Year-End Results 2009
Swedbank
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CEO Michael Wolf
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Operator: *Good morning, ladies and gentlemen, and welcome to the Swedbank Year-End Results 2009 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this is conference is being recorded.*

I will now turn the call over to your host, CEO Mr. Michael Wolf. Please go ahead sir.

Michael Wolf: Good morning, and welcome to our Fourth Quarter Result Presentation. In 2009, we all faced enormous challenges. In the E.U., the Baltic countries were hurt the most by the global recession. Conditions in Ukraine are very serious. Also, the Russian economy was hard hurt by the international crisis. Domestic demand, which accounted for the minority of the region's growth for several years, fell substantially in '09 in the aftermath of the financial crisis.

However, there are positives. One of those is Sweden and it's resilience, which is much better than anticipated. And of course, the public finances in Estonia is better shape than its other two Baltic countries in spite of the major decline of GDP. Swedbank's starting point was indeed not good. But through hard - - a lot of hard work by our MPs, the help we had of the state guarantee during the first half of the year, and improved market conditions during the second half, we are on the right track. Our lack of preparedness for the effects of the financial crisis made the support from our shareholders in late 2008 and the state guarantee a vital component. Since March '09, we have addressed our challenges forcefully. Our exposure in the Central and Eastern European countries are down with 20% during the year. We have in less than nine months built up capable restructuring units and established Ektornet. This allows us to safeguard our asset values over the longer-term. Remarkable improvements when it comes to funding of the Bank has been achieved, behind this is of course the rights issue (inaudible), our ability to attract customer deposits, the risk reduction of the balance sheet, and improved market conditions.

In Q4 only, we issued more than 70 billion in covered bonds, and our loan-to-deposit ratio fell from 262% to 240 during the year. We have also been able to retain and recruit very capable people to handle our challenges, and we have overhauled our entire governance structure both at the Board and management level, so all in all I'm very proud of our team and our ability to deliver under severe pressure.

The results in the fourth quarter confirms earlier trends, but also that we are on the right track. Starting with the Swedish Banking unit where we saw very good financial performance despite the weak economy, we have been able to bounce back in terms of attracting customer deposits both from private and individuals and the corporate sector. Our life and pension business had a record year with premiums growing more than 60%. We deemed a risk level in the housing market to be high; hence, we have applied more restrictive lending criterias. This has led to lower market shares in this segment. However, we have kept our market shares in the corporate lending segment. In the Baltic Banking area, I'm proud of the good cost control that we have been able to execute during the year. However, the interest environment and the level loan losses has hit hard on the NII. Our guidance and growth in impaired loans for the Q1 - - from Q1 was proven to be accurate. Swedbank Market had a strong year, but weaker than expected fourth quarter, mainly due to lower customer activity and low volatility. When it comes to Swedbank Robur, we saw strong sales performance in the last quarter and financially we made the settlement in Estonia which affected the results with a negative SEK 90 million.

With that, I would like to hand over to Erkki, who will guide you through the financials in more detail.

Erkki Raasuke: Thank you, Michael. Let us go then more into the detail of the fourth quarter numbers. For a start, I would outline three main themes, which are overlapping what Michael was already telling you. Over the fourth quarter, we have seen continued headwinds in net interest income. As said, we had a fairly slow trading quarter in Swedbank Markets, and thirdly, we have seen quite an improvement in full wholesale funding position, and I will cover them more in a detail. Looking then to the NII, it was contracting over the fourth quarter by about 6%. Swedish Banking continues to show very good resilience and keeping quarter-on-quarter levels flat. Baltic Banking and International Banking NII is contracting, and these are due for the well known reasons of contracting portfolios and also curved up impaired loans. Some more, but still a worthwhile dimension positive out of the Baltics has been the recent trend whereby the local deposit rates, deposit interest rates have started to fall. And as you know, we're the largest retail bank in this region and deposit base is the largest pool of funding. It takes some time before deposit books will be re-priced, but basically ahead of Estonian euro expectations also (inaudible) in Latvia have slightly followed the suit and this is - - that's a positive trend allowing us to expect to start to bottom out also in NII contraction there. Swedbank Markets and the Group Treasury NII was slightly lower due to the higher applied funding costs. Over all among these much already now discussed headwinds, we see that - - we're starting to see some of the stabilizing signs. Interest rates have stopped falling, and also growth of the impaired loans is starting to level off, which Göran is going to cover later on. Nevertheless, it is too early yet to expect NII to bottom out and our cautious guidance for the time being remains there.

Moving on to the net gains and losses, then we continuously see some volatility there, but to the lesser of extent. In the third quarter, we had FX losses in our International operations, around SEK 200 million. In beginning of fourth quarter, we gained some of that back; and then we also lifted FX position management from Ukraine to the Group level, which would give us a lower volatility going forward. As already mentioned, Swedbank Markets had a very slow quarter. Volumes came down; books were closed earlier; volatility was slow. But it is fair to say that Swedbank Markets had overall very, very strong year despite of this slower period at the end of the year. Running over close to 700 billion full serve funding portfolio and also embedded derivatives there, then we are - - we're seeing from period to period valuation changes. Over the fourth quarter, these valuation changes were slightly negative to us, but we are - - we're moving to the direction whereby we are actually lower 2009 moved about one-third of our wholesale funding previously treated under the fair value option under the hedge accounting. And with the current trend to be continued and by the beginning of 2011, most of our full wholesale funding should be out of the fair value option, so one should expect further less volatility related to our funding operations. All in all then, net gains and losses were 200 million positive, stronger than the third quarter. Nevertheless, we were just missing the stronger contribution from Swedbank Markets share.

