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Speaker: Michael Wolf - President and CEO
Göran Bronner - CFO
Håkan Berg - CRO

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OPERATOR: Ladies and gentlemen, welcome to the Swedbank interim report January to June 2012 conference call. Today I'm pleased to present Mr Michael Wolf, President and CEO. For the first part of this call all participants will be in listen-only mode and afterwards there will be a question and answer session. Mr Michael Wolf, please begin.

MICHAEL WOLF: Thanks and good morning. If you look at the second quarter, we -- it's been more in effect due to the debt crisis in the real economy. We see macro indicators showing lower economic activity and confidence (inaudible) indicators are turning slightly more negative. In the Baltics we were still experiencing a structural rebound -- from their crisis and the economical activity is quite good. Our position remains strong and we have created buffers to handle a significant more stressed economy, which is confirmed by the financial stability report from the Swedish Riksbank but also from our own stress tests, which are made public in this report.

I feel that the importance of transparency in this area is great in order to regain trust in the banking sector. Another area where openness have had positive effects are in Swedish mortgage market, where we follow the model for reporting margins set by the Central Bank and the SFSA. Our strategies to focus on risk adjust profitability, rather than volume remains. At the same time, unchanged credit standards from our side and lower market volumes in general, through credit expansion declining, we have during the quarter seen an increased inflow of credit both in the corporate and the private segment. Our market share in the Swedish mortgage market on new lending is, therefore, increasing month by month and will reach 19.2% in May.

Our efforts on becoming more capital efficient continue to yield positive results. We increased Core Tier 1 to 16.6% and in light of this, 13.5% return on equity is a step in the right direction. It is, of course, unsatisfactory not to have received clarity yet on the exact new details on the capital rules from the regulator but at looking at our Core Tier 1 of 16.6%, it corresponds to approximately 14% in the new Basel III environment and this means that we do not only manage to meet the new regulatory minimum of 12% 2015, but we also have the buffers for our own stress tests.

Our organisation has delivered on the planned cost reduction target, which is set at 1 billion for the full year of 2012. We have also during the period achieved a new pension agreement for all new employees, which is valid at -- on 1 January 2013. It is a defined contribution plan, which over time will reduce our pension risk. The effort to make our product offering more efficient has started. During the years we have always increased the number of offered products and IT applications and this trend has now been broken in this quarter and we have reduced the number of products during the quarter and that will remain that we should continue to be able to do that also in the future.

One of our focus areas for 2012 has been to improve customer satisfaction. In the Baltics, good results in this area has been achieved and the Swedish retail area is working diligently on increasing our service levels and thereby customer satisfaction. During the period we have launched several new services on the mobile banking area, aiming to -- make life easier for our customers in handling their day-to-day transaction needs also to support the move from manual cash handling to digital payments. We have over 900,000 mobile users and we got 85,000 new clients on the mobile channel in June and that is quite promising.

If we summarise, the report is quite stable with good progress in key areas, despite an uncertain environment. With that, I would like to hand over to Goran.

GÖRAN BRONNER: Okay, thank you, Michael. As Michael said, the macro has been a little bit more challenging than in the first quarter that has created some headwinds for us and all banks really. And that is visible sort of on deposit more (inaudible) due to lower interest rates. It is also visible on asset management fees and it's visible primarily also on the capital market activities and the client related incomes we see there. We have also been affected, I would say that we continue to have difficulties in exiting Ukraine at lowest possible cost, due to the European banking crisis. So that's a bit of a macro deal and headwind but I think the positive part is that on all the underlying work streams that we have actually in the bank been repricing and returning our margins back to their -- the pre regulatory regime shift, that is doing fine in all business areas. I think volume development is good as well and it's encouraging to see that the Baltics is stabilising. I also think it is very good to see that the cost programme is running according to plan. And lastly, we are continuing as we have done for the last couple of years really, to work with capital efficiency and it continues to build capital, which is very good.

If I start to break this down on the business area quickly. Starting with retail, it's extremely stable the quarter deviations are hardly visible. They are able to mitigate the falling deposit margins with higher repricing income. That's very good. Asset quality continues to be very good and we have increases in other commissions that almost mitigate sort of the asset management related commission (several inaudible words). So overall, as usual, an extremely stable quarterly result in the Retail division.

