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Speakers: Michael Wolf, CEO; Göran Bronner, CFO; Anders Karlsson, CRO

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OPERATOR: Ladies and gentlemen, welcome to the Swedbank Interim Report, January to September 2013. Today I am 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: Good morning, and thanks for attending this telephone conference. If we look at the quarter from a result point of view, one needs to conclude that it's a strong, stable quarter, where all business areas are delivering.

If we start with Retail, there our focus to keep clients in the upper segment is getting traction. In September we actually had a net surplus of gaining customers. We're making good progress to regain our market position within mortgage lending, as well as to become more relevant in the region of Stockholm, where our corporate volumes are increasing. The effort to move clients to Channel and Concepts are progressing according to plan and should provide more and better coverage of the entire customer base.

LC&I is step by step building the relationships within our selective client strategy, which is evident in the P&L. The markets area had a slightly slower quarter. Our Norwegian market position continues to improve.

In the Baltics our re-pricing at first gained traction, which is a sign of strength as it shows that the client base is more robust, able to cope with higher lending pricing.

Our credit quality remains very robust and our cost focus is still strong and it is a critical success factor in today's competitive environment.

The banking sector, including Sweden, struggles however with declining customer satisfaction levels, despite that the Nordic banking product is probably one of the best worldwide. Of course, demanding clients is also an advantage and we need, in order to address this challenge, to become even more transparent. We need to simplify our offering and continue to invest in our digital solutions to meet the changed behaviour among our customer base.

We had last year's struggle with our service levels, but we're seeing improvements in many, many areas. Our accessibility has improved and we have reduced the number of incidents by over 60 per cent this year, and this is of course essential in today's banking environment, where accessibility is a key prerequisite to deliver good service levels.

The transformation of the ATMs into a commonly owned company created lower accessibility but has now returned to agreed service levels. Our telephone bank has been able to reduce the waiting time to communicate its service levels. Our cash smart strategy is broadly accepted. If we look at the number of ATM transactions, they have declined with over 8 per cent year over year, and at the same time, we have seen an 11 per cent increase in the use of credit cards. Buying chewing gum in a 7-Eleven with your card is today common behaviour among our Swedish population.

Our mobile bank has more logins than our Internet bank and provides more and more services. The latest addition is that you can now monitor your credit card transactions and you can also see your e-invoice in the mobile bank. Our mobile bank customer base grows, with some 30 000 to 40 000 clients per month.

The key issue here for us is to continue the transformation of the Swedish retail unit and the establishment of Channels and Concepts. This effort has been present in the Baltic banking operation for quite some time and we see quite some success in the multichannel strategy where we get scale advantages and better customer satisfaction and better penetration, which is quite evident in their P&L numbers for the quarter.

With that, I thought I would hand over to Göran who will give you more details on the P&L and the balance sheet.

GÖRAN BRONNER: Thank you, Micke. Firstly I would like to say that the quarterly result is very strong. I think it's very good to see that the financial return that we have in each business area is very good and it's also improving, so I think we're very pleased with this result from a financial aspect.

Starting with our six regions: the Retail, as usual we continue to have a very stable result. We have, as Micke said, started to gain a better market position on the mortgage market, so you can see some loan growth, particularly in the Stockholm area, but also in the Stockholm area corporate portfolio we feel that there is a potential for loan growth.

The margins have been better than expected. We have been expecting more erosion on NII than we actually have in the quarter, and the reason for that is that we continue to get benefits from a better funding environment that we can filter through to the business area, so you could say the back book margins are fairly stable in this quarter, which is of course a positive development. We have also seen a slight improvement in deposit margins during the quarter. All in all, that actually makes NII actually, on a quarter on quarter basis, improved.

Credit quality, Anders will come back to this, but it continues to be very stable.

Turning to our large corporate division and trading environment, I think it is very much the same story as we have conveyed earlier on. The loan book and the client-driven part of the trading activities continue to perform well. The volatility in trading makes the result fluctuate; this quarter is slightly weaker than a normal quarter, due to uncertainties and mostly related to FX fixed income. Cost-wise, good control, good progress in the work with the changed business environment and we continue to feel very good regarding the asset quality. Return-wise, I think we are very happy, considering where we are in the cycle for this business area.

The last business area, being Baltic banking, also continues to improve their result, which I think is good to see. Part of that is it is a slight foreign exchange effect in there, but we are seeing progress in the re-pricing and margin expansion that we have on the weaker part of the portfolio. It's been good progress in the work there from our three Baltic countries. We also see that the client activity in commission-driven income sort of is very good and we do feel that this business area is in a very good position to gain from a better macro-economic environment.

In this quarter, we have seen a little bit higher recoveries on the balance side that fluctuate from quarter to quarter. It doesn't change the picture dramatically, but of course it improves the return on equity number. The important thing here, I think, is to remember that if we strip out goodwill, we have a return on tangible equity, even with normalised credit losses in this business area around 20%, which we feel is very good considering where we are in this cycle in this business area as well. So, well positioned, going forward, I feel.

Summarising this on a group level, we are witnessing improved NII, the contributing factors being all business areas, but also Treasury. In Treasury we are also witnessing the trend with lower funding costs, but also the risk result in Jonas' area has been a little bit above expectations, which is good to see.

Commission income very much in line with expectations. Net gains and losses slightly weaker, but much of it relating to weaker trading activities in LC&I and slightly weaker NGL in the Treasury area.

Costs continue to be on track, for flat costs, the guidance of flat costs in 2013, which is good. And the credit quality overall, as I mentioned earlier, is very good.

The financial key ratios are very solid. We are, in the quarter, reporting a return on equity of a little bit over 16 per cent return and with a cost/income ratio of 0.43, and that is on a Core Tier 1 ratio of 18 per cent. So we are, of course, extremely happy with the financials.