After the second quarter, we discussed our further plans to reduce the capacity, and we can report now is that we are slightly ahead of our plan over the second half of 2009. A number of FTEs has been reduced over 1,700, and this is also the trend to be continued selectively in the different business areas. All in all, we are now down from our peak in the second quarter of 2008 close to 3,000 people. In the fourth quarter, we reversed variable pay reserves close to 400 million, and this was pushing overall expense level lower for the full quarter. If we look back over the full-year, then the variable pay has been reduced over 900 million '08 to '09, and this is also the primary reason why the total cost level in 2009 is actually landing up below of 2008 level, so variable costs actually have been also variable costs as they have been expected. We also have been discussing another, allow me to call it, a headwind or burden associated with financial restructuring and recovery work, and the growth in this area has been more than 400 million over 2009 and this trend is to be continued and there is fairly little we can do in a short-term actually to reduce these costs. They are there to protect the shareholder value. Nevertheless, what we can do is to work hard, which we are also doing, on day-to-day operations where we are further taking down the expense levels and in the short-term we expect these two trends more or less to cancel each other out.

If we now summing up the fourth quarter numbers, then, yes, we saw lower NII around 300 million. We had a fairly good net commission income, and that's despite the 90 million one-off charge in Estonia. Net gains and losses quarter-on-quarter stronger overall. As already said, we were missing the stronger contribution from the markets. So that all took the total income close to 8 billion. After the reduction of the variable pay reserves, total expense level ended up quarter-on-quarter basis lower and profit before impairments for the fourth quarter was 3.68 billion, which is very much in line what we had also quarter earlier. Over the fourth quarter, we also took some impairment charges over some of the tangible assets. These were the own-owned real estate in Ukraine and Lithonia and also we valued down some of the repossessed assets, that all in amount of 350 million. Credit impairments were down quarter-on-quarter more than 1 billion, and Göran is going to open that topic up more into the detail in a minute. So all in all, we ended the fourth quarter with net loss of 1.8 billion.

Let me then move onto the third area, liquidity and funding. And as I mentioned is that we think that we have been quite a bit improving the quality of our wholesale funding position. With the liquidity, we keep maintaining our fairly high liquidity portfolio. Nevertheless, there are also quality improvements in there while the survival period is extending, and we are - - have been slightly lowering the very short-term liquidity buffer. The requirement for that has been reduced as there has been quite successful medium- and long-term new debt issuance. I'm very pleased however, group funding profile has recently developed and this has been supported by both of our most important funding sources, by customer deposits and covered bonds.

If we look closer to the deposit development, then deposit developments than at the end of the year we saw a strong - - quite a strong growth in Sweden, but as well a good bounce back in the Baltics. All in all, loan to deposit ratio Group-wide has been falling from 262% at the beginning of 2009 to 240. And every single business area we're operating, this ratio has been improved. And this is actually also despite that we see the lower interest rate, what I already mentioned in the Baltics, so we have not been really hunting there for the expensive deposits, but it's rather the strength of our retail franchise is what is displayed here.

Throwing then deposits together with healthy issuance of covered bonds has improved the quality of our overall funding profile, and this is instrumental why we are in the middle of the quest of moving away from the government guarantee programme. Just to remind you again that since August 2009, we have not issued any additional debt under the guarantee programme. Instead, we have been quite active in covered bond markets where the new issuance is in the neighbourhood of 70 billion over the fourth quarter and also there starting 2010 has been quite strong here. We have further taken down the central bank repos. If you remember, we were peaking in the second quarter close to 250 billion there, so we are now down more than half to the 116, and that's a comfortable level currently to be maintained. Average maturity of the full wholesale funding has further been extended and now reaches to the 22-month when the started there from the fourteenth month; and covered bonds maturities, which is important part of the total wholesale funding, is even longer. It's actually reaching now up to the three years.

We also yesterday announced about the calling Tier 1 and Tier 2 instruments in March and in April, all in all an amount of $550 million; and as we also commented yesterday, we do not have plans to replace them.

Le me then try to wrap up my part with a capital overview. We started the year with the Core Tier 1 capital ratio of 9.7%. Impairment losses throughout the year has - - have been taking this ratio down by 1.5%, but we have mitigating almost exactly the same magnitude back by carefully managing risk-weighted assets. Our rights offering in the fall was adding another close to 15 billion Core Tier capital taking the ratio up by another 2% and we're ending there at a very comfortable Core Tier capital ratio of 12%.

With that, I will hand over to Göran to go on with asset quality.

