SWEDBANK, 28th OF APRIL, 2011

Thank you for standing by and welcome to the Swedbank Q1 report 2011 conference call. At this time, all participants are in 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 1" on your telephone keypad. I must advice you this conference is being recorded today, Thursday the 28th of April, 2011. I would like to hand this conference over to your speaker today, Mr. Michael Wolf, President and CEO. Please go ahead, sir.

Michael Wolf: Good morning and thank you for attending this call. The underlying trends that we have seen in the past few quarters are also confirmed in the first quarter of 2011. We see improved credit quality, reduced risk-related assets, NII is supported by market rate hikes, both in Sweden and the Euro zone, and costs are flat versus the same period last year, as guided for. We did also benefit from the Lehman settlement, giving us a net profit for the period of 3.8 billion krona. All of the above has led to a significant build-up of our capital base. Quarter 1 improved to 14.9 percent, giving us further confidence in starting the execution of our buy-back mandate as soon as possible. But maybe more importantly, we are well positioned to support our clients and business to grow their businesses sustainably. We have a fantastic customer base in all four home markets with over 9 million private customers and close to 700,000 corporate customers. We are committed to making the bank more customer-centric, an effort which by definition will take some time to complete. Our long-term target is to have the highest customer satisfaction level in the sector and thereby the highest retention and referral rates. During the quarter, another 90,000 clients signed up to our loyalty concepts in Sweden. We are also making good progress in becoming more capital efficient and transforming the corporate side of the business by steering them on risk adjusted returns. Both in LC&I and in Retail's corporate segment, this has had positive impact in the quarter. Furthermore, we are getting more and more customer feedback about our ability to compete in these segments.

2:26

In the Baltics, companies – especially in the export industry – are running close to full capacity. Hence, there is an emerging underlying need for investments, which we are well-positioned to benefit from. In order to support our customer-centric approach, we have launched a number of competence development programmes in Sweden and in the Baltics. And we are mapping each branch's customer base to ensure that our resources are well matched. In order to get more time for advisory and relationship-building activities, we have a target to reduce with 1.8 million man hours during the year. 60 percent of this target has already been committed by the business areas and will be executed through 13 different transformation projects. We are also seeing a huge uptake in the use of the mobile banking channel. In March we recorded 5.3 million customer logins, to be compared with 1.7 million logins in September last year. This is to be compared with the 29 million logins we had into the internet bank during the same period. The efforts to improve capital efficiency and improved credit quality have also led to us having among the best funding conditions in the market. With that, I would like to hand over to Erkki.

3:57

Erkki Raasuke: Thank you, good morning. And let me then fill Michael's comments with some of the numbers. Let me start off just with reiterating the underlying themes, which Michael has just mentioned, which probably have shaped our results in the past quarter. Firstly, there are continual interest rate increases, secondly the slightly lower activity levels which are typical for the start of the year. And then thirdly our overactive wholesale borrowing with its given side-effects. Quarter on quarter, we are reporting flat NII. Underlying income growth is there, but it is shadowed by one of three classification in Q4, by increased stability fee coming, fully in now from the beginning of this year, and also slightly shorter quarter. Retail, with its large deposit base, is clearly benefitting from higher interest rates. Deposit margins have been further improving. Lending margins have been stable, with perhaps tiny uptick in the mortgage area at the later part of the quarter. Large corporate institutions had also a rather solid quarter. This time, results were slightly more boosting NII and slightly less net gains and losses. Baltic banking NII was stable, if we ignore this late payment fee reclassification what we did in Q4. As it is now, we keep government guarantee fee at our Treasury area. Now, while central bank repo financing has phased out, this cost has become also more visible in external reporting. Overactive borrowing in Q1 also increased our liquidity costs, which we have not yet fully transferred out to the business area. So that explains the small tip in NII in the Treasury area. Looking forward then, rate increases continue to support NII and lower amount of the government guarantee debt is also clearly beneficial. So I would say that the outlook remains modestly positive. In very short term though, we will be slightly held back by higher liquidity costs and also by upcoming mismatched effects relating to maturing benchmark bond in June. So what to say here is that yes, underlying supporting trends are there, but in the short term we should not be carried away from that – there are some of the small headwinds as well. Moving forward, then, net gains and losses we're quarterly reporting a small decline and there are some of the changes behind what I want to highlight. I have already said Large Corporates & Institutions had a solid quarter, particularly in FX, fixed income and financial institutions areas. A higher portion of the income was reported as NII and less as net gains, in comparison to the Q4.

