which is a follow-up question from Guglielmo Zadra from Morgan Stanley. Please go ahead.

Guglielmo Zadra - *Morgan Stanley - Analyst*

Yes, good afternoon again. I just wanted a general comment on what your expectation is on the outlook of Swedish, both retail and corporate customers in terms of demand for credit. Do you expect the lending growth in Sweden, these two segments, to remain as strong as it has been so far? Do you expect it to slow down throughout '06, given also the expectation of rising rates, or there is no feeling there from your commercial perspective of such a decline?

And the second is still on market share which seems to be a renewed focus for you given the new policy you are adopting on the mortgage rates. Now that interest rates are going to rise and are already rising in Sweden are you going to be quite conservative in passing it onto the customers, thus preferring to raise market share, or are you going to try to maximize the customer spread expansion? Thank you.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Well, for the last question, we want to remain very attractive in the eyes of the customer, but we also, of course, want to have the -- we don't want to be the one who gets the margins down. We -- so I expect, and it is my experience, if I may say so, having been the Manager for some years for Spintab as well, that increased interest rates have a tendency not to diminish the margins, if I may put it that way.

And that would be my expectation in the future as well. Though we have a different competitive climate which could change that, but I think everything alike, if we have higher interest rates, the margins will not -- that will not make the margins come down further. That would be an issue for the competitive climate.

As for the outlook in the corporate and private client sector, I think that in Sweden, I think that since the reported consumer confidence in Sweden is actually very high, so I think that the demand for credits and financial activity for many of our clients will continue to be high throughout 2006. I think that is a fairly uncontroversial statement from my side. I think most people and analysts would agree to that.

As for the corporate side I think it's a little bit more complex. But confidence is pretty high right now. But it's also an uncertainty regarding the different conditions we have, considering it's an election year in Sweden and considering where the currencies will go and so on. But I still think the basic mode is positive also for the corporate sector. And I expect and we expect, some further demand for investment financing 2006.

I think we tried at least to answer your questions there.

Guglielmo Zadra - *Morgan Stanley - Analyst*

Thank you.

Operator

Our next question is again a follow-up question from Jan Erik Gjerland from ABG. Please go ahead.

Jan Erik Gjerland - *ABG - Analyst*

I just wanted to hear correctly on what you said on the hedge, 25 basis points up from negative 100m on net interest income, was that what you meant?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes, on a yearly-basis.

Jan Erik Gjerland - *ABG - Analyst*

On a yearly-basis.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Right now, I mean the hedge is hedged right now. By 2006 that would be the effect and, of course, that could be compensated, will be compensated with the positive effects on interest rates of course.

Christer Westholm - *ForeningsSparBanken - Head of Accounting*

But overall there is a positive effect before hedge, which is roughly 150m, up 25 basis points in the year.

Jan Erik Gjerland - *ABG - Analyst*

So all in all the hedge will -- on the positive it will give you 50m up rather than 100m negative?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Oh yes, it will do and that will increase over time of course when the --

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Christer Westholm - *ForeningsSparBanken - Head of Accounting*

When hedge is running.

Jan Erik Gjerland - *ABG - Analyst*

Okay, because you broke out with [inaudible] basically, with your deposits.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Sorry, we will?

Jan Erik Gjerland - *ABG - Analyst*

You have then gone out and fixed your deposits on the longer yield curve, more or less. Is that what your hedge has been?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

The effect of the hedge will diminish. I don't want to be more specific than that.

Jan Erik Gjerland - *ABG - Analyst*

Okay I see. Then the last question on trading, which I just want to get a touch of flavor on slide 10 again, which is very illustrative. Your lending derivatives and borrowings which have been negative, 2 to 9. What is underlying there basically? Is it that the market rates are turned down, or what is the reason for that negative figure basically, if you could elaborate a little bit on that?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Well it is the market valuation of all lending derivatives and borrowing. That is the net result of that -- and that is --.

Jan Erik Gjerland - *ABG - Analyst*

Yes, so when the rates have gone upwards, it has become negative.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes.

Jan Erik Gjerland - *ABG - Analyst*

Okay. And then is it already in the [regional] savings banks, which is behind that line?

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

Yes that is basically it. And what I would say also when you look at the evaluation of assets and lending derivatives and borrowing you also have to, of course, look at the interest income compensation as a natural part of that.

Jan Erik Gjerland - *ABG - Analyst*

Okay, thank you.

Operator

We will now move to our next question which is again a follow-up question from Kim Bergoe of Fox-Pitt Kelton. Please go ahead.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Hi. I'm sorry you lost me a bit on the net interest and the hedge. Just if you could repeat what you said about the net impact. You said obviously minus 100m as the hedge is now from a 25 basis point increase, but what would you expect for the total Group, the net effect to be of that 25-basis point increase? Just if you could repeat.

Jan Liden - *ForeningsSparBanken - CEO Swedbank*

So I understand your questions correct, what we said here before was the negative impact because of the hedge would be 100m a year per 25 basis points, as it stands now. Of course the effects of the hedge will diminish over time.

Now, the positive impact would be something like SEK150m. So the net/net it would still be positive. Now, if you had another question for how long that hedge would be in place and that effect will remain, we didn't answer that because we didn't tell you how long it would be.

Kim Bergoe - *Fox-Pitt Kelton - Analyst*

Good, I didn't ask that then. But okay, then just given the rate environment as it has been then I guess we can read something into coming quarters at least on that one. Okay, thank you very much.

Operator

It appears that we have no further questions at this time. I would like to turn the call back over to you for any additional or closing remarks.

Jonas Blomberg - *ForeningsSparBanken - Head of IR*

Thank you very much. We have been able to clarify many things here. We will be happy to take further questions when you have thought more about them and we will meet you in due course. Thank you very much for your interest and attention.

Operator

That will conclude today's conference call. Thank you for your participation. You may now disconnect.