Göran Bronner: Thank you, Erkki. Before I move into the asset quality's development during the quarter, I would like to start off with a picture showing the balance sheet development during 2009 on a more aggregated basis. If we start off by looking at Sweden, we can see that the volume has actually grown by 11 billion, but beneath the picture you see a very discrepancy between the private demand and all the corporate demand. The corporate book has shrank by 24 billion, while the private book has increased by 35 billion. The mix of this is of course a reduction in risk overall, especially considering that we have applied the title lending criteria from the private part of the growth. If we then turn to the part of the book that is related to Eastern Europe, we can see that we see a significant drop in exposure with actually SEK 63 billion from SEK 251 billion to 188 primarily in the corporate book. Half of that is unfortunately related to provision and FX effects, but the other half is related to deleveraging and repayments of clients. This is of course a very wanted development overall that we reduce this risk; and during the year, this lending over our equity has actually shrunk from 290% to 209%, and we want that to further decline.

Moving into the fourth quarter then, before moving into the various indicators, I just want to say that overall the quarter developed as expected. We still see very stable situation in Sweden and we also see very good improvement in Estonia, while there are still problem areas in the Eastern European portfolio. Looking at the first indicator, which is 60 days overdue, we can see that in Estonia, Lithuania, and also Sweden, we have very good and stable development, while we continue to see growth, although at a slower pace, in Latvia.

Moving on to impaired loans, I think the quarter showed an increase of 4.4 billion in impaired loans. We made a definition change during the quarter in order to harmonise the definitions between all entities in the Group, which affected the impaired loans positively by 2.1 billion, so the refigure SEK 6 billion during the quarter. Even though that - - we can see that the development during the second half of the year has been calmer and slower as expected and we think that during next year giving the sort of base case we are looking ahead, we continue to see levelling out of this growth of impaired loans. Looking at the individual portfolios, as you know, Ukraine is at the very, very high percentage point, almost 54%. Latvia is also very much a problem area for us, while once again Sweden and Estonia is developing very good.

Moving on to credit impairments during the quarter, the quarter came in at SEK 5 billion. That was the best quarter in the year ,and it continued to trend down. The positives are of course Sweden and Estonia once again. But also I think that as the year goes by, our knowledge about portfolios are increasing and we - - even though we have an increase in impaired loans in Ukraine, we did not have to raise the provisioning as much and the provisioning ratio subsequently declined to 78%, which we feel comfortable with. On the negative tone during the quarter was Russia where we had the thorough review of the credit portfolio, and especially the weaker part of it, and made a conclusion that we need to add the provisions of almost SEK 1 billion. Lithuania also surprised on the negative tone and was actually the worst quarter in terms of credit losses as we went through and made an update on all collateral values during the quarter.

Provisioning. Coming into provisionings, I think it's fair now to say that we are through. We have been spending the year thoroughly going through as many portfolios as possible. In that process of course, the portfolio provisions as a percentage points of all provision has decreased as our individual provision has increased quite rapidly during the full-year. During the year also, the provisioning ratio has increased from 60% to 65%. That was to some degree somewhat unexpected for us, but I think we can draw two conclusion. One is that we ended up the year with a higher percentage point of exposure towards Central/Eastern Europe in our impaired portfolio book and therefore the provisioning ratio was deemed to be high - - needed to be higher. Also, I would like to point to the fact that part of our portfolio provisions are model-based. And if we look at the picture here, you can see that we actually end the year with portfolio provisions model-based of almost SEK 5 billion, while we started the year in model-based portfolios at SEK 3.2 billion. It shows some the pro cyclicality of that part of provisioning.

Next, repossessed assets. It's no really news there in the quarter. We have managed to decrease the number of transport-related repossessed assets. We are still... We still have work to be done in the commercial transport area. We have difficulties selling some parts and segments of that. And then, as expected, we're seeing quite significant increase of what we take in real estate where most of those are now going into Ektornet.

Moving over to Ektornet, we - - as of the end of the year, it was established as an independent business area. We have a Company structure in place where all the daughter companies in the Baltics, Sweden, and U.S. are created in this structure. Russia and Ukraine to come. We have management team in place that now has been working with the portfolio for two months, with real estate background. We are continuing to doing external valuation as we take over assets from the bank into Ektornet. Our forecast for this year is that we will end up with an intake of roughly SEK 5 billion in Ektornet. It is very slow process in some parts of the portfolio, especially the Baltics as the bankruptcy proceedings are progressing slowly.

Lastly, but not least, we just want to point to some of the risk areas that we see going forward. I think overall, the main risk is of course the macroeconomic development that we see ahead of us outside our home markets. That is the biggest threat to our credit and asset quality of course. On more specific terms, I think that Latvia is still a risk area. They have election year; and even though the economics are improving and have done so in the past quarter, I think there's still a lot of risks around. Also, Ukraine is continuous risk area towards - - for us, especially in light of the development of sovereign risks pricing in the marketplace. And then also I would like to highlight that as we see the central bank support and the low interest rate environment changing later this year, and perhaps more so in 2011, it's fair to expect that credit losses in Sweden should increase from the current very, very low level. So these are the risk areas. On the positive side, I think we have a rather positive view of the chances of Estonia becoming a euro entry in 2011; and that would substantial lower the risk premium on that part of the portfolio for us, which is also the largest portfolio in the Baltic states.