In Russia, we have to remember we cancelled large customer deposit in last quarter, which then affected us negatively. Now in Q1, we are just back to operate at our usual levels in the business area Russia & Ukraine. During the last year, our Treasury area gains were supported by widening basis swap spreads. And this has been in a way a counterintuitive development, as it also meant higher Euro funding costs going forward. Good thing is that starting from the Q4 and continuing to the Q1 markets have improved and swap spreads have started to narrow considerably in. Also good news on our Euro funding costs. We're short-term reporting negative evaluation out of that movement over 200 million, which is landing in this quarter. Michael already mentioned, that on the expense side we are staying on our target, keeping total spend, without variable pay, flat. Fixed staff costs have slightly increased, driven mostly by higher pension costs and also by a number of the key hires. Consultancy and third-party costs are year on year lower, starting to reflect our efforts to build more core capabilities in-house. We are reporting improved cost/income ratio, this is supported by one-off income and if we look through that to our core business, then we are operating currently at our previous, at 0.57 level, hoping gradually to improve this ratio over the coming quarters.

8:30

Let me then summarize our first quarter income statement. We report quarter on quarter flat NII, seasonally lower commission income and strong one-off other income. Eliminating for these one-offs, we have reached about the same profit before impairments as we had a quarter earlier. We are reporting another quarter of improving credit quality, write-backs and recoveries basically from more of our home markets, lead by Ukraine and Lithuania. And Göran will open that one up in a second. Also perhaps worth mentioning in this call is our tax costs was slightly jumping. Effective tax rate moved from previous 20 percent to 23.5. And this is very much driven by this one-off, US-based income, which had on an isolated basis very high tax costs. But in the coming quarters we should get back to our current running around 20 percent effective tax rate. And then concluding here is what Michael already said, we're ending the quarter with a strong 3.85 billion profit. On the volume side, we're also seeing - particularly in the lending side – we' see pretty much the same development we have had in the quarter earlier. We see the retail area growing, higher growth in private mortgages, our annual growth rate there is around 5 percent, currently. And there is also growth in SME lending. Large Corporate & Institutions have been slightly declining, broadly also this has been...some of that has been related also to the...to our US engagements, related to the Lehman portfolio. But also partly we have been further walking away from some of the high capital consuming exposures. So it has been partly also wanted and good decline. Baltic banking volumes have further declined. Quarter on quarter they are down 350 million euros, and that represents around 11 percent of annual decline rate. What we clearly see now is that country performance is starting to differ. Also back to Michael's previous comments, export sector is starting to run very close to their full capacity. So our local troops there are expecting that we probably will end the full year not too far from the levels we are operating right now, so in the meantime we might see some more of the contraction. But then we should start to see also some of the lower amortization and higher growth in the later part of this year.

11:23

Our deposits were also declining quarter on quarter...and that's around 15 billion. Quite a big part of that was related to Swedish municipalities. And that is more of the one-off event where we have seen is that some of the state subsidies have... Sorry, some of the state stimulus has been now withdrawn and then collected back. So this is a one-off movement there. When we look into our household and granular customer base then the deposits are quite flat in there. Let me also very briefly comment on key ratios. I think they are speaking for themselves quite a bit at this time, so I think most of all what they are showing is the strength of the balance sheet. ROE is very much supported by strong credit recoveries and write-backs. Core-funding ratio has improved further, also stating our further diminishing dependence on senior unsecured funding. And core Tier 1 capital ratio has moved up there to the new record levels and Göran also will be back to comment on these changes more in detail. I'm actually going to use the opportunity to hand over to Jonas here to run through very quickly the funding side. And...yes.