Lastly, if I leave you just with an explanation, most an explanation of why we ended up on 18 per cent in Core Tier 1, is that we continue to reduce our risk-weighted assets and in this waterfall you can follow sort of the different components of that. It is a slight mixed shift why we have increased the volumes on the mortgage side. We have actually had a couple of repayments of some loans and we have some FX effects also making the mixed shift less capital consuming. We do also see positive rating migration, both in the Baltic operation but also in the Swedish operation, which is very encouraging. Lastly, I would just point to the fact that we have lowered risk-weighted assets also relating to our market risks in the LC&I

department. So, this being the main explanation, together with a good result and a small effect on IAS 19, leading up to a very strong capitalisation.

With that, I think I will hand over to Anders.

ANDERS KARLSSON: Thank you, Göran. If we start off with credit impairments, as you can see, the third quarter is a continuation from previous quarters; with low credit impairments. If you look at Baltic banking, you can see that we have net recoveries at a slower pace than last year, which is in line with our expectations. The inflow of impaired loans and credit impairments from the portfolio, not stemming from the crisis, continued to be on a very low level, which essentially means that we expect continued low impaired loans and credit impairments in the portfolio, but also smaller recoveries going forward.

When it comes to Sweden, you can see that the portfolios continue to show good resilience. Being on such a low level implicates a certain degree of volatility between the quarters. If we look at impaired loans, especially in the Baltics, it has continued to decrease through the quarter with 900 million and the year to date, it's 2.5 billion down. We expect this to continue next year and our ambition is to work down the legacy portfolio more or less fully next year. In Sweden, the development is quite stable with one exception of LC&I in the second quarter, which is related to basically one single exposure.

GÖRAN BRONNER: If I can just add on Ektornet there, I forgot to say that in the quarter also we had a little bit extra income in Ektornet and also we see that we have some intangible impairments relating to Ektornet as well. I think that is a reflection of actually good progress of selling out our repossessed assets, so Ektornet is moving ahead very nicely and according or ahead of plan and we are today at 2.7 billion in assets in Ektornet and we hope to dismantle Ektornet as soon as possible, basically.

MICHAEL WOLF: Okay, I guess with that we leave the floor for questions.

OPERATOR: Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from Mr Chintan Joshi from Nomura; please go ahead.

CHINTAN JOSHI: Hi, good morning. Three questions, please. The first one is on model approvals. Can you give us an update where you are and what kind of timeframe should we expect these approvals in?

GÖRAN BRONNER: I think we have earlier said that we hope to get the approval around year-end. That is still sort of the hope. We haven't seen anything that changes that picture, other than that we come closer to year-end. So of course, from that perspective, we are more anxious to see that we do not have a hiccup. But so far, the discussion with our regulator is good, but we also need to make sure that it materialises in the end.

CHINTAN JOSHI: Thanks. The second question is on the Treasury NII. It's almost 500 million this quarter. How much of this is sustainable, going into the following quarters? Are there any elements within Treasury which you would expect to follow it, going into 2014?

GÖRAN BRONNER: I think we have earlier spoken about that we have benefited NII-wise in Treasury with relation to the falling interest rates earlier in the year, and that will gradually tail off. I do think that that is still valid, so we do see if everything is pari passu in the market on where rates are and so forth, it would be natural to see a lower NII in next year. But it is of course, as you know, impossible to predict, sort of risk-related income, it can continue to be opportunities and it can be a very slow year in 2014, we do not really know.

CHINTAN JOSHI: How much would you say was risk-related NII this quarter?

GÖRAN BRONNER: In essence, what should be left in Treasury by the end of the day, as a result, is what we basically see as the risk result. Everything else is something that we allocate out to the business area in order to get the right capital and liquidity cost in the system for doing transactions, as far out in the system as possible. I think, year to date, we are around 700 million or around that level in overall result in Treasury. I am not going to give you a precise guidance but I do expect Jonas and his team over the year to make money on the risk limits that they do have.

CHINTAN JOSHI: Fair enough. And the final question is on your hedge guidance that you had given. We were told that it will fall off at about 100 million per quarter, but within kind of the period that you have guided, we have seen two years' profits go from 1.8% to 1.2% and currently 1.5%, so we're probably past the worst of the rate cycle, so shouldn't the hedge guidance of negative 100 million per quarter reduce because of the improved rates?

JONAS ERIKSON: I think when you look at the risk result, it's a variety of different risks. It's credit spreads, basis swaps, etc, so you can't just look at one point in the market and try to get guidance from that. But also, you know, our positions obviously change all the time and the vast majority of the risk that we have when it comes to the interest rate and basis swap risk is not marked to market, so you have a quite long tail on that.

CHINTAN JOSHI: Understood, thank you.

OPERATOR: Our next question comes from Mr Peter Wallin from Handelsbanken; please go ahead.

PETER WALLIN: Yes, good morning. I would like to have some, if possible, further clarity on the Swedish mortgage market and especially the margins. You seem to be reiterating that your front book margins are at 10 to 15 basis points below your stock margins, but also, at the same time, you are saying that the margin outlook is somewhat more positive, if not as negative, as it was in Q2. Is that mainly referring to your own improved funding situation or is it also that you are seeing competitors becoming less aggressive?

GÖRAN BRONNER: I think that's relating to both of these facts. I think the funding is definitely one part of it but I also feel that the margin pressure was more intense in the beginning of the quarter than it was in the end of the quarter and much of that is of course relating to the discussion around regulation, counter-cyclical buffers, and so forth.

PETER WALLIN: Thank you. And then, a situation, more of a hypothetical one, in terms of your excess capital, and you're reiterating your stance that you need regulatory clarity before any significant distribution could take place, but considering the speed with which you're building capital right now, could it be a hypothetical scenario that you can actually in Q4 see that you have so much headroom that maybe you will split up this excess capital distribution, saying that maybe probably we can shift out whichever amount as a kind of extra dividend and then await regulatory clarity for the remainder?

MICHAEL WOLF: I think the way we look at it is that we have the IRB advance process with the regulator pending and we want to complete that, and then once we know whether they come through at year-end or not that is a big input in the whole debate of this issue. We will come back as soon as we feel that there is more clarity.

PETER WALLIN: Okay, great, thank you.

OPERATOR: Our next question comes from Mr Alvaro Serrano from Morgan Stanley. Please go ahead.

