Event:	Swedbank Call
Date:	21 July 2011
Speakers:	Michael Wolf Erkki Raasuke Göran Bronner
Call Duration:	0:48:10

OPERATOR: Thank you for standing by and welcome to the Swedbank's Interim Report, January till June 2011. At this time, all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question, you will need to press star and one on your telephone. I would like to advise you this conference is being recorded today, Thursday, 21 July 2011. I would now like to hand the conference over to your speaker today, Mr Michael Wolf. Please, go ahead.

MICHAEL WOLF: Good morning and thanks for attending our second quarter result presentation. Our focus on quality and risk of the asset returns has given positive development both on the P&L and the balance sheet. The stress test carried out by EBA and the Swedish Riksbank has confirmed our resilience. More importantly, we have completed the 2011 ICAAP process with the SFSA. The outcome is within our risk tolerance of 300 basis points. Göran will provide more insights to this in his presentation.

We're reporting income in line with the first quarter despite the fact that we had a one-off income of 720 million krona from the Lehman settlement in Q1. NII continues to expand nicely also in this quarter and we have continued to lengthen our maturities, increase our liquidity reserves and extended our liquidity survival period. Our costs' control has enabled us to keep costs flat as guided for. This, in combination with the return focus in the business areas, has enabled us to reach a return on equity of 14.4% in the quarter and 15.3% after six months.

We report a solid core Tier 1 ratio of 14.8%. During the quarter, we have been buying back shares corresponding to 2.9% of our outstanding shares and we will continue our buybacks to manage core Tier 1 gradually down to 13% as earlier guided for.

Let's turn to some highlights in the business areas. Retail continued positive development supported by increased market rates. NII is up 23% year over year and we see some continuous margin improvement in the mortgage sector. We're defending our market share in all areas except for the mortgage market where we have, since mid-2009, had a more conservative view on the risk levels. However, we're noticing a change in behaviours among our peers and we should, therefore, start seeing our new sales market share improve from hereon. In the larger corporates and institution area, we're doing well in the corporate lending market and the pipeline is strong. The trading environment has been difficult and slow due to market uncertainties.

In Baltic banking, we've continued to develop our business nicely despite the fact that the deleveraging has continued in a slightly more rapid pace than anticipated. However, we continue to have the view that both Estonia and Lithuania should see reversals of this trend before year-end.

At ICAAP marketing in February, we outlined four key priorities for 2011. A lot of efforts relating to quality and efficiency improvements have taken place during the period. Among others, we've been able to reduce the manual cash handling in our Swedish branch network with close to 10%. We have also completed the product within Swedbank Insurance to reduce the handling times for new applications from over 20 working days down to 2 to 3 working days.

Group cards within group business support has finalised a new multi-year agreement with MasterCard covering all four home markets which will provide us with significant efficiency gains in the card area.

We have, as mentioned, increased our maturities, improved the liquidities' reserves and extended our survival period. We continue to reduce our state guaranteed funding and we are well prepared for all macro economical scenarios going forward.

I'm also pleased to note that we continue to attract more and more clients to our loyalty programmes in Sweden. In the quarter, some 92,000 clients signed up to one of the loyalty programmes. LCI is making significant progress in the large corporate segment and we continue to clean out our back book of low yielding lending.

During the fall, we'll further enhance our marketing efforts in private banking and finally, our mobile bank shows spectacular growth in all four home markets.

With that, I would like to hand over to Erkki who'll guide you through the financials.

ERKKI RAASUKE: Thank you, Michael. Let me then populate Michael's comments with numbers. A quarter ago, we were talking about positive underlying NII trends which then was not very clear from reported numbers. Now it has become more visible and we report quarter on quarter NII increase of over 200 million. As previous to the one, the driver has increased short term interest rates and through that, the expanding transaction account margins but the single largest contribution to increase the NII in Q2 was now coming from wider lending margins in our Swedish business and this in particular in the private lending area. It's fair to say that this trend has been quite strong particularly the later part of the quarter and it will likely continue also into the third quarter.