13:00

Jonas Erikson: Thanks. We've had a fairly active quarter in the funding markets. We've raised slightly more than 90 billion SEK of term funding. Primarily, this has been done in covered bonds. And we've been in active almost all markets with this. We've done, for the first time, a US covered bond transaction in late March we did 2 billion dollars in threes and fives. We've also done two euro benchmarks, quite sizeable volumes in Sweden and quite some size in Switzerland as well this quarter. The average maturity of the new funding that we have done is around 44 months and with that we're continuing to prolong on our maturity structures slightly. What we're doing now is primarily building up liquidity for coming maturities. You might remember that last year we did 265 billion on new issues compared to only 141 on maturities. And in this quarter we've had another 45 billion of reserve build-up. So with the liquidity reserves we have today, we feel extremely comfortable for the remainder of the year. But we also note that we do have quite some large maturities in the first half of next year as well, which requires a bit of planning from our perspective. I think with this, however, we'd expect do a slightly lower pace of new funding for the remainder of the year and we're quite pleased as well to see that in spite of this volume, our spreads have actually continued to contract. Obviously, it's been a pretty substantial rally in the euro markets for credit year to date. But even in a relative context, we've continued to tighten compared to our Nordic competitors.

14:55

Also, I'm going into detail there, but you might have noticed that we've also started to publish some more information on our liquid asset positions. We've reached an agreement with the Swedish Bank Association, I'm sure you've seen the same kind of disclosures from the other banks, but there we also give full disclosure on all our liquidity portfolios, central bank holdings etc. I might add to that, that this is a definition developed by the Swedish FSA, and over and on top of that we also have round about 80 billion SEK of capital market assets which cannot be disclosed. So over and above the 147 billion of liquid assets in treasury we then have 83, if I remember correctly, in the markets operations fund.

15:40

Göran Bronner: Thank you. Thank you, Jonas. Before moving into sort of the other pictures I just want to say that from a risk perspective, the two main things in the quarter are of course the continued, very much improved capital position of the bank. But also – as Jonas and Erkki have highlighted – how well the funding is performing for the bank. As a result of that and also as a result, sort of, of the very beneficial funding prerequisites that exist for the Nordic banks, really, and which we are taking advantage of. Moving into the more highlights here on the assets side, I think it's fair to say that as a result of the sort of gradually improving economic environment also our impaired loans portfolio is shrinking. So it's a natural development where part of the portfolio is borrowers that are becoming healthier and returned back to sort of normal business, as they have bridged this very difficult period. Another part are borrowers that have not been able to bridge this difficult period, and will eventually end up, their collaterals will end up in Ektornet. And I think this... The impaired portfolio in general has decreased by 3 billion during the quarter and we expect it to continue to decrease according to plan. So it's very much continue to keep focus on this part of the portfolio, in order for us to extract as much value as possible out of this work. That is a very strong focus from my point of view. And we feel as previously very well provided in this area. We have two PNL impact, one is the substantial recoveries, I will come back to that. And also one is the one-off income relating to the Lehman exposure that I will come back to. Another, I think, highlight is the continued decrease of risk-weighted assets. Part of that is one-offs. We have, as a result of Estonia joining the euro, a one-off effect of 9 billion SEK in market risks reduction. And then we have roughly 11 billion reduction in risk –weighted assets relating to credit risk. That is a mixture of volume declines, primarily then in the Eastern portfolio, Eastern Europe part. But it's also relating to sort of better credit processes, collateral management and some rating migration taking place in the Swedish part. And I will come back to risk-weightedassets later on. It's a continued focus area for us.