With that, I would like to hand over to our leader.

Michael Wolf: Thank you Göran. 2010 is the year where we face a strategic balance act. On the one side, we see growth opportunities, especially in Sweden in areas where we currently lag competition. On the other side, we still fight financial constraints. We believe in a traditional relationship-driven banking model. We're committed enhancing mandates and decision power in our local branches as well as for client executives and the private banking customers and large corporate customers. Our product areas exist to support client relationships and not the other way around. We want to be a consumer-friendly bank. Our customers shall based on our advice be able to take informed decisions. If we look at constraints, well funding and capital efficiency will be key in evaluating business opportunities. In short, we want to run a simple balance sheet with conservative risk profile. Hence, throughout 2010, we will continue to focus on further risk reductions, mainly the Central and Eastern European area. Cost control, re-pricing, efficiency will of course also be high on the agenda.

As announced today, by the end of March, we will launch a new organizational structure to facilitate the strategic priorities. Former Swedish Banking will be renamed to Retail. We have a unique position in the retail segment in Sweden based on an inclusive client strategy. Our long history of innovation and commitment in the local society has allowed us to develop this market position over the years. Where we see growth opportunities are in private banking as well as the corporate segment, i.e., the small and medium size companies. To meet these opportunities, we need to empower our local branches further, improve cross-selling, and our Nordic platform. This is the mandate and focus that the Retail organization has been given with the change. We're forming a new business area, Large Corporate & Institutions. This new business area will combine the client teams of large corporate and institutional clients with the old Markets organization and International operations. We will develop client teams with sector competence. We will enhance services and product offerings in markets. We are, for example, the market leader initiating Swedish krona denominated corporate debt, but lack capability to issue debt in Europe. Of course, we're going to focus on risk adjusted returns in this segment as capital is its core resource. For the institutional customers, the Nordic offering is a key success factor, and here we took an important step last year when we recruited a skilled team in Finland, so we now have capabilities in Sweden, Norway, and Finland. When it comes to Baltic Banking, we are committed to these three home markets and we see long-term good growth opportunities, but risk reduction continues until the countries have reached a long-term stable level. We have initiated a project to move this organization to a similar client-centric model as in Sweden. And finally, the former International Banking unit will now focus on the Russia and Ukraine and the restructuring challenges we have there.

We looking into 2010, of course we have a humble approach to the year. There are risks out there and we have outlined them, especially those that Göran mentioned. And in light of that, we are guiding for the possibility of a profit in 2010.

With that, I would like to hand over for Q&As.

Operator: *Thank you. We will now begin the question-and-answer session. If you have a question, please press star and then one on your touchtone phone.*

The first question is from Per Löfgren from Morgan Stanley.

Per Löfgren: Yeah, thank you very much. **I have two questions for a start. First of all, I wanted to ask about the Ektornet. Just for me to understand is: What is the amount of lending that is now put against the carrying value of 517 in Ektornet, just for us to get a sense of the economics behind it? And second, I wanted to ask you in Swedish Banking that your numbers clearly suggest that with your successful deposit gathering here, but looking in the NII in the Fact Book, what is coming from deposits, it looks like it's up quite substantially. Could you tell us here what is the type of deposits that you've gotten in here? I can understand a move in the earnings if it's let's say salary accounts, et cetera, but what is it? Those were my two questions for a start.**

Göran Bronner: If I... Hi, it's Göran here. If I start just with the first question there, I don't have the exact number, but I mean shooting from the hip, I would say that if we have 500 million of assets in Ektornet, I think the write-down on those are probably around 50%, so the ingoing balance would've been something around SEK 1 billion.

Per Löfgren: Okay, okay.

Erkki Raasuke: All right, yes. And on the deposits is that what we are saying is that, yes, there has been quite a healthy development in the household side, but we're now already seeing the first booking signs of us putting our head up in a corporate market. So just a bit of the lining the troops there and getting ready for the new organisation is actually resulting low hanging fruits very quickly, so this is mostly what has happened in Swedish Banking.

Per Löfgren: Right. Thanks.

Operator: Our next question is from Nick Davey from UBS.

Nick Davey: Yeah, good morning, everyone. Nick Davey from UBS. **Four very quick questions, if possible - two on funding/two on the Baltics. On the funding side, it looks like your Swedish loan books contracted I think for the first time q-on-q in the crisis. Can you just give us some sense of how much of that is sort of a temporary impact from deleveraging on the corporate side and how much of that is due to this change of the internal funds transfer price model and therefore might be sort of a more permanent change in your appetite? Second, on funding, on Page 10 of your release, you flag SEK 141 billion of long-term funding maturing in 2010. Could you just give us any guidance on potential NIM erosion from rolling that over? And I'm less concerned on the government wrap side, more on the non-government wrap funding. Then very quickly on the Baltics, you flag Lithuania. I mean it looks like your stock of NPLs has declined quarter-on-quarter and obviously there's been a jump in provisions and you flagged and updated the collateral values. It does look like in your material, real estate prices have been flat on the quarter, so can you just give us a bit more colour on how comfortable you are now on the LGDs in that book? And then finally, just very briefly on the definition of impaired loans you use in the Baltic region, the difference between the 4.4 billion and 6.5 billion of impaired loan formation in the quarter, just how confident you are on that sort of 2.1 billion delta in the impaired loan formation on the credit worthiness of those counterparties?** Thank you.