ALVARO SERRANO: Hi, thank you for taking my question. I just want to ask for a bit more colour on a couple of issues that have already been asked. On the mortgage margin pressure, could you explain a bit more what you're seeing in terms of volumes during the quarter and maybe in early Q4? You mentioned that you think that competition might have eased because of the concerns around risk weights, but have you seen that 10, 15 basis points' margin pressure increase during the quarter or decrease, and what could we expect for the rest of the year, and your best guess of next year? And also, on the capital front, the IRB approval; I think in the past you've said it could add around 200 basis points, which could place you next, closer to 20 per cent, fully loaded Basel III. What do you think? There's obviously been a lot of rhetoric around pushing risk weights up, the floors in mortgages up. What do you think will be the outcome? Do you think the counter-cyclical buffer would be the preferred option? Do you think floors could be increased to 25, 35 as well? What's your perception of what might happen into next year? Thank you.

MICHAEL WOLF: If I start then with the last question; I think we are quite clear in my CEO statement today that if you look at the financial stability report from the Central Bank in Sweden, Riksbanken, it's quite obvious that Swedish banks are well capitalised to mitigate any stress scenario. So there is not really a necessity to build more buffers from that point of view. What is happening here is that we are lacking housing starts in all major cities in Sweden, and that is creating a pressure on house prices and of course the indefinite level of existing owners of housing. So what I see is that, rather than dealing with a structure problem of the banking system, which is not possible, you should start more housing starts in Sweden, and that is the key issue, going forward. If that is not happening, then of course amortisation and capital will play an important role to mitigate the risk for existing mortgage holders. So that's how we look at it. Göran, should you answer the other two?

GÖRAN BRONNER: If we start with margins and the flavours you were after, I think the front book margins currently are more sort of ten basis points lower than the back book margins. It's of course very difficult to see what happens over time, but I would say if you disregard any regulatory changes coming and affecting the price picture, I don't think the margins are on their way up, because banks in general are restoring and becoming very profitable. But I don't feel there's a risk either for us of intensified price pressure at this point in time. So, I'm quite content with the level where we are, for the foreseeable future.

With regards to your question on IRB Advanced, you talked about 200 basis points. I think we have mostly talked about 40 to 50 billion of reduced risk-weighted assets and that is still a valid guidance for you with regard to IRB Advanced. And then we just have to wait and see where the regulatory landscape takes us with regards to minimum risk-weightings, leverage ratio, and so forth. Personally, I don't think that that will be a hard regulation, but it has a lot of back stop information and that is important that we need to address as a banking community. But from a Swedbank point of view, I think we are in a good position there as well, even though we have a large part of our business model in a lower risk weighting, so to speak.

ALVARO SERRANO: Thank you very much.

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

PAWEL WYSZYNSKI: Yes, hello. Pawel here from Nordea. A quick question on firstly, the NSFR. We can see that the NSFR decreases from 95 per cent to 91 per cent Q on Q. Could you give us some flavour why this is happening right now, and also what the effect of NII was in the quarter? And secondly, could you possibly give us the LCR in Swedish crowns, what that is. And lastly, you're stating that the margins in the corporate portfolio in the Baltic countries are increasing. Could you say what it is and by how much it is increasing?

JONAS ERIKSON: Let me start with the NSFR and LCR questions. I think when you look at the NSFR, it will be some volatility in that number, given that we measured the 12 months cash flows then as soon as we get large maturity coming into that 12-month window. You will see a dip in the NSFR. So I think if you look in the past sort of 12 months, you've seen a fluctuation between the 91 and the 94 per cent where we've been. I wouldn't see sort of a change to that. I would more regard this as a volatility, and you have no impact on the NII from that.

On the LCR, I will actually need to get back to you. It's clearly below 100 per cent but I don't have the number off the top of my head; it's not a number that a regulator has to know, so we don't track that quite as closely. Can I get back to you on that one?

PAWEL WYSZYNSKI: That would be great.

GÖRAN BRONNER: The corporate margins, I didn't really catch your question there. Was that relating to what was behind the increase in margins in the Baltic in the corporate sector?

PAWEL WYSZYNSKI: Yeah, I mean, what's behind it and also how much can we expect it to come up further? So I guess where we are currently today and how much increase, Q on Q, as you are writing about it in the report?

GÖRAN BRONNER: I don't really have a very precise guidance to give there, other than saying that we have worked during this year, the weaker part of the portfolio which are in sort of lower risk classes. We don't think we have reached sort of the necessary rate or hurdles and the clients, so we are sort of doing a second round of re-pricing towards that client segment. And it has been so far rather good activity and we intend to continue that work for the remainder of this year at least. Then we just have to wait and see what our peers are doing and so forth, in that aspect.

PAWEL WYSZYNSKI: Okay, thank you.

OPERATOR: Our next question comes from Nick Davey from UBS; please go ahead.

NICK DAVEY: Yes, good morning, everyone. Three questions, please, from my side. The first one, if I could just follow up on Chintan's question on Treasury NII. I appreciate you don't want to give us an exact number of what the risk result is and the various component parts of it, but clearly it's been a huge swing and a key area of uncertainty, so just any more colour that we can get there the better, please. I mean, if we look through your statement of interest income and interest expense, it seems like you've had a big fall downwards in the quarter in the cost of average funding. I think you've given us some flavour in the past about your average back book of liabilities being at about swaps plus 85, so maybe if you can start with just giving us a sense of whether that number holds true and then how much expense funding has rolled off in the quarter. And then maybe, finally, any colour, please, on how often you update your internal fund transfer pricing model, just so we can get a sense of what's sitting in Treasury that might be allocated out into various divisions over time. Just a bit more flavour there, please.

The second question will be on RWA, and we keep coming back to this RWA target of 40 billion to 50 billion or so, and I think that target has existed for the last year or so, in which time risk-weighted assets have already declined 30, 35 billion already. Could we please just revisit that number and just give us a sense of how much of that is linked to AIRB and therefore how much scope there is to do more than that on just migration and mix effects like you see in this quarter?