LC&I have continued the performance on lending side but was weaker in trading but I note that this lower trading result currently is almost entirely recorded under the NII.

I thought we issued quite active long term debt lending and increased liquidity reserves and due to the improved funding spreads, quarter on quarter impact was not very heavy.

Let me also note here again that we keep the government guarantee fee at the Treasury level. It was 300 million in the second quarter and it's down by about 50 million from Q1. We're seeing here that the weight of this is reducing.

So we currently maintain our cautious positive outlook for non-trading NII. It is supported mostly by improved margins. On the risk side remains Baltic deleveraging and then a potential volatility for also the funding area.

After a seasonally slower Q1, payments in corporate finance area delivered higher commissions. Asset management improved, brokerage fees again were, due to the nervous stock markets, slightly weaker. Large corporates has done increasingly well in debt origination and syndication. Actually, they have better results than they have reached over the last eight to ten quarters.

We decided to change the way we treat these collective origination fees and we adjusted our practises now in the second quarter also reaching back to the first quarter and we decided to defer collective fees over the lifetime of underlying credit transactions and that change in principle is taking commission income down quarter on quarter by almost 136 million.

I do want to leave the message here that although we report slightly lower numbers, underlying, the performance is stable and healthy.

As already noted in the trading result, it was mostly recorded in NII in the second quarter. The main contribution to gains and losses came from Group Treasury where negative valuation effects in Q1 to a quite large extent turned around. As we have discussed so many times also earlier, the two largest sources for these valuation effects are basis swaps which are outside of the hedge accounting and fair value lending and funding in the fair value option arrangement.

Outstanding volumes causing these volatilities are slowly coming down but not exactly with the speed in the way we would like to have. We do foresee the full solution in the beginning of 2013 when IR4S9 comes into force and that will allow us to fully reconstruct the frame of our hedge accounting.

Up to this point of time, we keep reporting about what activity cost by these areas and we explained the promise behind that.

Michael already made the note about expenses. Our work continues in efficiency and we can report that we are on track with our target keeping flat costs. One of the emerging headwinds here is Ektornet and its property related cost. In the real estate business, this property related costs are offset versus property income. In the banking again, they all fall into operating expenses. We foresee that Ektornet Bank reported expense base will grow from 200 million in six months to about 500 million by the year-end and that was not exactly what we considered by establishing our cost target but we nevertheless, worked for our established target.

In general, Ektornet is doing well. Among other things, we also concluded a number of successful sales of repossessed properties. The largest transaction was done in the US where we netted more than 80 million.

Let me move on then to the volumes. Lending and deposit volumes have been quite stable during 2011. In Q2 though, the lending was growing by 6 billion with a small growth in our Swedish operations and decline in Baltic banking, Russia, Ukraine and US portfolio. We're quite pleased to see that the number of quarters declining large corporate portfolio has started to grow again. New lending has now surpassed decline of the low performing portfolio.

Baltic banking lending volumes, some further steps back in Q2. Decline in local currency was 450 million and that's about 100 million more than in Q1. Market is showing signs of improvements but we had few larger real estate exposures refinanced by the new income in foreign investors. Our pipeline is getting longer and we are still expecting to see the turning point, as Michael mentioned, during 2011.

After 90 million term funding issuance in Q1, we did additional 16 in Q2. This issuance has been comfortably ahead of our maturities. We can say that more than 80% of full year refinancing need is now already covered. A large part of issuance was in the domestic covered bond market where we ensured absolute and relative spread tightening. Average maturity of the total wholesale funding has further prolonged and it's now reaching to 34 months and that includes also all of the short term financing. We don't expect a further aggressive prolongation from that point here. We rather expect it to be around these levels over the coming quarters.