And then, as Jonas and Erkki said, the funding is going extremely well and I think as we are coming to the end of the period of bridging the government guarantee, we will emphasize more and more to see to it that we will come out on the right price, compared to competitors - from a risk perspective, that will be more important. So we are therefore, with sort of the credit history and the re-shaping of the bank, expecting to see us continuing to tighten in this area over the coming quarters and years.

19:27

Turning then to recoveries, it's been very encouraging to see not only that we have recoveries in all the Eastern European part of the portfolio, but also that we see recoveries actually in Sweden. So we have a positive contribution from Sweden which really, underpins sort of the good quality we feel about the Swedish portfolio. In the Eastern European part, it's continued to be the best recoveries actually in Ukraine and also in Lithuania. These recoveries are very much relating to different sources. It's collateral re-evaluations, it's clients actually being able to re-finance themselves and repaying more than we have sort of provided for and we also have portfolio provision movements as we see some rating migration. If we look ahead then, for the remainder of this year, I think we can expect for the coming three quarters to actually continue to see recoveries coming through in the group overall. But it will be at a slower pace than what we have seen in the first quarter. Turning then to the Lehman, I know we did a little bit of information mid-quarter on this one, so I'll try be brief on it. It's a one-off income or settlement agreement with the bankruptcy estate of Lehman. We have booked an income of 716 million krona. Unfortunately, we had to pay a little bit too much tax on it. We have continued to reduce the portfolio of Lehman, from 1.4 billion dollar now down to 1.1 billion dollars in gross terms. The assets have declined from being 62 borrowers to currently being 35 borrowers. And going forward, we feel the portfolio will continue to shrink quite rapidly. So we expect it to be 750 million dollars by end year this year, and around 500 million dollars by the end of 2012. We have repossessed two collaterals. Two borrowers have defaulted and we repossessed assets. And we expect to repossess between four to six further collaterals during the course of this year and early 2012. And as you know, we have an over-collateralization of this portfolio as we have more loans than we have actually lent money to Lehman of 175 million dollars. And that over-collateralization is basically still intact going forward. Then turning to capital and starting off a little bit with risk-weights that has been sort of very much on everyone's agenda lately. I think it's fair to say that we have... When we came into the bank, we started actually focusing on risk-weighted assets immediately. Of course, as the capital situation was as it was at the bank. That focus will continue as we learn more about the credit quality and the credit processes and the modelling and the calibration of that, I think it's fair to say that we feel that we have rather high corporate risk weights, compared to some of our competitors in the Swedish operation. And we have initiated a number of work-streams in order to understand this more, but also to bring the risk-weights down, actually, to what we feel is adequate going forward. And that will be very much about integrating the whole capital adequacy process much more in the credit process and also the business model, among the business people. That is sort of the key transition – we need to move this from head office product to business steering product. And that work we have started many quarters ago. But we will continue to accelerate that. And then we have a number of calibrations, of models, that we can do. We can review our credit instruction, and we have new... We need also to implement IRB Advanced going forward. All of this I think will lead to actually that we will be more capital efficient. And we will be able to price our transactions going forward in a more adequate way, from a risk point of view. But you should expect to see these effects to come very slowly over a long period of time. Then, as an overall steering tool, this is very much relating to pillar 1...I'm talking about here. But as the overall steering tool for the capital in the bank, I think we are much more moving towards the stress test than pillar 2, which we are trying to implement to a much higher degree in the business areas. To get that further out and closer to the business areas, in order to be a bit more forward looking in the capital assessment process rather than only look at historical data, which of course are important as well. And, tying back to what Micke says, we think actually that being transparent in this area will benefit banks in general from being a sort of a dark room in understanding what the risks...to leaving it more to the...all the stakeholders to make own assessment of how risky the bank actually is. Then, finishing off just with sort of a capital slide. Of course, we are extremely well capitalized. And with the jump of core Tier 1, during this quarter, looking from a static point of view, towards our medium term target of 13 percent we have a capability to do buy-backs of almost 10 billion at this moment. The buy-back programme we will initiate as soon as we can. We envisage doing that very gradually during the four quarters, but having the flexibility to of course use markets events and so forth in order to manage that. And we will, as stated earlier, make no distinction between the different share types. So with that, we might open up to Micke.