The third question, please, on costs; you're running down about 2% year on year in the first nine months of the year. I'm just interested to see why you stick to flat costs for the full year, whether there's anything to come in Q4 that we should be aware of, and any early observations about the improving efficiency from Channel and Concepts, just to give us a flavour of what costs might look like into 2014 and 2015. Thanks.

MICHAEL WOLF: Okay, Nick. I think I'll hand over to Göran there. He is looking at all your questions.

GÖRAN BRONNER: Let me start backwards here. If we talk about flat costs for the year, seasonality, the fourth quarter is normally quite a bit higher than the seasonally low third quarter, so that's why we stick to flat costs. It's very difficult to say 100 million Krona here or there really, because it's many aspects by the end of the year. I think you should notice though that costs in the third quarter of 2013 is higher than costs in the third quarter of 2012. So, we benefited from our comparisons in the early part of the year and we have reached the bottom of the cost cycle, and therefore we stick with the flat costs target.

With regards to 2014 and 2015, we will not say anything now; we will come back to you on that as sort of once we've been through our planning process a little bit more, and hope to have more communication around that on the next occasion.

RWA, it's correct, we've talked about 40 to 50 for a long time. I think we continue to do that because we think that IRB advanced will give us 40 to 50 billion. That doesn't mean that we work with, an organisation that has become much more capital focused over time, it of course continues to deliver on that aspect. Then there are certain factors that you cannot influence, like FX and rating, migrations and so forth. So, it's a mixture of external events and also your internal focus. If you go back to the first year and a half, we have also done smaller model changes that we have talked about that have released capital for us, and I think we have on many, many occasions talked about where the bank has not really fully integrated the capital adequacy models in their steering back in 2005 and 2006 when it was implemented, while the new management has fully worked with implementing them in all steering and allocating out capital and focusing the steering and the performance in a review of a return on capital. That continues to give its effect, which is very good.

So, I think overall that it's a bank that was perceived five years ago to be extremely risky, and it's proven to be less risky and much more well-collateralised, and asset quality in Sweden being very good.

Treasury NII is the most difficult area. It is so many components affecting Treasury NII, so it is very difficult for us to guide on it because it always swings on different components. The ambition is that everything that's funding related should be going out to the business areas and the remaining part should be risk income that we don't want to give to the business, because then we're subsidising the business with risk money in Treasury. So it's very important that we don't price credits on that. And then it could be traffic between NII and NGL in Treasury, of course due to valuations effect.

Jonas, could you give some more flavour on that one, compared to earlier communications, that gives a little bit more in depth?

JONAS ERIKSON: I think if you go back to what we've been sort of saying earlier on in the year, we've had more volatility than we could foresee, which I think is natural when it comes to risk income, but also if you look at the NII and NGL, you have actually had a declining trend throughout the year, that we have been talking about. I think if you look at the NII and NGL together and listen to Göran's comments about sort of expecting that to be net positive over time, because after all, we do have our risk mandate, I think that's the best guidance we can give. But then you might also have some quarter by quarter fluctuations depending on when we change the allocation of funding cost towards the business, so in our internal pricing model it is impossible to get a 100 per cent netted out zero funding result in Treasury each quarter. But over time, over a year, it should be zero.

GÖRAN BRONNER: Are you happy with that, Nick?

NICK DAVEY: We might try a bit more at lunch tomorrow, but ...

MICHAEL WOLF: Good.

NICK DAVEY: Thank you, thank you.

GÖRAN BRONNER: Thanks.

OPERATOR: Our next question comes from Ms Claire Kane from Royal Bank of Canada; please go ahead.

CLAIRE KANE: Hi there. Just to follow up again on the capital and regulatory outlook and just really to look for some points on timing. I know you mentioned the leverage ratio there. Are you now expecting that maybe Sweden will move ahead of the 3 per cent from Basel and set the minimum higher, given most of the banks are already there? And also, could you see a counter-cyclical or capital buffer coming in any time before the actual 12 per cent minimum is due to come in at the beginning of 2015? Do you think that's a reasonable timeline to look at?

And then, also I noticed in your presentation appendix that you've put a few asset quality, or a bit more on certain credit portfolios, and I was wondering is this ahead of what you expect in the asset quality review and what are your kind of thoughts on how Sweden will be involved in the whole balance sheet assessment? Thanks.

MICHAEL WOLF: I mean, as you have experienced, regulators have been early in communicating intentions but late in implementing the actual regulation and it's impossible to guide on timing. So far they have missed all their deadlines and been delayed. There has been some clear language from the Minister of Financial Markets and the supervisory authority around the counter-cyclical buffers, but we still need to get that in written language. So, I can't guide you, unfortunately. We do feel that we broadly understand the direction and the materia, but the devil is in the details and we need to just sit and wait on those firm languages and firm documents before we have an answer on that, to be honest.

When it comes to leverage ratio, I think it's an important sort of measure; it's a back stop type of measure. There is no indication that Sweden would be harsher than anyone else. Mind you, the Swedish model has some merits and I do believe that the regulator and the political environment, the validity of that model, but we'll see when things are progressing on that matter. But leverage ratio is one of the latter sort of regulations and I think it will work as a back stop and not be a totally firm measure.

GÖRAN BRONNER: I feel that there is a very broad concern between the banks and the Swedish regulator, that the risk-based system has worked well for Sweden, so for them, I think the more important issue is how the international investor community look upon leverage as a back stop regulation and how that sits with how other countries regulate that question. So, I do not think that we are in that situation where Sweden will move on this regulation in the early way like they've done on capital. They are not there mentally, which I think is an important distinction.

With regards to your question around disclosure, it has nothing to do with the EBA stress test. I know very little about the EBA stress test.

ANDERS KARLSSON: Essentailly, what we know about the asset quality review is that the first stage, which is now, is to harmonise definitions, basically. The second round is to get an extract of the loan portfolio by the local authorities. This is under the supervision of EBA and the ECB, by the way. The third step, if I'm correctly informed, is to follow the asset quality review with a balance sheet review. The fourth step is to stress test, which we expect to be around Q2 next year and then possibly present it Q3/Q4 next year. So, we are in a definition phase right now, as far as I know.