Refunding has been also increasing our liquidity buffers. Based on the Swedish FSA measure, we report liquidity reserve increase from 150 billion to 200 billion and Göran will touch on liquidity on this risk profile a lot closer on his part of the report.

Let me then conclude financial performance of the last quarter. Yes, we report increased NII on the back of expanding margins and we expect this trend to carry on into the following quarter. Commission income is generally healthy but was affected by our changed accrual methods. We report total income of 3.36 billion and that is 600 million better than the quarter; earlier if we consider the income from Lehman created portfolio.

We continue reporting recoveries in write-backs and Göran will walk you through the recent developments in these areas. The effective tax rate is back to 20 from the previous quarter at 23.5 and we're reporting a net profit of 3.45 billion which gives more than 14% ROI over our strong capital base.

Let me then conclude that we expect a gradual further improvement in profit before impairments from here and we hope that it will not be disturbed by neither negative macro nor funding market events. With that, Göran, if you could, please, continue.

GÖRAN BRONNER: Okay; thank you, Erkki. I will cover three topics. One is that of quality development in the quarter which has been clearly positive. The other one is the macro economic risks that are increasing outside of the bank and lastly, our resilience really towards those increased risks.

So we're starting off by looking at the quarter more and what's happened from an asset quality point of view. I think it's been a continuation of very broad based improvements and de-risking in the bank. We see a decrease in impaired loans, 60 days overdue, restructured loans and also the various watch lists in our home markets are decreasing as well. That is, of course, very positive.

We are continuing to record recoveries in the Eastern European part of the portfolio although at a lower speed. I will come back to that in a few seconds. Lastly, we are seeing, witnessing a positive rating migration on our corporate exposure both in the Baltic relation and also in the Swedish banking. All in all, the asset quality and the risk level is continuing on the track that it's been in the past quarters.

Outside us though, as everyone knows, the macro is turning more oblique. It is partly a result of slowing down of the world economy and also, of course, as we all read in the newspaper, a heightened risk level with regards to the sort of government debt situation in Europe.

For Swedbank, I think, if we look at the direct impact of that and relate towards what we have in terms of exposures to the southern part of Europe, they are extremely small. We have 120 million in outstandings to Greece, Ireland and Portugal together. If we include Italy and Spain, we reach a number of 1.2 billion, so very limited direct exposures. The main issue though is, of course, how we prepare ourselves from a funding point of view in light of a scenario that could be very turbulent and I will come back to that later on.

Lastly, of course, what kind of impact will this have, the slowdown have on our corporate exposures and we can just conclude that we are seeing very little impact at the moment. On the contrary, things are still improving but, of course, we look with crystal balls and try to follow the risk levels very closely. I also would like to say that with regards to the slowdown in Sweden that we are witnessing partly as a result of the weak international economy, but also as a result of the hiking of the interest rates, my view is, at least, that the risk level is going down in Sweden; it is not increasing. We are coming from a situation where we actually were on the verge of becoming overheated and the property market to extend that by actually slowing down the credit expansion and the property price development in Sweden, we are actually reducing risk, not only for Sweden but also for Swedbank, so that, I would say, is a positive development.

Swedbank's resilience in this, I must say historically is very good. Capitalisation, as Michael mentioned, is extremely well; 14.8, quarter 1. We continue to work with de-risking from that point of view. We have conducted and had confirmed our internal stress test, the ICAAP, that today are disclosing parts of, in the appendix, to the quarterly report for you in order to see the impact it has on credit impairments and pre-provision earnings. I will come back a little bit to that.

Then we continue in Jonas' area to further improve the funding position of the bank both through increased liquidity reserve but also extend the maturity structure.

Now, turning more into the recovery situation and credit impairment; as I said, it is a very broad based recovery in almost all countries. The only exception has been Estonia where we have seen a few large latecomers of corporate exposures that has become impaired and we have subsequently provided for them. That has made Estonia actually record provisions in the quarter. We feel confident that those are just one-offs for Estonia considering how well their macro economic environment is playing out and also most of our positive rating migration are actually relating to Estonia.