Turning then to the Baltic. Here I think it's actually the story is quite good. We have a tough macro, but even though I would say that the Baltic countries are continuing to recover, and even though we have headwind in the NII here as a result of the Euribor, we are able to have -- we are seeing that the business activity really is actually picking up in some areas in the -- in the continent(?), that's visible in other income lines. Also we are mitigating the drop in NII with costs, that is very good and it is very encouraging to see that, for the first time since the financial crisis started really, the lending book in this quarter did not fall in the overall terms. And I think we have wanted to see that happening in this quarter and that, given the macro, I think it's a sign of strength. That is very good.

We continue to have recoveries and Hakan will come back and talk more about that later. The last business area to look at it is large corporate and institutions and here, I think the picture is more mixed. We have one part of the business areas being the loan portfolio relating to the large corporates, which are continue to reprice with an increased NII. We are very happy with the work with capital efficiency in that portfolio and the return numbers are actually improving. And we also feel that will become more and more relevant with the client, so that is very good. The other part is the more capital market intensive trading area that in this quarter has a much tougher quarter compared to the first one. We then must remember that the first quarter was an extremely good quarter for us in this area, so looking over the two quarters, it look decent. But in this quarter we've been affected by the macro development in this area. The strategic area is continuing to work with bundling that kind of client activity harder to the capital intensive loan portfolio. So strategy remains the same but cost will of course be a focus area.

Then turning to the cost. I think we are well on track on the cost programme. Stripping out the cost components that we have said we are actually at almost dot on 0.5 billion in savings in year on year comparisons, It is good to see that the whole organisation is contributing in this area.

Looking ahead a little bit for 2013, I think we are occupied by doing the sort planning process on how to view costs going forward. One thing I think we can say is that we are not planning for higher absolute cost next year, it will be flat or lower. But we do have investment needs in certain areas that we also need to cater for and it’s good to see that we are able to take out cost in order to also to invest on areas that we need to invest in.

Moving on to capital. We have a really -- so we have a reduction of risk weighted asset with 9 billion in the quarter, even though we had a volume increase of almost 7.5 billion almost. We have a positive rating migration of 11 billion. 6.5, 7 billion of that is relating to calibration of model on the SME sector that we have guided for before, that we can now grade our SME exposure higher than investment grade if they are and that’s good in order not to be too conservative. But we are also seeing underlying positive rating migration in both the Swedish and the Baltics books, which are good. Then we have a number of minor effects that contributes to the 9 billion of reduction as well. We will continue to focus on this area going forward and Hakan will come back a little bit on that, later.

Funding is perhaps an area that has been extremely uneventful. We have continued to fund long term, we’ve done 41 billion in the quarter. If we add on what we did in the first quarter, you could say that we are almost 100 billion down of the plan, the funding plan of 120 billion. So we are very well progressed and the access has been very good and it's really nothing new here, other than that, like everyone else, we are waiting for clarifications on the regulatory landscape in this area going forward.

Lastly, just to summarise, I think the underlying quality is good on the results. Actually I think it does really goes to say that organisation are improving on the areas that we want to improve. We were also of course helped by that we get lower funding cost relating to government guaranteed debt maturing that has contributed in the treasury NII with a little bit -- a little bit less than 50 million. The treasury NII has also been higher by a little bit less than 70 million, by the fact that we have allocated out to the business areas a higher cost level for liquidity. While the remaining 50 million of improvement in NII in the treasury is a one off, you could say.

Just to summarise, I think a very strong capital position but perhaps most important, a decent return number with 13.5 % return on equity on such a high capital position in this macro environment I think is -- is okay. And with that, to Mr Berg.

HÅKAN BERG: Thank you, Goran. Starting with the asset quality. This quarter has developed similar to previous quarter. Sweden continue to show no impairments and in general we still see no negative trends in the asset quality. The Baltic operation continued to show write backs and this quarter mostly in Latvia. The quality of the credit portfolios continues to improve. In Ukraine, where we last quarter indicated increased impairments from exiting the retail segment we have impairments of 325 million this quarter, primarily due to sales of parts of the retail portfolio. We believe we have provided for the remaining exit costs but depending on the market conditions, it may be some additional losses from the exit of the remaining portfolio. In summary, we expect the current trends to continue and so far we can't see that the somewhat weaker economic trends will have an immaterial negative impact on the asset quality this year. We expect the Baltic operation to continue to show write backs and all in all we believe second half of 2012 to be similar or slightly better than first half year.