26.48
Michael Wolf: Yes, let's open up for questions, please.

Thank you. We will now begin the question and answer session. If you wish to ask a question, please press "star 1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. That's "star 1" on your telephone to ask a question. Your first question comes from Peter Grabe from Handelsbanken. Please go ahead.

Peter Grabe: Thank you. It's two questions. Firstly, regarding the funding strategy. Handelsbanken was out yesterday being quite cautious and concerned about the risks of being too dependent on covered bonds. If you could just elaborate a bit about your funding strategy going forward, if you're completely going to stay out of the senior unsecured bond market or if that is also going to be an alternative going forward. And the second question relates to the risk-weighted assets. If you can remind us about the plan in regards to moving over from foundation IRB to advanced IRB on the corporate book.

Michael Wolf : Good morning, Peter. Let me just start by saying that Handelsbanken and Swedbank are two different animals when you look at the balance sheet, but I will ask Jonas to respond to the question.

Jonas Erikson: I mean we... when it comes to the funding strategy overall we have, as you know, for quite some time been very much in the preference for covered bonds, for the simple argument that it is 1) cheaper and 2) it also tends to be a much more stable funding source over time. We also have disclosed quite clearly that we are monitoring very closely our structured need for unsecured financing. As we showed in capital markets day, we've gone from having a need for unsecured financing of close to 200 billion SEK down to zero. So I think a little bit depends on the balance sheet structure, as Micke mentioned. And then I think also to mention to that is that... If you look at the potential discussion going forward, there is obviously discussion about structuring subordination in the market. If we fill our total cover pool room we have less than a third of total assets in covered bonds still. I don’t see that as a major issue, we don’t get pushback from investors on that number either. Having said that, I think when this discussion really becomes an important one is if there were to be a bail-in. In a bail-in scenario, obviously deposits will be classified as higher rank than senior unsecured. And this is obviously one of the reasons why we’re trying to focus not so much on the senior unsecured as well. Did that answer your question?

Peter Grabe: Yes, thank you.

Göran Bronner: If I can just add there, Jonas... In fact, what you said is that it’s still a lot of uncertainties how the funding market will also develop going forward with bail-ins and how the senior unsecured market will develop so forth... But we’ve just highlighted that our balance sheet will enable us to make a choice on how much senior unsecured funding we will require. And that, we feel, from a competitive situation, is a strength for Swedbank to have that choice, which we feel some other competitors actually don’t have. So they need to balance that question much more than we. On the IRB Advanced – the simple answer: I don’t have a timetable to give you.

Peter Grabe: OK, fair enough. Thank you.

Thank you. Your next question come from Nick Davy from UBS. Please go ahead.[Börja här]

Nick Davy: Yes, good morning everyone. Three quick questions from me, please. The first is then on the liquidity reserve, which I know you touched on, and this new disclosure, the 148 billion of liquidity reserve in the treasury. You’ve talked a little bit about the forthcoming quarters seeing some NII pressure from buffering up on liquidity. I guess, could I just ask you to focus a bit in your appendix slide on this 148 billion liquidity reserve, where the increments or pressure to NII might come from, whether this 148 is already potentially, let’s say, higher than a post-crisis normal level. Just give us a bit more flavour, please, around that. The second question is on mortgage margins. Erkki, I think you referenced in your presentation a slight or tiny uptick in mortgage margins. Could you let us know if that is coming from a general switch into fixed rather than floating rate products or if that’s on like-for-like products. And thirdly and finally then, if we could just go back to risk-weighted assets. This might be pushing it, but you said somewhere in the presentation that you thought you’d bring down the corporate risk-weightsto what you felt was an appropriate level. Could you give us a flavour of if that’s let’s say in line with the average of your peers, lower than your peers, based on this very strong Swedish corporate asset quality you’ve seen – any flavour around that. And then maybe secondly, around the collateral management side, which is something you also referenced, it strikes me that that’s probably the biggest gap between you and peers and maybe the biggest opportunity then. Could you tell me a little bit more about your plans on the, let’s say implementing a more capital-conscious approach in your branch, in your branch network. Thank you.