CLAIRE KANE: Thank you very much. Could I just get one follow-up on the counter-cyclical buffer? I guess we've all seen the Finance Minister's comments and we know the direction it's coming, but would you expect it to be set somewhere in the middle at the start, or do you think they'll just go all for the higher end, 2.5%?

MICHAEL WOLF: I wouldn't like to speculate on that. We'll have to wait on the outcome. But overall, what we tried to allude to earlier is that Swedish banks are well-capitalised for a stress situation in Sweden, affecting the Swedish house price levels, so it's rather for politicians to take actions on housing starts than trying to make it more difficult for newcomers into the market to lend money; this is just going to continue to press prices up on lending in a market which needs housing starts. So I think they are addressing the wrong issue here.

CLAIRE KANE: Great, thank you very much.

OPERATOR: Our next question comes from Mr Geoff Dawes from SG; please go ahead.

GEOFF DAWES: Hi, good morning, everyone, it's Geoff Dawes from SocGen here. Just one question left from me. It's one on the mortgage book and some of the distributions between the variable and the fixed product, because I didn't quite get enough detail on the flow between those products and the fact book. Essentially, I wanted to know two or three things: first of all in terms of current business that you're writing, how much is variable and how much is fixed and whether that's any different to the back book? Second of all, whether you're being more aggressive on one of those two products than the other, so trying to build market share more aggressively in the fixed or the variable? And third of all, if there's any difference in the margin that you get, obviously as the yield curve begins to steepen I would expect those two to move around a little bit and prices to move around a little bit. So, just wanting to get that clarity on the variable versus fixed. Thank you very much.

JONAS ERIKSON: I think when it comes to the Swedish market overall, you have to remember that the fixed market is very short-term. Typically, the majority of the volume that is written in the fixed market is two to three years. Pricing-wise, there's no real difference. I think most banks price it the same way, just looking at a funding cost add-on and margin to the swap curve, so we can't really see any difference there.

When it comes to volumes, on the back book it's around 55 per cent, 60 per cent that is floating, but I don't actually have the front book numbers from the top of my head, but we can get back to you on that. It's around 50/50.

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

ANDREAS HAKÅNSSON: Yes, hi, it's Andreas here. Just a follow-up question on the capitalisation. I mean, if we look at the 12 per cent minimum and let's say we add 2.5 per cent counter-cyclical buffer and then 2 per cent for your mortgage risk-weights, and just to be aggressive you're up to 16.5 per cent, but you're at 18 today and if we add 200 basis points from the IRB models, you're at 20. How do you view the difference between that 16.5 and 20 and how do you think you can address that in the future? Thanks.

GÖRAN BRONNER: How do I view the difference? Well, a delightful problem. I think we, as Micke said, one thing is to understand the IRB Advanced in its details. The other thing is to, once you have that, you can start to think about sort of swapping capital or repatriating capital, it's two different issues. For starting swapping capital, you also need to have point of no viability and to have a sensible idea of what the right price would be for additional tier one capital. I don't think we should, we are not in any hurry here to sort of try to set a precedent of the first out in the market doing something. The important thing is that we, in the end, get the right price for our funding or our capital in there. And therefore, it's good that the credit story is gaining momentum and also of course if we high or low trigger makes a lot of difference and it's very important for us to distinguish us from other European banks in this capital aspect, since we have so much equity.

I do also feel that if you can return 16.2 per cent on your 18 per cent core capital, we don't get any pushback from shareholders that they need to have the capital tomorrow morning, really, because they have problems generating 16 per cent return on equity on other investments, so as long as we are very clear that we're not going to spend the money on any new business line or in any new geographies, I think the whole issue works. Time is with us and we will get the price. We will be able to calibrate our liability structure in a more efficient way as we get more clarity. Time is not against us; time is with us.

ANDREAS HAKÅNSSON: Okay, thanks.

OPERATOR: Our next question comes from Mr Tobias Kaj from Carnegie; please go ahead.

TOBIAS KAJ: Yes, thank you. I have a couple of questions regarding the Baltics. First of all, for how long a period should we expect the re-pricing in the corporate segment to continue? And secondly, is there some specific reason for the large reversals in the third quarter? And thirdly, where do you think that normalised loan losses are in the Baltics?

GÖRAN BRONNER: Starting with the last one, I don't think we will guide on normalised loan losses. I think the experience I have from banking is that you have a hell of a lot of loan losses and then you have nothing for 20 years. And from that, to try to take a mean, an average out of that, that's the normalised, I think it's basically an almost impossible exercise. So your guess is as good as mine.

I do think the similarities between the Swedish crisis and the Baltics could be quite similar in that aspect, if you have a good period of low credit losses because you've been through such very, very harsh stress of the whole asset side of things.

With regards to the NII of the corporate book, as I said, we are currently working with re-pricing. We will continue to do that. The effects of that will of course come in gradually even during 2014. So it's nothing that stops with our staff's activity.

TOBIAS KAJ: And also the reason for there being reversals in the third quarter?

GÖRAN BRONNER: Ah, the reversal. That was a few clients, nothing strange about that. That was sort of, what do you call, acquisition-related final thing and then suddenly they all sort of changed, so nothing strange.

TOBIAS KAJ: If I also may, I would like to ask a question regarding Ektornet where your asset base came down or continued to come down in the quarter. But costs were more or less unchanged compared to the second quarter. Is there some specific reason for that? It has been a quite good correlation in the past.

GÖRAN BRONNER: You mean are costs following asset ... and they're not doing that. It's always a timeline before you can take out the costs of your divested assets.

Then with regards to the question over the volumes which I just answered, Magnus Geeber just looked at. Can you give more colour on the acquisitions thing there, because that's wrong? What was the repayment things that we saw in the loan book?

MAGNUS GEEBER: The repayment withdrawal was on two specific corporate clients and that was half of the volume and the other half was FX-related. That was the reduction.