We are also publishing the ICAAP results in this report. And when considering what scenario to use back in December 2011, the outlook was pretty gloomy. So we ended up with an extremely pessimistic scenario, with a deep recession and a late and slow recovery. The regulatory requirement is an unlikely but possible scenario within a 25 years period. Our feeling is that our scenario may be a much more severe scenario than that. And even in this scenario, the results show that Swedbank is very resilient to shocks in the economy, with heavily falling revenues and credit losses much higher than we have seen in the previous crisis. We have a scenario impact on Core Tier 1 of only 165 basis points. The low point, including the regulatory impact but without the management intervention, is 10.9 according to the ICAAP reports. Considering the ongoing work to increase capital efficiency, we estimate to be well above the regulatory hurdles, even without the management interventions all through the scenario period.

This quarter, Swedish FSA has approved an updated model for the SMEs, which so far has given the reduction of the risk weighted assets of 6.5 billion. The update was a part of the ongoing project to improve accuracy when calculating capital for our corporate portfolios. Another important step in this work is to apply for the advanced IRB where we expect to get approval during 2013. This is an important work, since we do believe that our current risk weight is not properly reflecting the risks we have in the portfolio. This slide shows the distribution of the SME portfolio in retail of 228 billion. As you can see, 90 billion is lending in Swedbank mortgage, with a very low risk. 25 billion is leasing within Swedbank Finance and the remaining 113 billion is distributed to the different sectors you can see in the table, all of them with high collateralisation. As indicated previously, we expect to work to improve capital efficiency within the corporate segment, to decrease risk weighted assets in total in the range of 40 to 50 billion.

MICHAEL WOLF: Thank you Hakan. So, let's open up for Q&As, please.

OPERATOR: Ladies and gentlemen, if you have a question for the speaker, please press zero one. Our first question comes from Mr Omar Keenan from Nomura. Please go ahead.

OMAR KEENAN: Hi. Good morning. Thanks very much for taking the questions. Just firstly, I just wanted to ask on the lending margins and one of your peers sounded a little bit cautious on the outlook for loan margin repricing. So I just wanted to hear your thoughts as to how far that can sort of continue into the future? And if we think about sort of perhaps if you get a rate cut later on in the year, how confident are you that you can continue to offset deposit margin pressure with lending margin increases? For example if you know, if rates fall do you think mortgage rates will follow after that? They're already quite low in historical context.

And then just secondly, a question on your corporate portfolio, moving on to advanced. What kind of loss given default improvement are you expecting, just out of interest? And any update on the timing of that? Thank you very much.

GÖRAN BRONNER: On the margin side, I don't think we will -- we can't really guide you on the impact on lower interest rates. That would be more your judgement call on -- where interest rates are going. We think that partly you could say that on the mortgage side, even if we have reached a decent level now, it needs to continue to filter through over the P&L statement as we have a number of longer dated contracts coming through.

On the corporate book the feeling I get is that the work with the re-pricing in all banks is actually increasing. And I think that takes a longer time to do, since many of this exposure are more contractual on nature that you really can't re-price them as you come to maturities. So that is something that will continue for the remainder of this year and also well into next year. And I can't really see that margins are not declining at this point in time, since most banks are active in this area, especially the more corporate orientated banks and focusing more on profitability, actually, which is very good.

On the IRB, I think Hakan gave an answer earlier, but he will comment here.

HAKAN BERG: I can't really give you sort of an exact answer on LED but the LGD of course is depending on the collateralisation in the different parts of our corporate portfolio, so that's why we showed a part of our corporate portfolio on the presentation of that one. So it will vary but looking to where we are in the different portfolios, it will improve and what we are guiding is rather on the total amount of risk weighted assets.

OMAR KEENAN: Okay. Thank you very much.

OPERATOR: Our next question comes from Mr Peter Grabe from Handelsbanken. Please go ahead.