The second thing I would like to highlight in this quarter is that we have also cautiously made an extra provision of €25 million with regards to residential mortgages in Latvia. The residential mortgage market in Latvia has reached an impairment level of almost 20% on a country based number and I think we are experiencing that a proportion of that market is relating to lending with lower quality apartments and houses which are small sizes and we have to be cautious there in considering the overhang that we have in repossessed assets. They've made an extra provision to cover for worsening (inaudible). I just want to emphasise that we see this is a country specific issue and we want to be cautious.

The positive part is, of course, the Swedish performance which, if we look back for the first half year of this year, we have actually write-backs in Sweden of more 100 million SEK and continue to see credit quality improvement in this quarter, so that gives us very good comfort in looking at increased risk levels from the outside as well.

Turning to funding and liquidity; firstly, I just want to highlight that in the past year, the bank has significantly strengthened the governance around funding and liquidity. We have, on the board of directors, introduced since a while back, liquidity survival for some periods, liquidity to portfolio limits and also a limit with regards to the over-collaterisation that we are having in our covered bond pool. So the issue has been well debated and looked through on the best possible level in the bank. We are, during the quarter, increasing our liquidity reserve from 147 billion I believe up to 203 billion. The quality of the papers is very good. Everything is AAA. If we add on the pledgible assets that we have in the market division, we can add another 65 billion SEK.

In looking at the covered bonds' availability which, of course, is an important thing for Swedbank with such a nature of our balance sheet, we are today operating with an over-collaterisation of 29%. That gives us plenty of room to extend funding in this arena and, at the same time, we are adding on eligible assets in the covered bond pools and extending the pool and that work is continuously continuing in the bank and we see a maximum potential to adopt more eligible assets in the magnitude of 50 to 80 billion SEK and if we really extended it, we could go up to 100 billion SEK.

Lastly, I just want to emphasise it has been raised by our Central Bank, the dependency of the Swedish banking system with regards to short term dollar funding and the need of sort of us, the banking system, not being dependent on that short term funding. I just want to emphasise that Swedbank has a very limited asset portfolio in the corporate lending arena, so long term assets relating to dollars is very small. It is around 3% of the core balance sheet, so we will continue to monitor this of course but from an overall risk perspective, we feel comfortable there.

Lastly then, just turning to capital; as Michael mentioned, we have a very solid core Tier 1, 14.8%. We have bought back almost 3%. We will continue to execute on the buyback programme. We feel, of course, very much strengthened in the stress test. The EBA, Riksbank are nowhere as conservative as our own ICAAAP stress test and, as you can see in the appendix, the stress test really takes height for a very prolonged and negative recession with devaluations in Latvia, Lithuania and also selected defaults in some of the European countries and in Ukraine.

Nevertheless, we come up to credit impairments. In that stress test, over there, the time arose when obviously almost 62 billion. That should be related I think a little bit back to the 29 that we provided at the height of the crisis. We are now recovering part of that 29 but the maximum provisions we made were 29 and in light of that also, we have a significantly de-risk balance sheet today than we had at that point in time. So we feel really a good confirmation and comfortable in this stress test.

Lastly, the work with capitalisation; it has been a focus area for the new management all since the first half of 2009 for obvious reasons, and it will continue to see to it that we utilise our capital base in an efficient way and set aside appropriate level of capital towards the business we are doing and are getting the returns that should really be there.

MICHAEL WOLF: Thanks, Göran. We open up for questions.

OPERATOR: At this time, ladies and gentlemen, we will begin the question and answer session. If you wish to ask a question, press star and one on your telephone and wait for your name to be announced. If you choose to remove your question, press the hash key. Again, that's star and one for a question.

Your first question for today comes from the line of Nick Davey at UBS. Please go ahead.