Erkki Raasuke: Yes, Swedish portfolio contracting, what we see, what Michael already mentioned also, is that we have actually kept intact our market share in the corporate part of the book and this is - - that's the market-wide trend is that I mean obviously there is less need for the immediate- or short-term investments, and this has just been fading demand in a corporate lending. On a private individual part is that we feel that we actually in overall - - I mean pricing terms we're nicely in the middle of the market. It's a very transparent market. Nevertheless also, we keep being more on conservative in risk factors instead of being LTV also requiring perhaps slightly more amortisation, et cetera, so this has been keeping our new origination lower than our back book. What comes to that, to the timing of that, it's difficult to say. It is really a macro picture now improvement and also the speed of the improvement how quickly the corporates are starting to go up with the demand of the new credit.

Let us then move on to the funding. Jonas.

Jonas Eriksson: Yeah, you mentioned the mature funding for the year, and it's like you say, it's 140 billion. I think the replacing government guarantee funding or rolling sort of older funding into sort of the new pricing environment is not the major impact that you will see or that we see in terms of NIM. It's more the prolonging of maturities. If you look at the covered bond book only, we went from 1.9 to 3.2 year average maturity of outstanding covered bonds during 2009. That obviously does have an impact on sort of total funding costs, so I think that is the sort of more relevant change in the portfolio.

Looking at the pricing difference, currently we have, well, 25/30 bps difference between a three- and seven-year covered bond. Going into 2010, we will broaden ourselves slightly both in terms of markets that we address but also coming back into senior unsecured markets. But then again, I don't think the prolonging of our total maturity is going to be quite at the same pace as we saw 2009. So I think there are a lot of moving parts in there, but we don't feel that the net impact is going to be negative on NIM.

Göran Bronner: Okay. It's Göran here. I think I got three questions. Firstly you talk about the volume developments in Sweden in the quarter, I mean the picture has been the same that we grow by SEK 5 billion on the private side, while we had a contraction in the corporate lending of 10 billion, which is a little bit higher than normal quarters. I think it's too easy to read anything out of that. I would think that it's more related to year-end than actually our counterparties also being - - trying to be very capital efficient in light of the year-end numbers. So that's that question.

You ask about LTVs in Lithuania, and it's clearly so that we are more confident now than we were a quarter ago about LTVs in Lithuania. The previous quarter, we had the provisioning ratio in Lithuania of 44%, and after going through all the collaterals and seeing too that everything now is up that we have increased that level. I don't think that the property market has developed negatively during the quarter, but I think it is somewhat later in the process than they are with (inaudible), for example.

Looking at the third question, the definition change, it's just a harmonisation between the Swedish Group definition and the Baltics. That's a one-off effect and we now look very much for 60 days overdues being the impairment parameter, but also the individual assessment going forward. I don't think it has any material effect. The important indicator to look for in 2010 I think will be more 60 days overdues and the development of that than impaired loans as we will start to have traffic in the impaired loans where they either become healthy again and move out of impaired loans or goes into bankruptcy and also moves out of impaired loans.

Nick Davey: Okay, that's all very helpful. Thank you very much in deed.

Operator: Our next question is from Andreas Håkansson from Credit Suisse.

Andreas Håkansson: Yes hi. **Two questions. First one is on - - well both relates to NII actually. If we look at the first one on the hedge, I mean you've had a hedge in place that protected your deposit NII over the last year. Could you just tell us a little bit how much that contributed for the full-year 2009 and what's the outlook of that for 2010? And when I look at your deposit margins in Sweden, will these margins so to say reflect the impact of the hedge? And the second question is coming back to funding. Jonas, you're saying that you will continue to issue in the covered bond market and you were going to look at new markets issuing. Could you just tell us the depth so to say of the European covered bond market at the moment because we hear an awful lot of European banks all having the same strategy to term out funding in 2010.** Thanks.

Erkki Raasuke: All right, I start with the hedge is that just a very quick verification is that what do we really have with this hedge, the economics or thinking behind the hedge is that we have defined. You can also describe it in a way is that we have defined the pool of our current accounts that they actually have a longer maturity turn just to the overnight, and they also are not general interest rate sensitive, so we see them as - - with a fixed cost very close to the zero, and we have used that part of the funding going longer, jumping to the longer point in a fixed yield curve and basically this as proportional investment has been made to our fixed rate mortgage lending.

I actually missing the full-year number right now.

Male Speaker: 1.6 more or less billion

Erkki Raasuke: It's around 1.6 billion. Yes, I'm helped out here and the dynamics is that we see it now has been peaked and it's starting to fade away, so not overly quickly. And what basically is slightly helping us also here is that the yield curve so that the short-term rates are very, very low. Actually the yield curve itself is very steep so therefore also as kind of the fading away is of this hedge effect is not as quick as one could have been even expecting. It's on... The whole construction is under the monthly review by Alco* and basically we keep very close eye onto that. That is don't look to the connection to the deposit margins per se. I mean basically hedges are - - hedges construction on itself, there hasn't been an impact to the deposit margins on that.