PETER GRABE: Thank you. Yeah, I have two questions. Firstly regarding deposits. It's been quite volatile in the past quarters. I was just wondering what the reason is for deposits going up so much in Q1 and down so much in Q2? It's down 7% quarter on quarter. And the second question relates, again, to capital. In terms of the SME modelling, my impression was that the impact would be greater, than 6.5 billion. Is that a figure that will increase going forward? Should we see more of the positive development in the coming quarters? Or is this it? And also, I'm wondering if you can give some sort of ballpark figure as to where you believe that the IRB model, the positive impact of the IRB model eventually will end up?

GORAN BRONNER: With regards to deposit, Some of the institutional and corporate deposits out of our New York branch is very volatile in nature. It goes up and down quite significantly with big swings. The underlying deposit in retail and also the Baltic banking are very stable and in the Baltic banking it's actually a continued growth element. We actually have a loan to deposit level of the Baltic operation of 115, which is bordering on the low side of course. So deposit wise we are feeling that there is more intense competition on the deposit side in Sweden, but that's expected on the term deposit side, that is part of the game, I think.

On the SMEs and the risk weights, we got the approval beginning of June so this is still work in progress, the 6.5 that we are showing in this quarter. We haven't been splitting explicitly the different parts of the capital efficiency project but the two major parts is the SME updated model and the advanced IRB and the the 6.5 is a part of the 40 to 50 estimate that we have on the total project. Where, again, the two major parts (inaudible) be advanced IRB and the SME updated model, but there are also other small parts that we include that.

PETER GRABE: Okay. Thank you.

OPERATOR: Our next question comes from Mr Nick Davey from UBS. Please go ahead.

NICK DAVEY: Yes, good morning everyone. Nick Davey from UBS. Three questions please, from my side, mostly on your guidance. The first, please, on cost. If I look at your underlying cost progression, this quarter relative to last, it seems like you've moved from around 4.1 billion a quarter in Q1 to 3.9. So it's a pretty healthy Q on Q progression there. I just wanted to hear if you would be happy for us to think about that kind of momentum going into the second half, or if there are other underlying cost increases that we should expect coming through in H2?

The second, please, if I could just come back to this risk weighted asset guidance, please, of 40 to 50 billion risk weighted asset reductions from your various mitigation efforts. Could you please just confirm for us that's on stated risk weighted assets under Basel II versus the number that you're at currently? And that's just from the mitigation, so no guidance on growth?

And then thirdly and finally, please, on the Ukraine. You've talked a little bit about some potential losses coming through in the second half and the completion of the sales. I wondered if you could please just expand on that a little bit and maybe just reference the stock of impaired loans, which seems to be flat on the quarter, despite the 1.5 billion of loans that you've sold. So maybe just if you could expand a bit about what kind of trends you're seeing on the corporate book? Thank you.

GÖRAN BRONNER: Let's try to take these. If I start with the middle question. No, I start with the cost. Yes, there is a quarterly decline in Q cost. Our guidance is 1 billion and we stand by our guidance. The new thing that we are saying that is for 2013 we don't think cost will go up. So don't expect a rebound in costs but we are in the planning process, or in order to see sort of and understand what investment needs are going forward and what further cost actions we can do of course. Because there will be areas that we want to continue to reduce costs in -- relating to, for example, taking out products and so forth that Micke has talked very much about. And there will be areas that we want to invest in. I mean we have a lot of IT platforms and we have mobile banking and so forth. So it's just about changing your resources really. But from your perspective, the guidance is 1 billion and costs will not go up next year. That is the working assumptions that we are dealing with today.

We have sold sort of a healthy portfolio that has not been impaired and because the macro is so weak, especially other European banks, which are the potential buyers in Ukraine, we have been forced to sell at a discount. So you could say it's a cost of exiting Ukraine that we are taking. We now have a very small exposure left in Ukraine and much of it is actually a health corporate portfolio as well, but we will continue to reduce the Ukraine. You must be reminded that three years ago we had 20 billion in Ukraine and now we have 2.5 net. All in all it's going according to plan, I would say.

The second question was relating to RWA. Håkan, you can take that.

HÅKAN BERG: That was the question whether this was Basel II? Yes. And whether that was excluding any volume growth? Yes.