NICK DAVEY: Yes, good morning, everybody; Nick Davey from UBS. Thanks very much for taking the time on the call. Three quick questions if I may. The first is on net interest income and the outlook for the second half. Erkki, you've been, I think, very clear on the impacts in the second quarter regarding retail lending margin expansion and obviously some of the government guaranteed impacts. I guess in the second half, there's very little rolling off of the government guaranteed funding until December and I presume you'll be prefunding a lot of that maturity, so could you just maybe talk around whether you think the retail lending margin expansion is going to be enough to offset any funding margin squeezes? Maybe just talk a little bit about the margin in the second half.

The second question is on the buybacks and the capital. As you observed, 3% share count buyback; this course has only taken 10 basis points off your core Tier 1 ratio and you're still significantly above your, let's say, target 13% level. I suppose my question is could you talk a little bit about what you might or might not do at the year-end if you're still well above your 13% target level and have filled your buyback mandate for the year?

The third question is on CRD4. It looks like the transitional floors will be in place domestically until 2015. Could you just maybe mention if this is coming into your thinking at all around your capital strategy? Thank you.

MICHAEL WOLF: Let me start with the second question around buybacks and then I hand over to Erkki and maybe Jonas on the spreads. We have clearly communicated a target up to 2013 of 13% and that's what we're aiming for, so we will continue to gradually buyback and who knows what might happen at the AGM in March/April next year, but we were very clearly guiding for that credit demand might not be there and that we would have this type of situation. It gives us a lot of optionality but most importantly, we're very well positioned for all macro economical scenarios and I think that is a very strong position to have. It gives us optionality from hereon.

ERKKI RAASUKE: If I jump then to the NII's; we are in a fast moving market and things obviously can change, so let me start from that. Yes, I think the outlook is decently good particularly into the third quarter and possibly also into the fourth quarter. We see a healthy margin expansion on the mortgage lending. Our interpretation of that, which I think also has big confirmation now of our peers coming out with the reports is that we are seeing of the incoming funding issues to our peers and these are the issues we have been facing over the last 18 months already, so we have pretty much bitten the bullet already some time ago and we are seeing our absolute and relative spreads are actually getting better. Most of them, the extension has already been done and as we're seeing, also the government guarantees are increasingly falling off, so the liability side, currently, the short term is not being disrupted. We can see that it will really cause big issues for ourselves. So here we can really benefit out of that margin expansion on the lending side.

Let me also briefly touch your two other issues; also concerns here, deposit margins. We still expect the Riksbank to further increase the rates, so that would basically give us more boost there as well but we have also seen on the savings deposit side now slightly higher competition and actually, the margins over the quarter in this particular product will slightly be decreasing, so we are reporting out from the deposit through our pool actually on a combined basis with our flat margins.

Finally also, I did mention a couple of times is that our first and second quarter, the rating result has been quite a bit in the NII; Stibor also should be taken into consideration when we look to the NII just headline number but when we talk about the core NII offer related to the lending deposit collection and also funding, yes, I reiterate our positive outlook.

Let me also hand you to Jonas on some of the funding spread development.

JONAS ERIKSON: We've had an obviously quite fluctuating market when it comes to our new funding over the last six months. Clearly, year to date, our covered bonds spread has come down materially. We're currently taking up new funding between 20 and 25 basis points lower spreads than we were six months ago and we're actually currently just on the balance of having equal, on the margin, new funding costs versus the back book average and the back book average is around 72 to 74 basis points. I think that is also important to consider and this has obviously not taken into consideration the government guarantee where we've previously said that this is costing us the swaps plus 170, just to give you a comparison. So obviously, the government guarantee altogether gives a much more positive impact, but even not regarding that, we're currently balancing the new funding versus the back book, so anything that comes into lending margins versus your Libor/Stibor development, it's coming straight through positively into the NII.