32:20

Jonas Erikson: Let me start with liquidity. I think that...all banks are in the process currently of deciding to what extent to push out to business, the exact costs for keeping liquidity, before actually utilising this in risk-taking activities. I mean, we have so far had – as we mentioned before – an extremely conservative position into...in regards to what type of risk we take. It’s a portfolio that’s made up to sort of 40 percent by government bonds and 60 percent by covered bonds and in addition we have another 65-70 billion of central bank reserves. So it's a fairly conservative portfolio. The net cost of that obviously depends on how you choose to fund it, and we haven't disclosed exactly...it's sort of part of a liquidity strategy which we don't want to be too transparent on, but you can assume that we have a net expense for it. You say that the portfolio alone is currently around 85-90 billion SEK and then you can try and run some numbers on that.

Erkki Raasuke: OK, let me take then the mortgage margins. I don't have any more sophisticated answer to that than STIBOR rates have been climbing quite steadily, but then they turned more flat in March. But what market players did, they basically they kept slowly but increasing their customer rates based on their own quoted rates. That was the market-wide phenomenon and we obviously also utilised that. So that was opening up the margins a bit in the later part of the quarter and then currently they have been maintained there. What it means is that it means few basis points increases versus the STIBOR and it's now kind of in the second quarter, it's being reprised in. When it comes to the floating and fixed, there is not very recently, there hasn't been a big change. Slightly less than 50 % of the new volumes are done on a three month floating basis. Around 15 percent or so, also one near 13 percent two years, 10 percent three years or so. So all in all, we are still talking about a fairly short general fixing periods, but that in itself has not been driver for the margins. I stop here, and give over to Göran.

Göran Bronner: The risk-weights... I don't think we will communicate anything sort of target or anything in the short term. It's a long process but on...Why should we differ from other Swedish banks on comparable exposure is really the attitude that we are taking and when we do that comparison and we look at our credit history sort of going back a number of years, there is no reason. On the contrary we actually have shown quite a bit...very good results from that perspective. Then banks can of course differ. You can have a slightly different approach on TTC versus point in time. Some banks being more TTC than others being point in time, that makes you different in different parts of the cycle. And then you have some smaller differences sort of on the exposures, we having a little bit more SME exposure, for example. That could affect it. But I think in general we, I mean, looking at the credit quality and so forth... I think on average, actually, Swedish banks have steered their exposures in domestic markets very much on credit instructions rather than risk based pricing. So we are very similar, and that means that we also have a similar quality. So I don't think really these models are fully sort of utilised out there in the banking systems. And banks use them differently in describing their own risks. If you compare to the US, for example, which has actually used risk-based pricing much more further in their lending activities. And I think in general, all Swedish banks have very good credit quality which has been proven in this downturn. The main task going forward for us is to change that a bit and move the models more out to the businesses and into the credit process, in order to get pricing and capital utilisation more efficient. And it will be more important, I think, going forward in a sort of post-crisis world than in a pre-crisis world. But it is a long process. It will take a lot of time.

Nick Davy: OK, that's very clear. Thank you.

37:25

Thank you. Your next question comes from Chintan Joshi from Nomura. Please go ahead.

