



Event: Swedbank interim report January - March 2014

Date: 28 April 2014

Speaker: Mr Michael Wolf President & CEO, Göran Bronner CFO and Anders Karlsson, CRO

Call Duration: 00:54:50



Monday, 28 April 2014

OPERATOR: Ladies and gentlemen, welcome to the Swedbank interim report January to March 2014. Today I am pleased to present Mr Michael Wolf, President and CEO. For the first part of this call all participants will be in a listen-only mode and afterwards there will be a question and answer session. Mr Michael Wolf, please begin.

MICHAEL WOLF: Thank you, and thanks for attending this Q1 presentation. Despite the fact that the geopolitical situation in the east increased uncertainty during the quarter, our results are very stable. The business area that shows the best improvement is LC&I. Our long-term efforts to improve relations with a select group of clients continue to pay off in terms of getting more and more of their ancillary business. We have improved our position in the corporate finance area and participated in a number of IPOs and the pipeline is strong. On top of that we defend our position in the debt capital markets area.

Baltic Banking also shows strength with a cost income ratio of 0.45. Despite running the operation on a loan/deposit ratio of 100, it proved that we are able to adjust our operations to the prevailing economic situation. The key to this has been our multi-channel strategy, i.e. digitalisation and client focus. With the existing geopolitical uncertainty improved credit demand will be further delayed. Swedish Banking is performing well financially and we improved step by step our market position in the corporate segment, whilst we continue to be weaker in the private segment where the competition is strong. We have to up our game and focus on

improving market position in this segment. The key to this is that we become the leading bank in digitalisation, to simplify for our clients and reduce costs to serve in order to mitigate the price pressure that will be a critical success factor. I do think we are on the right track. Just in the last two years the number of logins to our digital banking platforms have increased from close to 300 million to close to 600 million, and at the same time the number of errands in the bank branches have been reduced by 30%. A service that many clients seem to enjoy is Swish. During the month of March 1 million transactions were done in the system compared to 3 million for the full year of 2013. Swedbank and the Savings Banks have 40% market share of the number of active clients in Swish.

We have been clear that our focus is on our own markets, and after exiting Russia and Ukraine it was with great pleasure we announced the acquisition of Sparbanken Öresund. We want to grow in the growth area and Skåne is one of the most interesting ones in Sweden. We will provide Sparbanken Öresund's corporate clients with a broader capability of services and knowhow and their private clients with a digital platform. We are also 22% owner of the newly formed Sparbanken Skåne. They will become the largest savings bank in Sweden and through our co-operation agreement we will also get indirect access to the volumes from the branches of Sparbanken Öresund which were sold to Sparbanken Skåne.

Let's turn over to the environment we operate in. The economies in our four home markets are still relatively strong and perform mainly on the back of its strong domestic demand, but the global economy is affecting our export industry and credit demand remains low but where there is growth we participate. Our strong balance

sheet and low risk level continues to support us in terms of lower funding costs, and it's a signal to our clients that we are there to support them.

This is our last quarter at our existing head office. Next time we'll be reporting from Sundbyberg, a move that is more than a move and a cost saving. Our new office will provide us with an opportunity to gather all relevant units under one roof, and I'm convinced that the future requirements of more flexible and more collaboration will be facilitated in the new office.

So thank you for that and I'll hand over to Göran who will give you some details on the numbers.

GÖRAN BRONNER: Thank you, Michael. I will start by going through the three different business areas starting with Swedish Banking. The result continues to be very stable. It is a very low volatile business area. In this quarter we have seen lower deposit margins. Much of that reflecting on the previous decreases of Stibo, but we are also affected in the quarter by shorter quarters. That is to say a fewer number of days. Volume-wise it has been good I would say. We are slowly regaining our market share and our market position on the mortgage side, while the lending in the corporate sector in the six regions has actually been very good in the quarter. Mortgage margins are stable, which is positive I think, and we have seen a very good commission income come during this quarter. Part of that is of course related Robur to and the increasing stock market, but we continue to benefit sort of from GDP growth, in the payments and card business as well, so that's good and the asset quality continues to be very solid.

Looking forward, though, I think the competitive environment is heating up especially for the household sector. We are seeing a larger number of niche players competing on different products with us, so cost and cost focus and efficiency will continue to be of outmost concern in this business area.

Then turning to large corporate and institutions, I must say that this is a business area that has been gradually improving during the years and it's really nice to see the very strong return numbers that we are now able to deliver in this quarter. It is very much based on higher activity in the IPO and corporate finance market in Sweden but also in Norway where we continue to have a very, very strong position, and this quarter was particularly good in the debt capital markets area.