GÖRAN BRONNER: Okay.

TOBIAS KAJ: Okay, thank you.

OPERATOR: Our next question comes from Ms Sofie Peterzens from JP Morgan. Please go ahead.

SOFIE PETERZENS: Yeah, hi. Here is Sofie Peterzens from JP Morgan. Thanks for taking my question. Just going back to the Treasury NII, I realise you can't give too much detail. But did I understand correctly that this year-to-date you have made a 700 median result in Treasury? And I think in the presentations are where you say or in your report you say that it should be zero every time. Is that correct?

And secondly, could you just detail also what exactly is in the risk result? You just mentioned some spreads basis swap. But could you give, like, exact details of all the different factors that should be taken into account?

And thirdly, when I look at your interest, total interest income, it was actually down minus 3 per cent quarter-on-quarter, minus 13 per cent year-on-year and all the NII held was actually coming from your funding costs. But how should I view, like, the total net interest income growth over the next year? Should we expect it to be largely flat or will the downward pressure continue? Thank you.

GÖRAN BRONNER: On the total NII, I think we talked about -- earlier we talked about two headwinds, one being margins on mortgages and the other one being the Treasury result. We continue to see that, that headwinds. But you could say from a slightly higher level as this quarter has -- the funding, the improved funding position has surprised us positively. So that guidance remains basically.

I don't think we have more flavour to give really for the components of the risk results. It is different things in there but it's normal activity in the Treasury department.

Sorry but I missed your third question.

SOFIE PETERZENS: But just going back to the risk results, you also have the basis swap in the risk results yet one of your competitors had very large swings from their basis swap. So is this a factor that is kind of, that you have just been lucky in a way that you have had a positive basis swap development in the past three quarters? Or is it something that will reverse to zero every time? Or how -- is there anything you can give, kind of a little bit more flavour around how we should view it?

GÖRAN BRONNER: Yeah, you could say when we have a closed risk in the basis but we have valuation effects, that will lead to -- it's not an open risk. It will flow out to the -- in the sort of – to the businesses, and that one is small. If we manage the basis swap and we try to time the market, it will be part of the risk taking activity. And you understand the borderline for things is very difficult to draw in this in reporting.

JONAS ERIKSON: From basis swap, it's actually a risk result. It's not the valuation of it.

SOFIE PETERZENS: Okay.

JONAS ERIKSON: Are you fine with that?

SOFIE PETERZENS: Yeah, I guess so. Okay, yeah, sure, thanks.

OPERATOR: Our next question comes from Mr Jan Wolter from Credit Suisse. Please go ahead.

JAN WOLTER: Yes, good morning. Jan Wolter, Credit Suisse. A couple of questions. If we look at the mortgage market, I think you have earlier indicated that you wanted to get back to roughly 25 per cent market share. And I know that you don't have any specific targets over time, but still that's been the indication. I think you are there now. Is it fair to say that you have reached your ambition over not become more aggressive on that side, Swedish mortgages? That's the first question.

And the second one is: have you priced the Swedish mortgages including a full counter-cyclical buffer or any part of that, please?

MICHAEL WOLF: Yeah, hi, Jan. If we look at our strategy, we have been very clear on that we wanted to stop losing clients in the upper segments and as mortgages is one of the most critical relationship products, that was a concern of ours. With a fitting tactical implementation of that aspect, we have been able to stop the loss of clients and in September actually saw a net inflow of clients which was excellent news.

I mean, we don't have a specific market share target. We want to operate on the relationship basis and we want to sort of gain a broader share of the wallet with existing clients. And yes, month-by-month we have improved our market position. Year-to-date market share is 12 per cent to give you a feel for the nine-month, but of course every month has been an improvement. We are not intending to act in an aggressive manner because we want to protect our earning capacity as well.

And on the second question, whether we have weighted in counter-cyclical changes in the mortgage prices, I hand over to Göran.

GÖRAN BRONNER: I think we talked about the cap return target around 15 per cent. That is what we currently have allocated out to the business areas. In that, I think we've taken height for the floor on risk-weighted assets, that was introduced earlier on, where if the capital target would be 16.5 or 17, that is something we need to sort of adjust by the end of the day. And I still think it's a lot of uncertainty that that will happen. I think 15, we feel good with having that.

JAN WOLTER: Thank you. If I just could follow up and really try to get your view on this NII discussion that you've had on this call and the previous guidance and the current guidance. To the best of your knowledge, aren't you really saying that what you see is that the group NII is coming down next year compared to 2013? Is that not what you're seeing, given all the headwinds that you have? Or is not that the -- what investors should take away from this call?

GÖRAN BRONNER: I think we already said that last call. That was what we said last call; that the headwinds was becoming sort of stronger compared to what we had earlier for a number of quarters, talked about tailwinds in terms of funding and re-pricing and so forth. In this quarter, I would say if you fine tune the message here I think what we're trying to convey is that there is still to be expected some headwinds but from a higher level and perhaps to a lesser magnitude than we thought a quarter ago.

JAN WOLTER: Okay, many thanks for that interpretating, Göran.

OPERATOR: Our next question comes from Mr Magnus Andersson, ABG. Please go ahead. Mr Magnus Andersson from ABG your line is open.

MAGNUS ANDERSSON: Yes, thank you. Most questions have been answered already. But just if I may follow up on the Baltics. First of all on the re-pricing here if you are seeing any differences between the various countries?

And secondly on the competitive situation there. Do you think that this re-pricing is something that goes for the whole market, i.e. that your largest competitors will or are following through? Thanks.

MICHAEL WOLF: I mean, it's across the board and, I mean, there is of course a risk that we lose some new market share and corporate lending by driving re-pricing. It's too early to say where the rest of the market is coming in on this issue. But for us it's also an important test of the stability and robustness of the local corporate sector of being able to cope with the higher lending pricing which is more correctly reflecting the underlying risk of this -- these markets. So we see this as a net positive and I cannot speculate in what others might do and not do on the day that we have today.

MAGNUS ANDERSSON: Okay, but if anything you're experiencing that you are in the forefront of corporate re-pricing?