GÖRAN BRONNER: With regards to CRD4, transitional routes and so forth, you had a question there. I think there was a lot of news yesterday. We haven't had time really to digest everything because we worked with the quarterly report, but as it looks right now, there's nothing in there that alters or changes anything from our point of view and really, we are focusing on Basel 3, not the traditional routes, and we are focusing on from a steering point of view to having the ICAAP as the sort of capital allocated for the various business areas, so the stress testing is the central part in the steering of the bank.

NICK DAVEY: Okay, thank you; that's all very clear.

OPERATOR: Thank you. Your next question comes from the line of Johan Ekblom of Merrill Lynch. Please go ahead.

JOHAN EKBLOM: Thank you very much. Two areas of questions, please. Firstly, in regards to your cost guidance; did I understand you correctly that despite higher costs in Ektornet that you're guiding for flat costs? I guess relating to that, the large increase we saw in other income in Ektornet; is that relating to the operations of Ektornet or to the disposals that you alluded to? Then just secondly, I saw Michael comment on good consolidation opportunities in an interview earlier this morning. Maybe he can elaborate a little bit on what you see there and how you view your own participation.

MICHAEL WOLF: Hi, Johan. I guess you heard what you wanted to hear on the consolidation. I was actually quite clearly saying that we continue to focus on organic growth. We are moving full speed ahead towards our return to audit of 15%, so there is a lot of opportunity within our region, within the bank that we want to explore. When it comes to the guidance of cost, yes, we have guided for flat cost excluding variable pay and we'll stay with that despite what Göran told you around Ektornet. So that's the guidance state and Göran will guide you slightly more on Ektornet.

GÖRAN BRONNER: On the Ektornet, if you take the first half year of this year as compared to last year, the cost has increased 100 million in the Ektornet relating really to property costs that are normally in a property company account as against income but as we are a bank, we are forced to leave all the costs. The costs' base on a year over year basis will be in the magnitude of 400 to 500 compared to 200 last year but even though what Erkki and Michael are saying is that we would try to be within the cost framework they have, yes, even though we have that cost interest.

MICHAEL WOLF: Income to Ektornet.

GÖRAN BRONNER: On the income side, this quarter, we had sale of an asset in the US that netted us 80 million. We are actually continuing to sell some apartments in Miami; that continues to generate profit actually, that's positive. On the negative side, we have a negative cash flow generation since a lot of assets are non-cash flow generating in the Baltic's but we have a significant overvalue in the Estonia to date considering we are now reaching 4 billion of assets in there.

JOHAN EKBLOM: So just to follow up on that; if we strip out the 80 million, we're looking at a reasonable run rate for the revenue side of Ektornet.

GÖRAN BRONNER: The revenue side of Ektornet, you can't really guide anything. We have a negative cash flow on it being a state property realtor or a property management part of it but their income; this is a portfolio that we should exit, so we will sell things. The only thing I'm saying, we have an overvalue of the properties we have in there, so we're running a cash flow deficit but against that, we have an overvalue of the mark to market situation and we will sell things as we see prudent from a shareholder perspective. There are many options on what to do with all these assets over time.

ERKKI RAASUKE: In the interim, I think there is also decently good disclosure of what actually has been sold and which areas are sold, so that might help you in terms of forming a longer term view.

GÖRAN BRONNER: With regards to recoveries and the outlook for recoveries, this quarter was -- we said last quarter when we had almost 1 billion in recoveries that we would go at a lower speed next quarter and then we are stating for the second half of this year that we will continue to see recoveries in the group and that we envisage it to be somewhere in-between the speed of this quarter and the previous quarter.

JOHAN EKBLOM: Excellent; thank you very much.

OPERATOR: Thank you. Your next question comes from Magnus Anderson of ABG. Please go ahead.

MAGNUS ANDERSON: Yes, good morning. Just a follow up question on your cost guidance that you have for 2011. I was just wondering if you are prepared to extend your guidance beyond this year i.e. is flat costs what you are targeting also for the mid-term and the coming years and, if that is the case, what are the main drivers of that? Thank you.