FX and fixed income were more subdued during the quarter but even though we were able to produce one of our best quarters ever here. We are looking to invest. Part of the investments is needed investments due to regulatory changes. We have IT investments to do in this area but another part is to continue to strengthen our product and service capabilities within the corporate sector in general.

Lastly, looking at Baltic Banking. I think of course the most important issue here is what will happen as a result of the Ukrainian crisis but I think we continue to be happy to see what we haven't seen any impact in financials over a slower economy. Yet we expect it to be more visible since credit growth most likely will be stalled for the future a little bit further. Even though I think we have a business area that has been generating good returns, we continue to re-price weaker clients. That is evident in the NII's. We're happy with that.

We have been affected in this quarter for the first time that Latvia joins the euro. So we lose some -- we both lose some income and we have slightly one off costs in

that. And we have seen nice credit impairment reversals during the quarter, which Anders we'll come back to.

Summarising these three businesses on a group level, we see a slight decline in the NII. Adding on there we can say that the Treasury NII has continued to benefit from a good funding position. So the strategy of moving us into a low risk area has really paid off I think over time, and in the quarter we did a number of transactions that came out very well on the market and we continue to see tailwind in the NII in the funding position. So the decline in the NII and the result in Treasury was lower than expected in the quarter.

Other than that, I think we have in the quarter decided to take dividends from our Estonian subsidiary, which will make our tax bill a little bit higher. So we've been charging 50 million extra in tax in this quarter. We have also on the cost line a one off cost of 80 million relating to the move to Sundbyberg that Michael was talking about.

Looking ahead, I think continued cost focus and continued client focus those are the two main focus areas for the whole group. Just on capital and other regulatory measures, I think we can say that IRB advanced is hopefully coming in the second quarter. We have seen an increase in risk rated assets or REA- as it now is called - by 8 billion in the quarter. Four of those are relating to operational risk, which is changed once in a year according to our standardised model and it's about relating to income, really. And then we have small increases in market risk and credit risks. NSFR with the new interpretation of where we are regulatory wise on the new directives there, we think we are at 102%. So we are fully compliant with something

that the banking system most likely will be compliant in 2018, which is also good that we have moved ourselves in that respect.

With that I think I hand over to Anders.

ANDERS KARLSSON: Thank you, Göran. Yes, Q1 is the fifteenth consecutive quarter with low credit impairments ending at 100 million of reversals. Total impaired loans are decreasing with 1.4 billion in the quarter, which means that we end up with 6.25 billion, an equivalent of 5 basis points to total loan portfolio and we expect it to continue to decrease.

Baltic Banking, net recoveries of 101 million. However, we expect this to lower in terms of pace in the coming quarters. At the same time we see a continued low inflow of impaired loans and credit impairments, so all in all credit quality is strong in Baltic Banking.

In Sweden the Swedish Banking and LC&I portfolios continue to show resilience. When it comes to Russia and Ukraine, as you know our operations are discontinued and the exposure is limited. To Russia we have an exposure of 1.5 billion of which 963 million stems from remaining corporate portfolios, 17 customers. The rest is exposure related to trade finance. In Ukraine the only remaining exposure is assets taken over by Ektor-net at a value of 124 million.

Indirect effects from the geopolitical situation in Russia and Ukraine on the Baltic countries are assessed to be limited. In our base scenario we assume credit impairments to increase but to a limited extent. It is more on a case by case basis, and we are in close contact with our customers in all three Baltic countries.

Ektor-net sales continued in Q1. The intake was zero. We had a negative FX effect

in the quarter of roughly 75 million due to devaluation of the hryvnja (UAH) and we have continued impairments stemming from Ukraine and US of SEK138 million.

MICHAEL WOLF: Okay, thank you, Anders. With that I open the floor for questions.

OPERATOR: Ladies and gentlemen, if you would like to ask a question please press 01 on your telephone keypads. Our first question comes from Mr Peter Wallin from Handelsbanken. Please go ahead.

PIETER VALIN: Yes, good morning. Thank you. I would like to start off with a question on the quite strong commission revenues we saw in the quarter. If you could elaborate a bit on if you think that this is sort of like a sustainable and, kind of, normal activity level for cyclical recovery or if it was an exceptionally good quarter and that we should not extrapolate this going forward?

GÖRAN BRONNER: I think the commissioning was partly driven by sort of the external market and I mean it becomes a guess whether or not you think the stock market will continue to go up for Robur. For LC&I I think there is a structural move beneath there where we actually do increase our relevance and we become better with clients. But around that tramline you have volatility coming up and down, and in this quarter it was particularly good on the IPO side so you can't expect that to be every quarter. But I think we are on a very good business trendline in LC&I actually.