NICK DAVEY: Okay. That's very clear. If I could just ask one brief follow up if that's okay? If I then look at the impact of that risk weighted asset reduction, 50 billion or so, that would leave you at a pro forma Core Tier 1 of around 18.5 and if I flush through some Basel III, IAS and mortgage risk weights perhaps, around 15.5. So I suppose we return to the question around capital and capital targets. Perhaps you could comment a little bit about your expectations of the Core Tier one and -- and what you would then see as excess capital? Thank you.

GÖORAN BRONNER: I mean your reflections are correct there on the calculations and we don't really know how much the Basel III and the new regulatory exchange will be set and we're waiting for that, but it will be in the range between 250 and 300 basis points in regulatory impact. So we are at our targets already now,at 16.6 more or less for what is being communicated for the targets for 2015, which is of course very good to be there. Based on the information we have, we think that our calibration of the target will be somewhere in the range of 13.5 to 14.5 and we haven't really received anything new information there to change that. But we -- we are simply still not certain as Micke has said, going forward.

MICHAEL WOLF: Maybe as we have communicated, neither is it good when a bank is undercapitalised, nor is it good when it's overcapitalised. We want to be an efficient bank and we don't want the capitalisation to be a burden for the business efficiency. So at present we have now built the buffers. Remind yourself that we moved from a 9.5% level to a 16.6% in three years' time. So we have done a significant risk reduction and we've done a good job to ensure that we are never, ever gonna be close to any government intervention going forward. But from this point and onwards we do really want to see some clarity from the regulator and hopefully they will be able to see that during the autumn and then we can come back and be more firm on -- on this issue.

NICK DAVEY: Okay. Very clear. Thank you.

OPERATOR: Our next question comes from Masih Yazdi from Credit Suisse. Please go ahead.

MASIH YAZDI: Hi, this is Masih Yazdi from Credit Suisse. Two questions for you. Just following up on the SMEs, just asking the question in a different way. How large share of the whole SME book did you manage to re-rate during June and sort of how much is left of that to do in the coming quarters?

And the second quarter is -- the second question is on Swedish mortgages. You seem pretty eager to go back to your market share of 26% all for new sales. Would your aim at doing this even if it would mean that you would see falling margins for new businesses? Or does that -- this target, or this aim, include seeing margins being flat for new businesses?

MICHAEL WOLF: Shall I start with the SME? I'm sorry to say, I can't give you any exact numbers on what part but again the total guidance on the project we have given, and I think we stay on that information.

GÖRAN BRONNER: With regards to our eagerness on the market share in mortgages, I must say that I don't recognise myself in your description. I think we have put down sort of our repricing and lending criteria and we haven't changed anything. But of course we are very happy to see that both we and the other players are gaining market share since one of our peers has had the market between 40% and 50% for a long period of time and that market share is now being reduced. They are changing behaviour and we are gaining back our natural market share and so are other peers. So it's happening all around in the system. The last part of your question I didn't really get?

MASIH YAZDI: Is that market share gain being reached without any pressure on margins?

GöRAN BRONNER: Margins are extremely stable, as I said, margins have established themselves on a new level. So we are happy with that.

MASIH YASDI: Okay. Thank you.

OPERATOR: Our next question comes from Mr Johan Ekblom from Bank of America. Please go ahead.

JOHAN EKBLOM: Thank you. Just two questions related to asset quality, please. Just coming back to Ukraine first. I mean you said there might be some further losses relating to the disposal. I guess the net 2.5 billion is to upper bound of that but can you give us some more guidance on, you know, whether we should expect a similar run rate to what you saw in this quarter in the near term? Or whether it's something dramatically different?

And then just also coming back to the write downs you took in Ektornet in the quarter. You mention in the text that the disposal process is likely to lead to some further write downs. So I guess this is a recurring event. Can you give us some guidance as to, you know, how much more we should expect to see? And maybe also some colour on where the write downs -- or where had you not taken enough provisions previously for these repossessed properties?

GÖRAN BRONNER: On the Ukraine part, you should not see sort of the two first quarters run rate. It will be lower than that. I think we -- it is more an effect that we have the right plan from a financial point of view on the execution of the plan going forward, as we have a clear objective in Ukraine.