MICHAEL WOLF: I would argue that.

MAGNUS ANDERSSON: If I just may follow up on the Baltics, another question on risk-weights there. Do you think that we, during the coming years or so, will start to see lower risk-weights in the Baltics coming through in IRB, given you're still improving asset quality?

MICHAEL WOLF: The answer on that one is yes, and yes we are talking to local politicians who regulate around -- risk-weights being a negative for the Baltics if they want to see more corporate credit.

GÖRAN BRONNER: I think we have talked about, in investor meetings, that we feel that the whole Baltic franchise is very well placed. It's the number one bank in the three countries together. It has a good profitability and starting point. But it has a possibility to leverage the business, maybe do more volumes without adding new capital or new cost to any significant degree. Because the lending will get -- by 45, 50per cent, but you can't of course take out half of the cost base in this downturn. So there's a sort of a minimum size that everyone of the banks operating there needs to uphold in order to be a whole -- bank providing all the product. But that one, the base we have today we can cater for more business and we don't think we will set aside more capital in there. So the marginal profitability on growing here will be fantastic.

MAGNUS ANDERSSON: Yeah, okay, thank you very much.

OPERATOR: Our next question comes from Mr Per Gronberg from Danske Markets. Please go ahead.

PER GRONBORG: Yes, good morning. It's Per from Danske. I only have one question left, really to the Group Treasury NII, but I'll probably pose it in a different way, looking at the net financial items part. You have again this quarter quite a significant negative item on your held to maturity value adjustment. I assume that it's coming from Group

Treasury. It looks like, if you look at the first three quarters of 2013, that your Group Treasury also excluding the held to maturity part is turning more chronical negative. Should that be seen in connection with the positive NII and should we expect the Group Treasury to continue to contribute with negative impact on the net financial items line?

GÖRAN BRONNER: I think when we talk about the risk result, we talk about NII plus net gains and losses. So it's the total Treasury result, and so of course there is traffic between NII and net gains and losses which is very difficult to make any forecast around. And that has negatively sort of affected net gains and losses somewhat during this quarter and the prior one quarter, I think, and you can see that in the numbers, yes.

PER GRONBORG: This would also imply that if the NII contribution comes down going forward, it will probably be fair to assume that the negative impact on net gains also goes down?

JONAS ERIKSON: Over time, yes, but it might well be a 100 per cent thing time-wise.

PER GRONBORG: Okay. Any special items in this quarter since you have 234 million on the held to maturity portfolio?

JONAS ERIKSON: Not really. I think it's primarily evaluation changes in some of the sort of loan and funding books.

PER GRONBORG: But isn't that exactly the idea with the held to maturity; that you shouldn't have these quarterly fluctuations?

JONAS ERIKSON: No, I mean, you will still have some fluctuations when you have sort of some of the accounting methods that we have. But over time obviously there shouldn't be any net impact on it.

PER GRONBORG: Okay, thank you.

OPERATOR: Our next question comes from Mr Ronny Rehn from KBW. Please go ahead.

RONNY REHN: Yeah, all my questions have been answered, thank you.

OPERATOR: Our next question comes from Mr Riccardo Rovere from Mediobanca. Please go ahead.

RICCARDO ROVERE: Good morning to everybody. I actually have three questions. The first one is: if I understand correctly, you -- before, you stated that the leverage ratio is -- should be seen as a backstop mechanism. Now, if that is correct, what is the point from a regulatory standpoint of setting kind of 15 per cent capital requirement on risk-weighted assets, increasing the risk-weight of mortgages to 15 per cent and maybe going up a little bit more? Isn't this a way to indirectly prevent any depletion of the banking system equity and to curb the leverage, not of the bank but of the overall country? So on what basis you think -- you say leverage is a backstop mechanism still?

And second question: how long would it take for Swedbank to take the 4.35 per cent leverage ratio that you disclosed this quarter to kind of 5 per cent? Would it take a lot of time? It's something that can be done easily or not?

GÖRAN BRONNER: The last one of course relates to what kind of definition you have for the leverage ratio. It's a lot of different definitions out there so it's ... If we were to go up to 5, it would of course entail your sort of -- or building more capital. I don't think that is a realistic way forward. When we've -- on the first question, where -- what we mean with backstop, at least we might have different interpretation what we mean with "backstop". But from my perspective, it's sort of an information that you give to the financial market, rather than a legal binding pillar 1 requirement because you have so many different models in different countries that lead to different levels of leverage in the system. And you can regulate in a different aspect.

I don't think that anyone in Sweden would like to have sort of a leverage ratio that puts the whole risk-based steering mechanism out of synch, out of place, so to say. That would be bad for the sort of steering of Swedish banks on the individual credits. So I don't think that will happen. It could be sort of a constraint or an information thing that we need to have a feeling around compared to where other countries are, where the investor community thinks of it and so forth.

RICCARDO ROVERE: And to get back to the second question, reducing the assets or the exposure in general on the basis of which is -- the leverage ratio is calculated is something that can be done, let's say, easier because from outside it's not easy to calculate the leverage ratio on the banks? Okay, we don't have probably all this set of information that we would need. It's something that can be done, let's say, easily or not?

GÖRAN BRONNER: Of course that would entail -- I mean, we built capital during a number of years. It takes time to build capital. Is it easy to – dismantle the asset size can be securitised some part of the mortgage portfolio and put it outside of the bank? What if the Swedish banks went together and said, "We will want to change the model in some way" and sort of lift this asset part out of the balance sheet of the banks and have it securitised? I mean, it's doable over a one to two-year period to sort of find a new way of doing these things. We have a lot of liquidity that takes a lot of -- where we actually -- we utilise our short-term programmes basically and put the money on the central banks. That's a zero gain with a -- which only worsens our leverage ratio. Is that a fruitful exercise really? No. Why should we borrow short and give it to the central banks? So yeah, we can fine calibrate things but the big issue would be either to build capital substantially or to start changing the model on the mortgage market. And I don't think neither of them are in the cards.