Jonas.

Jonas Eriksson: Okay, thanks. On the funding side, I mean we are... Andreas, can you repeat the question just so I get it right?

Andreas Håkansson: Yeah. **No, you said you're going to continue to issue covered bonds of course in 2010 and you talked about the broad and the (inaudible) new markets and so on, but we hear the same message from an awful lot of European banks. I just wonder if - - how do you view the depth of these markets? How much the allocations on?**

Jonas Eriksson: I mean I think the last week has made us all a bit humble in terms of what will happen for the full year. But I mean year-to-date up until last Friday, we issued SEK 41 billion primarily in the capital bond market, so I think that says something about the depth of the market as it is at the moment. I think it's always difficult to tell in European context to what extent the vastly improved situation for our name is sort of company-specific or whether it's because of increased debt of the market as a whole, but we can clearly see that we are getting out at a much quicker pace only if we compare to three/four months ago. Then I think it's also important to look at what sort of where the demand is on the curve, and we clearly see that there is a demand for covered bond specifically on long maturities. Where I think the market is less deep is on the sort of three- to 18-month end of the curve, and there obviously that takes a lot more sort of forward-looking approach to planning your funding.

Andreas Håkansson: Thank you, Jonas. **And Erkki, could you just come back to, you talk about this fade of the hedge, could you just give us some flavour, I mean do you look that it's going to be half the effect in 2010 or how much fade should we have?**

Erkki Raasuke: It is very much related also to the interest rate movements. So I mean would rather take the view currently on going quarter-on-quarter and then currently it's fading away what 15% or so of its value by quarter, 15/20% of its value by quarter.

Andreas Håkansson: Thanks very much.

Operator: Our next question is from Peter Grabe from Handelsbanken.

Peter Grabe: Yes, Peter Grabe here. **Two questions. Firstly regarding liquidity. Can you say anything about where you would put yourself in terms of net stable funding ratio at the moment and elaborate a bit about what kind of potential impacts we should see on NII on the back of the gradual adjustment to the stable funding ratio? That's the first question. The second question relates to Lithuania and Latvia. Can you say anything about how much is collective provisions and how much is individual provisions and how these are developed in Q4?**

Erkki Raasuke: Okay, let me start then with net stable funding ratio. At that point of time, I have actually very little to add is that to the previous comments is that when the new pack was coming out, we looked and we don't - - the very quick first internal study we saw is that liquidity coverage ratio as well as implications to the capital are fairly mild. But net stable funding ratio looks I would say interesting. And it also looks interesting is that even if we construct the bank, which is 100% deposit funded, some deposits funded, it's basically the way it has been proposed right now assumes that this bank actually needs to go the full wholesale funding market and stating to acquire additional funding. So I mean we have a great difficulty to think currently to envision how this actually in the current format can be implemented and therefore we have slightly taken a step back here. We are obviously participating in (inaudible), which is starting now, and we are having different discussions with the relevant entities. But I mean this is - - there are more questions than good answers around this particular measure. And once again it's actually very difficult to see is the kind of country sector and then total industry-wide to quantify the implications if that would be implemented.

Michael Wolf: But I think it's also fair to say that when it comes to net stable funding ratio, the relative game is the important one, and I don't think we have any reason to believe that we would stand out in our Swedish business relative to other banks on a material level. And I think as long as that's the case, then the cost will be rather for the industry and society rather than for the banks and shareholders.

Erkki Raasuke: Our recent extending of the obviously maturities, which we have done to the quite extent over 2009, is obviously moving in the right direction here.

Göran.

Göran Bronner: Right. With regards to the provisioning in Latvia and Lithuania, we have during the quarter dissolved the Group collective provision almost entirely that we did in the first quarter in Latvia. After having done that, we still have these portfolio provisions that are sort of model and rating related. And for Baltic Banking overall, they are roughly SEK 2.5 billion relating to the three countries in various parts of the portfolios. I would assume that the majority of that is of course relating to Latvia and Lithuania to some degree. You can actually calculate this I think backwardly in the Fact Book if you want to get the exact numbers.

Peter Grabe: Okay, thank you very much.

Operator: Our next question is from Jacob Kruse from Autonomous Research.

Jacob Kruse: Jacob from Autonomous. **I just have two questions left I guess. Firstly on the - - both on the credit side really. On the changes to the impairment build in the or the build of impaired loans in the quarter, did that have a material impact on your loan loss provisions that you took in the quarter as well? And secondly, I just wanted to ask with respect to reviewing collateral values and reviewing the loan books as in Russia, are you pretty much done with those type of reviews with these changes that was with the quarter?** Thank you.

Erkki Raasuke: To answer your first question, it have no implication on capital impairments or losses at all.

On you second questions, we are definitely through with that review, and we feel confident that we now have been through all portfolios during the full year very thoroughly.

Jacob Kruse: Okay, thank you.

Operator: Our next question is from Jeff Dawes from Macquarie.