MICHAEL WOLF: No; we are not going to extend the guidance and cost control is important in banking and will continue to be important. Banking will be a matter of size and scale and we are exploiting that. A good example is those things that I mentioned earlier that we are starting to see benefits from acting like one bank in four home markets; that gives us scale when we negotiate with different partners. Retail is extensively working through its transaction part to release and improve processes; cash handling down 9%, so there's scope for a lot of that and we've started that process and it will be a multi-year task to continuously improve the bank but guidance stays for this year. Thank you.

MAGNUS ANDERSON: Okay, thanks.

OPERATOR: Thank you. Your next question comes from Andreas Hanson of XN and BNP Paribas. Please go ahead.

ANDREAS HANSON: Yes, hi; it's Andreas Hanson from XN and BNP Paribas. Two follow up questions if I may. The first one is on -- we could take a quick one on NII. Erkki, you said that you're positive on the underlying NII. Could you just tell us a little bit, for our modelling purposes, how big was the trading impact on NII? Secondly, just a follow up on the CRD4; you say that you don't focus too much on their floor rules, but we know the Swedish Government is clearly now focusing on it; we actually saw it in the budget, and we saw in the latest ability report that the Central Bank was actually recommending that banks are not using the buyback mandates. Could you just see that this change in the COD yesterday could have the regulators being a little more negative on your buyback plans at the moment? Thanks.

MICHAEL WOLF: If I take the last question first. We are at 14.8 and we're guiding not to go below the 13%. That gives us, first, a 300 basis point buffer for the ICAAP. On top of that, we have a 300 basis point buffer for whatever regulatory regime we might experience tomorrow, so in my book, the buyback programme is not questioned; it has never been questioned and we will continue down to 13% and that means that we're still one of the most prudent banks in Europe that can withstand significant stress tests and that's why we're also making our stress test public so you can get comfort that the risk advertised on 300 basis points is what is necessary with the balance sheet that we have today.

ANDREAS HANSON: But do you see any risk that the regulator's going to turn around and say, "Forget about the 14.8% on the current routes; you're actually 10.1%"?

MICHAEL WOLF: No because loss absorbing capital is what it is and that is what matters and there has been no noise from anyone; neither Riksbank and nor the Central Bank on our capital position. They have approved our ICAAP stress test with the communication that we have it done public with the 13% and the 10%, so no, that is not an issue. The transitional roads are there, yes, but they don't really mean a lot when it comes to loss absorbing capability.

ANDREAS HANSON: I'm not so worried about the ICAAP stress test; I'm more worried about RWA's side, how that's being calculated and that's the impact, of course, that we could see going forward.

MICHAEL WOLF: We have reduced risk weighted assets due to the shrinkage of the balance sheet with 25% over the last two years. We're still the most conservative when it comes to the corporate side and we have been very articulated that we are not running the bank internally on the 6% of pillar 1 risk weights for mortgage lending. We are actually steering the bank on the ICAAP and the stress scenario and when we're stressing the mortgage book, we're stress it quite significantly as you can see in the appendix.

JONAS ERIKSON: Also remember, Andreas, that we have a very low impact from Basel 3 transition in terms of risk weighted assets. Our approved Basel 3 in quarter 1 is well above 14%.

UREN: And the Basel 3 base here, sure.

ANDREAS HANSON: Again, on the NII?

ERKKI RAASUKE: On NII, yes. We are working with the way to disclose going forward that we would have all of the trading NII actually as part of the net gains and losses but it takes a bit of work. It needs to be carried through when the people work over the coming quarters. In the meantime also, we do wish that we can give also better disclosure what is the core lending related NII and what is the trading. We are not quite there today as yet as well but let me give the guidance's that they're around 450 to 500 million in a quarter is a core lending NII of the total pool and above of that, then what you see is a trading. On this core NII also is we are seeing the portfolio basically not continued and we are seeing, as Magnus also has been communicating, in the capital markets, we're seeing a positive rotation and basically strengthening results. So I would expect also this last corporate core lending part NII actually gradually to grow.