Chintan Joshi: Hi, good morning. I've got four questions for you. The first one is on excess capital. You've shown a slide at the back of your presentation where you show excess capital of 9.9 billion. This has increased from about 4.9 billion in the last quarter. Is this the same way that the regulator would also think about excess capital? Because there could be some suspicion on reducing risk-weighted assets on kind of due to one-off factors and therefore the regulator might not allow that excess capital. I just want to understand your thinking and what you think the regulators feel around this. The second question is on NII. On slide 5 you say that some of the trading income has been reported as NII. Could you tell us more about this? Apologies if you've already mentioned this before. I came onto the call a little late. The third question is on the breakdown of the RW reduction or the 11 billion that Göran mentioned before from the Estonian portfolio volume declines and collateral management rating migrations. If I could get a breakdown of that 11 billion, that would be helpful. And finally the tax rate applied on the Lehman gains. If you could provide that. Thank you.

39:00

Göran Bronner: Starting off with the capital there, I think what we're saying here with the...is that our balance sheet is plenty full of buffers. And we have a buffer between 10 and 13 for an uncertain regulatory environment, we've stated. And the Swedish regulator has talked about core Tier 1 10-12 and then there has always been...there's been talk about changed risk-weightson mortgage lending. I think we are... I mean, we have a lot of buffers and taken a lot of height for different options occurring in this and I would rather... With regards to mortgage lending, I would rather also think that regulators are looking to change the process around pillar 2, rather than increasing risk rates in pillar 1 on corporate...or on mortgage risk-weights. So I mean, we feel very much that the 10 billion that we have above 13 is a buffer on an already existing very strong buffer. And on top of that we have...we feel that we are probably having conservative risk weights as well.

Errki Raasuke: Yes let me go further then, with NII. I'm unfortunately unable to give a very clear answer on that. What I say is that, subject to the different trading strategies, then the result is allocated either to the NII or net gains and losses. And just this quarter, it was proportionately more on the NII than to the net gains and losses. Obviously, there is no kind of average or no kind of middle point there. There is opportunity which we haven't used yet, it's to move all of the trading related NII also into the net gains and losses, but it's basically, it's on our table but I don't see us very short term basically reaching there. The way to look into the LC&I total business is that there are two large blocks in there. There is a core large corporate business which is contributing fairly stable NII and also which is contributing fairly stable key income. And then there is the trading part, which is producing in all three categories, into the NII, into the net gains and losses but also then some of the brokerage fees into the commission. But there are no kind of averages on this trading part also. I was just commenting that this quarter, proportionately into the previous quarter, it was more NII and less net gains and losses. Back to Göran, there was a question on...

42:00

Göran Bronner: Did I miss a question? Michael Wolf: Yes, the tax rate in the US...
Göran Bronner: I don't have that, the breakdown on the 11 billion of credit risks I don't have exactly in my head, but if I simplify things, I think it's sort of rating migration, collateral and processing improvement and volume decline – it's roughly a third each, if I simplify things.

Erkki Raasuke: Yes, and the tax rate on Lehman was in the range of 45 percent.

Chintan Joshi: OK, thank you very much.

Thank you. Once again, if you wish to ask a question, you can press "star 1" on your telephone keypad. Your next question comes from Fred Aspurens (?)from Arctic Securities. Please go ahead.

Arctic Securities rep: Thank you. Two questions, if I may. The first one relates to the funding strategy, or the senior funding. Because I very much agree on your comment regarding uncertainty for bail-in and how this will affect senior bond spreads and...going forward. But could you just elaborate some more about the strategy of being outside the senior bond market over time. And whether this would also affect your considerations regarding the target of buyback possibilities in the future. And the second question relates to the risk-weights which in this quarter was increased for the mortgages from 7 to 8 percent, and if I remember correctly from your fact book for Q4 10, the average risk weight in Sweden was 5.2 percent. So I wonder: is that the one that has been lifted or is there anything I'm missing here? Thank you.