RICCARDO ROVERE: Okay, thank you. Thanks.

OPERATOR: Our next question comes from Mr Christoffer Rosquist from Barclays. Please go ahead.

CHRISTOFFER ROSQUIST: Yes, hi. This is Chris here from Barclays. Just one follow-up question on your strategy for the Swedish mortgage market where I understand that you're defending what you see as more wealthy clients; so what is the purpose of that? Would you expect? Is it simply the credit quality that they contribute to your book? Or do you expect to grow sort of non-interest income from these clients, and if so, could you just give us an update on any progress with that?

And secondly, the question is on the scope for running down the portfolio in Ektornet. Could you just give a little bit more detail on your approach to that? Will that be sort of more portfolio sales in large chunks or a slow approach through 2014? And what are the market conditions that will allow you to do that more profitably with more scope for -- with transactions above book value? Thank you.

MICHAEL WOLF: We'll start with the first question. One needs to bear in mind that back in 2009/2010 the bank's financial status was less robust and the market growth within mortgage lending in Sweden, as we know, was close to double digit and had been for quite some time. That was not a sustainable development. So basically we took the position of reducing risk and the growth rate in the Swedish mortgage market has since halved and at the same time banks have restored their capital bases and been able to sort of prove that we have capital or support a stressed scenario. In this context, we have sort of readdressed our strategy and focused on the -- not losing customers, not taking -- that we had five years ago.

So basically we're back to normal business conduct and in that light we should trade close to our normalised back book market share, that position. That's basically what we have done in the last year, but step by step we're reaching that.

GÖRAN BRONNER: Ektornet, I think we are selling good. There's a good appetite for both small and larger pieces actually everywhere. We will -- do have a tail of things that will take longer time to sell. It's also always so that the worst remains in the portfolio to some degree. I think we have -- we don't have a hidden loss in it and we are at 2.7 now. I think we will gradually come down to maybe 1.5 and then it will take longer time. We will organisational-wise incorporate the Ektornet into – FR&R and the risk organisation. So from year-end it will disappear as the -- an external division in the external reporting because it will not be material any longer going forward.

CHRISTOFFER ROSQUIST: Thank you, and who is buying it? If we just just finalise some questions so we're done?

GÖRAN BRONNER: Oh, well, I mean, it's all types of buyers since we've been selling in many different countries. But -- so I think it's a very broad based increased risk appetite in the countries we operate and have things in.

CHRISTOFFER ROSQUIST: Okay, thank you very much.

OPERATOR: We have a follow-up question from Mr Chintan Joshi from Nomura. Please go ahead.

CHINTAN JOSHI: Hi, good morning again. Just a quick follow-up. If I look at your release, you say that there are virtually self-funding with long-term and short-term, the maturity is 31 months. If you excluded short-term funding from that, so just -- what would the maturity be for your long-term funding?

JONAS ERIKSON: I think we actually have that in the fact book, ChinTan, but I don't have the number in the top of my head.

GÖRAN BRONNER: Gregori thinks it's 36.

CHIN TAN JOSHI: Thirty-six and do you say that --

GÖRAN BRONNER: (overspeaking)

CHINTAN JOSHI: Sorry?

GÖRAN BRONNER: You can verify the number somewhere in the facts.

CHINTAN JOSHI: Okay, and you say also in the release that you're looking -- your new issuances are around 50 months. So should I take it as that you will continue to term out your funding from 36 to 51, well, like you've done this quarter over time?

JONAS ERIKSON: No, I think the way we work with the funding is that we issue at a certain maturity and then we buy quite a lot back as well. So I think, you know, you might have temporary fluctuations from quarter to quarter. But if you look at the issuance, I mean, if we issue on average five-year paper, then the average maturity for the whole book should be 2.5 years. But it's not 2.5 years since we actually buy back quite a lot in the shorter end so we push it out.

CHINTAN JOSHI: Okay, so should I say that kind of -- let's say for covered bond funding your average majority should be 36 a month, or a little bit more than that?

JONAS ERIKSON: Yeah, around that number. Thirty-eight months has been a current number for all long-term funding.

CHINTAN JOSHI: All long, okay. And on capital, you've had positive rating migration again this quarter. If you're pricing your current economic expectations, say for the next 12 months into your models, would you continue to get positive rating migrations?

GÖRAN BRONNER: I think we do expect positive rating migration in the Baltics, in Sweden I think it is more doubtful since the ... I mean, asset quality and rating is -- we have very good low PDs in general in the portfolio.

CHINTAN JOSHI: I find that a bit odd. If I look at the loan growth in the Baltics in the past two years, it's come down by about 9% whereas risk-weights have come down by 10% more than that. So even if I back out, your total positive rating migration has been about 50 billion in the last eight quarters. I would then get more than 15 billion from the Baltics so the balance is coming out of, presumably, Russia, Ukraine but also from Sweden. Like, where is -- is that mix changing going forward?

GÖRAN BRONNER: Yes, it's mix changes and also there have been some model changes in Sweden relating to the size of -- size definition, didn't we, a couple of quarters ago? They have made -- the RWA releases as well.

CHINTAN JOSHI: Ah, thank you. Have a good day.

MICHAEL WOLF: Thanks.

OPERATOR: And our last question comes from Mr Adonis Catic from ABG. Please go ahead.

ADONIS CATIC: Yes, hi. Abonis here. Just two quick questions. Regarding the margin pressure that you talk about on the Swedish mortgages, that it's ten basis points now, is it that margins have come up quarter over quarter? Or is it that the back book has declined?

And also I believe that you have the -- some improving deposit margins in this quarter. Is that to re-pricing or position taking? Thanks.

GÖRAN BRONNER: Deposit margin is expansion of the margins, slightly, it's because we lowered the interest rates towards clients. So it has nothing to do with any hedge or so. The back book is in the quarter stable and the front book is running basically ten basis points roughly lower than that.

ADONIS CATIC: Okay, thank you very much.

MICHAEL WOLF: Okay then we thank you for a very active conference call and look forward meeting you in -- on our roadshow or later. Bye bye.

(End of conference call)