With regards to Ektornet the 120 million in impairments that we book in this quarter is relating to a sale in Norway and also, I would say, revaluation of property in Finland. Overall the fixture in the Baltics actually looks better. We are selling better and we are getting better prices. And in the Baltics we do have an over value in the Ektornet and that continues to be there, while the market for the things that we have in the Nordic area is softer and we have stated all along that we have sort of a cash flow deficit in Ektornet. So time is against us, since we have high vacancies and little income in many of the properties. So there is always sort of a trade-off between time and the potential write off when you sell things. I mean in Sweden and the Nordic area, the market is becoming softer and that is why we really are seeing these impairments.

Overall, I would say the general over value that we have in the Ektornet in general are roughly the same but it's costing us a bit to run the Ektornet and it has also a huge impact on the cost line. We do want to reduce the Ektornet and here we will have a little bit of a trade-off between sort of taking what kind of EBIT profit we're getting, or impairment we're getting, when we are selling against the running of it. You must also remember that we are booking profits as well on the income when we are selling things. We have taken over so many properties some of them are sort of with a deficit and some of them are with a huge over value for us. And what I'm guiding for is to say that some of that is positive and that is definitely the case but you will see the impairments of that coming on the impairment line, while the profit, when we are selling with profit, it will come just as an income under other income. So you can't really just look at the impairment number and say, "Your provisioning level was strong", that is completely the wrong conclusion.

JOHAN EKBLOM: But I'm correct in stating that this quarter it would still have been, you know, the net is still negative? I think we said that the profits realised was 56 million or something?

GÖRAN BRONNER: Absolutely. This quarter that is the complete correction and the reason for that is the Nordic property market is softer.

JOHAN EKBLOM: Excellent. Thank you very much.

OPERATOR: Our next question comes from Mr Geoff Dawes from Société Générale. Please go ahead.

GEOFF DAWES: Hi, good morning. Geoff Dawes here from Société Générale. Two quick questions from myself, both on net interest income and both related. First of all you mentioned deposit margin pressure. Can you just break that down into the mix between short rates going lower and competition in the deposit market? Some of your peers have commented that there has been quite tight competition. And if that is the case, perhaps you could give us an idea of where that's come in from and in what kind of products?

The second question is, you seem to be guiding for a relatively flat second half of the year in net interest income terms. What can break you above that? Above that relatively flat run rate? And is it purely down to rates? Or do you think there's some mortgage margin expansion that will come through if short rates decline? Thank you.

GÖRAN BRONNER: I don't think we are guiding sort of for a flat NII for the second half. That is your interpretation of what short term interest rates are going. I think we are guiding for activities in the bank or for improving NII from a re-pricing view. We don't really know where in the end the short term interest rates are going and that is the judgement call for you from an analytical point of view. So we are not really saying what we think short term interest rates are going.

On deposit margins, I don't have a break up on sort of price competition versus interest rate effects. But in general I can say I think there are, a number and we talked about that earlier, there are a number of niche players in the deposit market that previously perhaps were attracting some of the funding through the wholesale funding market to have now become more reliant upon the deposit market for the funding purposes. And that of course affects the competition the term deposits. We have always felt that competition and the margins on that part of the deposit base has always been very tough.

We are a bank predominantly with a lot of transaction accounts and deposits tied into transaction accounts. These niche players are not operating in that product bundling alley. They are operating sort of on the more price sensitive deposit base, more corporate related. So we feel that what's happening in the -- what's being driven from a regulatory perspective is quite natural. With a huge back book on deposit we will never be a price leader on that but it will be important for us, of course, to keep key clients. So we take it from a client perspective. We don't see that being sort of negatively -- massively negatively hitting our NII. We don't have that feeling.

GEOFF DAWES: Okay. Great. That's very clear. Thank you.

OPERATOR: Our next question comes from Chintan Joshi from Nomura. Please go ahead.

CHINTAN JOSHI: Hi, good morning. Two questions from me. Firstly, you are giving quite a constructive message on capital, so I just want to make sure of any risk factors there. The risk weights in the positive given that some kind of -- kind of loose guidance that you will be able to offset half the impact of the mortgage risk weight. But clearly the numbers we are talking about here could get you to offset pretty much most of the impact from the risk weights. I just want to make sure that there aren't uncertainties -- that should take us away from what you were saying before into -- and we should consider these new numbers now?