43:50

Jonas Erikson: Let me start with the funding strategy. I think first of all on the bail-ins, let's see where that discussion ends up. I think with a lot of regulators around Europe, now coming up with more strict capital requirements. I would also expect some further harmonization in RWAs, we've seen that discussion taking place in several countries. I think also with that...if there were to be a gone concern type of bail-in legislation, it would not necessarily have as much impact as I think the first early indications talked about. But nevertheless, what we're saying is mainly that we have a choice – we're not saying that we're not going to have any senior unsecured funding outstanding. I think it's important to be present in the market, but in regards to any potential changes in the current environment, we feel very comfortable with the fact that we do have an option. And also, to add to that, if needs be, we have not been very active, because we haven't had the need for actively actually putting collateral into our covered bond pool. So we see room for further, I would say probably 80 to 100 billion SEK, of increase of covered bond collateral if needs be. So I think we have all the opportunities in the world to actually completely stay out of the senior market if we're forced to, but so far we haven't felt that need.

Göran Bronner: With regards risk weight of mortgages, that's an effect of increased risk weight in the Baltics, primarily Latvia. We yearly recalibrate our models and back test them, and as a result sort of of the default frequencies and so forth the risk weight has come up somewhat in the Baltics. It's completely unchanged in Sweden.

Arctic Securities rep: Thank you very much.

Thank you. Your next question comes from Jacob Kruse from Autonomous. Please go ahead.

Jacob Kruse: Hi, it's Jacob from Autonomous. Just two questions left. First of all on the risk weight. I just want to ask if you gave applied to move to the advanced IRB approach with the FSA and also if you have any idea of what the timeframe would be from application to approval...if you were to do that. And then just a second question on the net interest income. Could you give some idea of how much benefit you took from the refinancing of the government guarantee debt in Q1 and how much the full impact would be of that, of what you have refinanced so far going forward. Thank you.

Erkki Raasuke: Yes, let me take the NII issue. To be part of the government guarantee was falling off actually in March, so there was a... I was alluding to the government guarantee more in a forward looking statement and there's very little of that yet in Q1. But it was falling slightly less than 30 billion. Of the outstanding, we are having 125 now left and then the rest of the year is quite heavy there in December so now we are going to benefit out of that. If the cost was more than 160 over the swaps, you can see where we are publicly putting our covered bonds right now, which has been the substitute cost so there is a positive of about 60 + basis points out of that. But then there won't be any change over the second and third quarter, neither over the fourth quarter, because change is really coming in at the late part of the year.

Jonas Erikson: Just to add to Erkki's comment there. Since we have had a continuing strengthening of the krona since we started discussing this we've alluded to the total cost being 163 basis points and that was with a clearly weaker krona than we had today. The government fee that we pay is based on the notional volume issued swapped back into SEK, so currently on current FX the total cost for the government guarantee remaining is more like 170-175 billion.

Göran Bronner: IRB Advanced, coming back to that... As I said earlier, we do not have a formal time plan as it is now. We are in preparation for an application, we have not submitted a formal application to the FSA today. To give you just a flavour of where we are in the process.

Jacob Kruse: OK. Great. Thank you. And sorry, just another thing. Can I just ask, on the buyback programme, what's holding you back from starting it right now, you say you want start it as soon as possible. Is there anything you need to get to start it?

Michael Wolf: We are insiders today.

Jacob Kruse: So tomorrow you are not insiders? OK, great. Thank you.

Thank you. Your next question comes from Andreas Håkansson (?) from Exane BNP Paribas. Please go ahead.

Exane BNP Paribas rep: Hi. Just one quick follow-up question. I see your reasoning on your covered bond issue, but just to have a feeling for it, let's assume that you would have followed more the Handelsbanken strategy of doing 50-50 senior versus covered. What would be the increased cost, or what's the difference in funding now between your senior and your covered, please?

Jonas Erikson: I mean, you can find those prices in the market talk. I don't think we need to discuss that here. We have chosen the strategy we have chosen for a good reason, I think.

BNP Paribas: OK. I'll check that. Thank you.

Thank you. There are no further questions at this time. Please continue.

Michael Wolf: OK, thanks for attending the call. Look forward to talk to you during the road show. Bye, bye.

Thank you, that does conclude our conference for today. Thank you for participating. You may disconnect.