ANDREAS HANSON: Thanks; thank you.

OPERATOR: Thank you. Your next question comes from the line of Peter Grabe of Handelsbanken and please, go ahead.

PETER GRABE: Thank you. Peter Grabe, Handelsbanken. Two questions; firstly regarding the risk weighted assets. If you can give any guidance on where you are in terms of the progressing into -- are you advanced on your corporate book? Also if you can give any guidance on what kind of risk weight reduction you foresee in that matter. Then the second question; if you can give us some updates on where you consider yourself in terms of LCR and NSFR, giving what you know today.

JONAS ERIKSON: If I start with the last question on the LCR and NSFR; I think firstly lets see how the final definitions will end up looking. On the LCR, I think we're being quite clear that we are well within compliance already; that we don't really see it as an issue. Also that is in despite of us not having really taken any kind of actions to strengthen that measure. On the NSFR, currently, we're just short of 100% if you were to measure it; roundabout 95% but it's also important to remember that we have one remaining matured concentration left in the wholesale funding structure in the first half of next year. Once we've passed that, our liquidity buffers will obviously remain while we have maturities on an ongoing basis; they are clearly lower. So you will see a jump in our liquidity standing in the middle of next year as a result of that.

The maturities we have in the first half of next year are what we've been working a lot with in the last 18 months to the present, which is that we have a very good position to meet those but I think the easiest way of looking at how banks come out, or at least how we came out, given that we have -- you could say that we have all our short term funding sitting in Central Banks. We don't have much short term funding in the first place but what we have is sitting in Central Banks, so that you can basically take off both as a liability from a liquidity perspective. We have very little senior(?) funding outstanding, so our maturity structure on the covered bonds side and our annual maturities will need to be met by liquidated reserves. That is the best way of looking at it; it's somewhat simplified but the cash flows from the underlying lending and deposit slips is impacting the measures so lightly compared to the maturities on wholesale funding. So I think looking at net short term funding after what we have in Central Banks reserves plus the annual maturities on the term funding side versus the liquidated reserves; that's the best guidance I can give.

GÖRAN BRONNER: Risk weighted assets, I think it's extremely difficult to guide on that measure. There are too many things impacting it. I can only emphasise that we will continue to work with it. It's about improving on the sales force, the knowledge about the capital and how to structure transaction, it's about reviewing the credit processes and it's also about how we have calibrated models and how we historically calibrate models going forward in relation to our back testing of things.

Then, of course, IB(?) advance is important for us. We are a bit late there we would say but we are close to handing in the application and after that, we are looking at an 18-month period. So we're not too distant from doing that, so it's nothing that you can calculate during 2012, so it's a 2013 issue.

PETER GRABE: Okay; if I may follow up there in terms of risk weighted assets and lending, by saying that, or should we interpret the development going forward such as RWA will grow significantly less than the loan growth or can you say anything about a general picture (overspeaking)

GÖRAN BRONNER: We stated that before. If we look at the history on credit losses during now and the past 15 quarters and you compare that to the risk weights on the corporate sector, of course we feel that we are perhaps a bit conservative in the cap that we put aside there and what we thought of in true return or relieved capital and what will the in excess of that, I just can't think that now 10 quarters into it, we are actually improving the return and also reducing capital, so it counts in both angles of it. It's really difficult to guide on that absolute clearer but we will continue to work with it. We still think there's room there to improve.

PETER GRABE: Okay, thank you very much.

OPERATOR: Thank you. Again, ladies and gentlemen, press star and one on your telephone if you wish to ask a question. There are no further questions at this time. Sir, back to you.

MICHAEL WOLF: Thank for attending and thank you for putting the questions to us and hope to see you soon again. Bye.

OPERATOR: That does conclude this conference for today. Thank you for participating.