The second question was on the last slide that you've done, the ICAAP stress tests. I just wanted to check with you, the 10.9% that you have shown as the draft Core Tier one. Does the FSA hold you to some kind of minimum under ICAAP? And are you able to reveal that? Thank you.

MICHAEL WOLF: On the last question, the new regulations state as of 2013 we need to have 10% capital and as of 2015 we need to have 12%. Then there is the conservation buffer between 12 and 10 where, if you go into that buffer, the regulator could have opinions on dividends and other related matters, to ensure that the bank gives buffers and don't put themselves in a difficult situation. So what we're saying is that the low point in the stress scenario, without any management intervention, without any capital efficiency measures, would be 10.9. But if you assume that we will get some capital relief due to the IRB advanced and if you assume that this team around the table would take some actions if that scenario were to materialise, we would never go below the 12%, which is the regulatory minimum. Which would mean, in practice, that we are operating without any interference from the FSA.

GÖRAN BRONNER: On the guidance, Chintan, -- I think we have talked vaguely about 40, 50 earlier on, as a mitigating factor. Now we have started to release some, so you could say yes, we are raising our guidance on what but not -- if we should take the effect, we go from a peer, who will sort of have (inaudible) effects on real estate portfolios that is where in the week. Of course, that was surprisingly high numbers I would say and we are not guiding towards that. Rather trying to understand how they reached that number.

CHINTAN JOSHI: This is a second follow up. So the 1.7% uplift on Core Tier 1 roughly is what I calculate will come in from these corporate portfolios. I just want to see if there is any other risk factor out here which could take away from others' benefit or from what I'm hearing you are actually thinking that there could be some more benefit than the 1.7, the 40 to 50 billion that you have highlighted, if you think about what peers have done?

GÖRAN BRONNER: No. We are saying 40 to 50 billion. IRB advanced is one part that we are working with. Capital efficiency has been a theme for three years and it will continue to be a theme to work with capital as a contributor for profitability. But it has many aspects to it. IRB advanced is an important thing but there are many, many other things that incorporates in that strategy. But 40 to 50 is the overall guidance.

CHINTAN JOSHI: Thank you.

OPERATOR: Our next question comes from Mr Andreas Håkansson from Exane. Please go ahead.

ANDREAS HÅKANSSON: Yes, hi. Thank you. One follow up and then one question. If we start with the follow up. On NII, could you just tell us, in the Baltics is there anything left over from the ECB rate cap that's gonna be seen in margins going forwards?

And then next question, on costs I'm looking at page 18 in your presentation and look at the underlying cost target of 16.1 for 2012. Just to make it clear what we need to add to that. Is that the full year variable pay, which was 397 in the first half, so if you annualise that for example? And then what about Ektornet or when you talked about it before you didn't mention the Ektornet. So just to make it clear what we should be looking at? Thank you.

GÖRAN BRONNER: On the cost question then, the 16 billion -- what you should take away for measuring the underlying cost is variable pay to staff and compensations that we do to the savings bank relating to save that they are doing. These are the two components, the sort of yearly changes you see between that. Strip that out and then you get the underlying cost development and the 16.1 is roughly 1 billion from 2011 and that's the target and the communicated goal for this year.

ANDREAS HÅKANSSON: But just to clarify that, what do you expect in compensation to savings bank for, for this year? Is that something unique?

GÖRAN BRONNER: It's still slightly up but no massive money. With the general economic activity we are seeing not any big changes, only (inaudible) base case perhaps slightly up with the GDP or something like that.

ANDREAS HÅKANSSON: Fair enough. And Ektornet, the increase there, is that included now in the underlying, or is that --

GÖRAN BRONNER: The Ektornet has been included in the guidance and so far this year the Ektornet is costing more money in the first six month than they did in 2011. So we are actually taking out more than the 500 to put money into Ektornet. Going forward Ektornet is something that we want to round down. But on the other hand, we need to do investment in other areas as well. So the goal is 1 billion and then we come back on 2013 later on. But the guidance we're giving for 2013 so far is we will not go back in cost.