Jeff Dawes: Yeah hi. Good morning. Jeff Dawes here from Macquarie. **I've got two questions, one on guidance/one on Baltic NPLs. The first one on guidance, just a quick clarification, you mentioned obviously on the call and in the release that we could see a return to profitability in 2010. Can I just clarify whether that's purely a loan loss effect, so it's purely loan loss provisions coming down, or if you also see some sort of pre provision profitability increase? The second question on Baltic NPLs, specifically on real estate management construction, you've still got a much lower NPL level in Estonia than in Latvia and Lithuania. Is that something that needs to be reviewed or are there any conditions that kind of justify the difference between Estonia? Because obviously from the headline data you give in**

the presentation, the falls in real estate values look broadly similar or at least not quite so much better that it would justify that difference. Thank you.

Michael Wolf: Hi, it's Michael here. On the guidance, yeah, mostly it's an effect of our view on credit losses.

Göran Bronner: And Göran here on Estonia. I think the difference there is definitely related to the fact that we feel that they're much better quality in Estonia. I also actually think that the prices in Estonia has come down less - - to a lesser degree than, for example, Latvia that has experienced a much steeper fall, but much more of a bubble going in there. Particularly we participated in that bubble to a higher degree than we did in Estonia.

Jeff Dawes: Okay great. **So it'd be fair to say that the underwriting caused in Estonia was better than the other two markets over that period?**

Göran Bronner: Yes.

Jeff Dawes: That's very clear. Thank you.

Operator: Our next question is from Chintan Joshi from Nomura.

Chintan Joshi: Hi. Good morning. **Just have a few clarifications. Firstly on Slide 14, could you highlight us what the NPL numbers would be - - would have been in the first three quarters of the year? How do you use this new definition, just so that we can have some visibility on the sequential flow in the impaired loans? The second question is regarding to the interest hedge. I just wanted to clarify, Erkki, you said that the fade effect is about 15 to 20% per quarter and in total you saw 1.6 billion for the full year. So are you saying that by the fourth quarter in 2010 80% of this 1.6 would have reversed? And also another clarification. In the Fact Book, you say that the impact of 100 bps increased on interest rates would be 1.7 billion. Does this take into account this dynamics that you have in yield transformation from the hedge?** Thank you.

Göran Bronner: If we take... Hi. It's Göran here. If you take the question on impairment, we haven't restated in quarter-by-quarter, but the effect for the full year would've been roughly the same distributed over the quarters.

Chintan Joshi: Okay. **So I split the increase of 2.2 billion across all the quarters?**

Göran Bronner: Yes.

Chintan Joshi: Okay.

Erkki Raasuke: All right, to the hedge then, what I said is that this with everything else around us being fixed, which is not going to be, we're currently seeing is that there's the contribution from the hedges on a quarterly basis is fading away by about 15/20%. It's the full contribution last year was 1.6 billion. It's around 400 million per quarter. Like 15% of that, that's about 60/70/80 million, or that's basically the neighbourhood currently what we're seeing the effectiveness of the hedge to be reduced. It really started to positively to quicken in the first quarter of 2009, so I mean it was peaking now in the beginning of the fall and already in the fourth quarter, it has been slightly few tens millions of SEK has actually reduced its impact. Nevertheless, I mean it's still there actually currently above 400 million per quarter.

Michael Wolf: I think it's worth mentioning as well that the hedges is attached to a bit more than 10% of the total deposit base. So if you believe that industry will start coming up, you will obviously have the positive effect from that on the vast majority of the deposit base.

Chintan Joshi: Okay, thank you.

Operator: Our last question is from Aaron Ibbotson from Goldman Sachs.

Aaron Ibbotson: Yes. Hi there. Good morning. **I've got three quick questions actually. Firstly just on your comment in the presentation which says that you want to balance loan to deposits in all areas. I just wanted to clarify what exactly that means. Secondly on capital, you now have 12% quarter one and you're guiding for a potential of being breakeven and reduce risk in Central/Eastern Europe, so I just want to know how you're thinking about capital going forward. Third and finally on funding, I just wanted to see - - I mean who are the main buyers of primarily Swedish covered bonds? I assume it's insurance companies and sort of the end buyers and also wanted to know if you consider the impacts of solvency two and capital demands, as far as I understand it, will go up quite dramatically on covered bonds compared to, for instance, sovereign debt? That was my three questions.**

Michael Wolf: In terms of loan to deposits, we do have a positive view on what we believe we can achieve with the new customer-centric organization. We have run pilots in the branch offices since autumn. Magnus Geeber has been responsible for the large corporate segment. And in both these areas, we have been able to improve our ability to attract deposits once we have started to focus on that, and we also see that our franchise in the Baltic Banking has an ability to attract deposits, so it's us steering the business differently. We want to be long-term. We want to have a more balanced view between loans and deposits. We're more focused on the quality when it comes to lending rather than the volume. So all in all, I think that on top of the risk reductions we continue to execute and Central/Eastern European will have net positive effects on our LTDs.

Can you take the question about capital once again please?

Aaron Ibbotson: **Yeah, I'm just noting, you got 12% quarter one ratio and you basically, as far as I can see, you don't expect any large shore down going forward on your capital from losses. In addition to that, you seem to be still in risk reduction mode in particular in Central/Eastern Europe, so I just I guess struggle to see the need to run with a 12% quarter run ratio when the average in Europe is eight to nine.**

Michael Wolf: I mean we are still in the risky environment and we need contingency and we want to have more clarity about where the global macro economy ends up, so that's our advantage point today and that might very much differ at the end of the year if everything comes through as the best scenarios might indicate. So it's too early to draw any conclusion on capital level.