ANDREAS HÅKANSSON: Yeah. Thanks.

GÖRAN BRONNER: In Baltic you were talking about, The late Euribor reduction you saw in the quarter. In the second quarter will have some minor negative effect coming in to Q3 on the NII.

ANDREAS HÅKANSSON: Okay. Thank you.

OPERATOR: Our next question comes from Miss Sophie Peterson from JP Morgan. Please go ahead.

SOFIE PETERZENS: Yeah, thanks very much for taking my question. I guess most of them have already been asked but very quickly on your capital. Are you sticking to your 50% dividend payout target, or are you looking to revise that, given your very strong capital position?

And my second question is around funding. How much covered bond potential do you -- or unused covered bond potential do you have? And going forward do you expect to do more senior issues and covered bond issues? Thank you.

GÖRAN BRONNER: We are not changing our dividend policy and earlier on, on the Q&A session, we talked about capital again. So I reiterate what I said earlier on capital in general and dividend policy remains at 50% of net profit.

MICHAEL WOLF: When it comes to the funding strategy, I mean as you've probably noticed in the numbers, we've tweaked it slightly in the last two or three quarters to do a little bit more senior. What we've said there is that we want to establish ourselves in euros and dollars with senior programmes. We've done that now for euros and we're currently working on setting up a dollar programme. Hopefully that will be done sometime after the summer. So you will see a little bit more senior being issued by us in the next few quarters. But it's not a huge shift or sort of current funding makes it fairly relevant also for the future, I think.

SOFIE PETERZENS: Thank you very much.

OPERATOR: I will remind you that if you would like to ask a question, please press 01 on your telephone keypad. We have a question from Miss Claire Kane from RBC. Please go ahead.

CLAIRE KANE: Hi, good morning and apologies in advance if this has already been asked but can you talk us through your outlook for growth over the second half of this year and into 2013? Your peers have very much commented that corporate credit demand is low and just see where you're positioning yourself in the market there. And then finally, can you talk us through on funding, how far pre-funded you are now and what your view is for the funding markets into the second half, if you think funding markets will become more stressed or less stressed going forward? Thank you.

MICHAEL WOLF: Well if I take the competitive position, I would say that I feel pretty confident that our competitive situation is improving. And we see signs in this quarter of increased volumes on the credit side, despite that we are acting with the same credit politics, same credit standards as we have done for a long time, or -- or over a prolonged period. And we have a very strong balance sheet, so as long as we get risk adjusted price correctly, we'll be keen to do more business. So in my book our relative position is improving step by step.

On the funding side I think the whole concept of pre-funding obviously relates to how much liquidity reserves we want to hold. And what we're planning for and we're pretty much executed on our full year plan already, but what we're planning for and the way we want to run the liquidity reserves is that we are keeping a pre-funding level which is clearly in excess of 12 months and sort of rolling that ahead continuously.

In terms of outlook for the funding market, I mean it's very difficult to say. It's been a volatile environment for the last few years and I wouldn't expect that to stop at this point. We feel that we've been rating up for a pretty volatile time (inaudible) going forward.

CLAIRE KANE: Okay, thank you. Could I just maybe have a follow up? Would you say your expectations for current demand and growth in your credit book have come down since the start of this year?

MICHAEL WOLF: I think what we were saying is that the credit expansion in the total market is declining on the back of people's uncertainty about the future but our relative position looks good and strong.

CLAIRE KANE: Okay. Thank you very much.

OPERATOR: Our next question comes from Mr Pawel Wyszynski. Please go ahead, from Nordea.

PAWEL WYSZYNSKI: Yes, hello, Pawel Wyszynski here from Nordea. I was just hoping if you could maybe give us a split on the NII Q on Q, how much was coming from lower rates, lending months and volumes. Is that possible?

GÖRAN BRONNER: I don't have it at hand, so I'm not gonna start jumping into numbers here, but we can probably create it. Let's think about how we do that and if we give that through IR in some way.

MICHAEL WOLF: We'll have to come back on it.

PAWEL WYSZYNSKI: All right. Thank you.

OPERATOR: There are no further questions on the telephone.

MICHAEL WOLF: Then I would just like to end by thanking everyone for participating at this call and look forward to hearing from you in the future. All the best.