Jonas Eriksson: Sorry on the funding question. Was that what - - to what extent solvency two might have an implication on the demand for covered bonds?

Aaron Ibbotson: Yes, I guess that's pretty much what I tried to say.

Jonas Eriksson: Yeah, I mean there are quite a lot of moving parts in the funding market generally. I think solvency tier is one of them, but I think the new regulations for banks is probably going to be an even larger potential impact. So I think let's see when we have all the new regulatory changes on the table and we can analyze them in more detail. So far we haven't seen anything along those lines. I think given what we hear so far, we feel that the covered bond markets will still be a long-term viable funding source for us.

Aaron Ibbotson: **But Jonas, have you - - what proportion of your covered bonds are bought by insurance companies? Do you know that roughly? I mean if you take the one that are not bought by sort of yourself.**

Jonas Eriksson: It very much differs from between what type of maturities you're looking at and what type of intimates you're looking at. I mean we've had... In 2009, we had one euro placing which was to 85% bought by insurance companies. The last one we did the three year euro covered was to I think 65% non-insurance companies, so I think it very much depends on maturities and sort of where the market happens to be that particular week. I would say on average it's more than half by insurance companies.

Aaron Ibbotson: **And you don't pick up any sort of concern on their side because of change regulation that they will have to demand higher returns basically they need wider spreads to be able to carry them going forward?**

Jonas Eriksson: I mean so far the demand seems to be quite stable in that market, and I think also looking at the spectra of what type of life insurance or pension investors are buying our paper and obviously and currently two-thirds of our outstanding covered bonds are in Swedish Markets where you have sort of high degree of mutual and of course the governmental buyers as well, so I think you'll probably see large differences in the insurance companies' attitude to these new potential relations as well.

Aaron Ibbotson: Thank you very much. Very clear.

Operator: *We have a question from Hampus Brodén from SEB.*

Hampus Brodén: Yes, hi, everyone. **I was just wondering if you could fill us in on the - - how much interest rate sensitivity will increase as an effect of the dismantling of the interest rate hedge? I suppose if you dismantle 60% of it almost during the year here, then you will become much more sensitive to rising interest rates. The second question also on the net interest income, is the Baltic lending margins which have been falling for as many quarters as I can remember and the fall in interest in lending margins in the Baltics accelerated in the last let's four quarters and now you're quite markedly up**

on the Baltic lending margins and I was just wondering if you could give us some more details on how that is achieved. Thank you.

Erkki Raasuke: I'll start from the second part. All of the margin calculations what we are - - what we have been displaying today is that the need point there is used internal FTP, which is quite discretionary and which is not necessarily tied to any basically market rates really but rather is that from time-to-time we update these subject to the internal (inaudible) and also subject to the changed funding environment. Basically this is a complicated way of saying is that please don't try to read too much out of this. These margins (inaudible) for that point of time to look to the headline yield changes, both in the liability as well on the asset side. Going forward is that the wanted point to be is that we would be able to discuss all of the books basically versus STIBOR or Euribor rather than against the internal rate and then I think the margin discussion is going to be significantly more transparent.

On the first question of dismantling the hedge, I mean this is a - - that's what I kind of again was thinking or saying is that it's under the constant review or monitoring, it’s to do with the current steep curve is that there is no rush of dismantling or coming out of that. At the moment, when we think there would be a expectation is that overall of the curve would actually start and full curve starting to parallely shift up is that then, I mean obviously we would accelerate the taking of the hedge because then it's - - there is risk that it's starting to become counterproductive. But that's all of the question is that the number of moving parts and basically what kind of assumptions you are using. Currently we are basically sitting still with that.

Michael Wolf: But I think it's also fair to say that the NI hedge and the way its constructed is it does not benefit when interest rates are low per se. It benefits when the short end of the yield curve is steep.

Erkki Raasuke: Yes, exactly.

Michael Wolf: So just to give you a feeling for the dynamics of it.

Hampus Brodén: **Might I add an additional question on the NI then? The central bank deposits that are being - - that are maturing during 2010, how are you planning on replacing those funds?**

Michael Wolf: Most of the central bank money has been simply short-term liquidity buffers in excess to what we've been used to in the past. I think as we prolong the maturity structure, the need for very short-term liquidity excess buffers is also declining slightly. And for those of you that have sort of compared the growth of our projected cash flow or the stress test of liquidity that we show in the presentation can see that the short end of the curve has actually come down slightly compared to last quarter whereas the survival period has still increased. So I wouldn't... I mean that is not a material impact. We don't use central bank money actively in our investment activities. It's not placed at a - - I don't even think it's placed at a positive yield, not today so...

Hampus Brodén: Right. Thank you.

Operator: There are no further questions at this time. Thank you.

Michael Wolf: Then thank you for listening in and look forward to meeting you in one month or elsewhere. Bye-bye.

Please Note: * Proper names/organisations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.