PIETER VALIN: Okay. Great. Thank you. And then I would also like to ask a question regarding LC&I. You were mentioning that you had a very strong quarter as well there NII-wise but you're seeing that there's some slight increase in competitive pressure on margins in the quarter. Could you say anything about whether -- is this like domestic players becoming more competitive or is it a higher share of the international players entering the market trying to fight for this business?

GÖRAN BRONNER: I think you could say there are quite long lead times in the corporate exposure book, much longer than mortgages that are re-priced much more quickly. So I think front book margins have been lower than the peak of the back of, sort of, where the market has been for quite some time. So you would expect some margin pressure at some point in time. But it's not evident in the numbers yet because we have volume growth and we also have older transactions that actually re-price as well, so the NII is holding up quite well, even though we see more intense competitive pressure from mainly the domestic banks but also occasionally more foreign banks.

PIETER VALIN: Thank you. And if I could just continue on that track. Is there any specific area of lending which is, sort of, like heating up competition-wise or is it across the board?

GÖRAN BRONNER: I think with a little bit better macro feeling outside I think people are a little bit more interested in doing investments, so acquisition finance and IPO-related activities, sort of, has been a bit better.

PIETER VALIN: Okay. Great. Thank you. And then just one final question of mine regarding -- you were mentioning that the mortgage margins were very stable in the quarter and I just would like to have a clarification. Does that still mean that your front book margins are about 5 to 10 bps below your back book?

GÖRAN BRONNER: Correct, something like that. On the margin you've seen a slight, slight uptick in margins but nothing really visible yet.

PIETER VALIN: Okay. Great. Thank you very much.

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

JOHAN EKBLÖM: Thank you. If we could continue maybe with -- on the revenue side. I guess fees are very strong and you specifically cited Norway as one of the reasons, and there have been a number of press reports of quite material staff departures in Norway. Is that something that you've already been able to replace or should we expect any financial impact from those departures?

And then just coming back to the net interest income. You said that the downward trajectory in the Treasury NII has been somewhat less than you thought it would be. Given that you've now reached the sort of 100%-plus NSFR level would you change your guidance there or should we still expect the 0.5 billion to a billion year on year decline in the Treasury NII this year?

MICHAEL WOLF: I could start with it first. I mean the staff departures in Norway are by no means significant and it's part of ordinary business, and we have good successors and already replaced the Head of equity. So I would see it as business as usual and possibly -- I think that we are a strong bank right now and people like our people, so that's part of the game and -- but nothing of significance to be honest.

GÖRAN BRONNER: On the NII side I think it's correct to say we've been slightly more optimistic on Treasury NII and the result there, as the result of an improving front book funding-wise, really. So credit spreads and our spread has continued to come together and we see a lot of good sort of funding progress, really, from a spread perspective.

JOHAN EKBLÖM: And can you quantify that? I think you said 0.5 billion to 1 billion negative last quarter. Has that changed dramatically or are we talking, you know, just directionally a positive move?

GÖRAN BRONNER: I would say a directional positive move is a good guidance that you just created and we don't like to quantify it.

JOHAN EKBLÖM: That's right. And just finally on -- when we think about your other income, and I guess the impairment tangible assets that go with it through Ektornet, are we now in a -- we started to see a downward trajectory there I guess as the number of assets on your books continues to shrink. Should we expect that to continue? I mean are we really in the wind down phase of that or was Q1 an extremely slow quarter in terms of transactions?

GÖRAN BRONNER: No, that's definitely a structural move. We only have 1.5 billion left of assets in Ektornet but I think we were up to almost 7 billion at the peak, so if you take the year on year comparison it's a quite big difference there. The good part is of course that cost is coming out as well.

JOHAN EKBLÖM: Of course. When should we expect the other income contribution from Ektornet to be zero? Is that a 12 month view or is it a 3 year view? Does it have a very long tail?

GÖRAN BRONNER: I do think you have a quite long tail but by the end of this year we should be below 1 billion in assets still within the bank, and then you have a slow tail. Especially in Latvia I think that the market, with very small granular properties relating to private individuals and small companies, are quite long.

JOHAN EKBLÖM: Excellent. Thank you very much.

OPERATOR: Our next question comes from Mr Omer Keenan from Deutsche Bank. Please go ahead

OMAR KEENAN: Good morning. Thanks very much for taking the questions. I just have two questions related to capital and regulation, please. Firstly, just on the advanced model approval which you said you'd expect to come through in the second quarter. You previously indicated that the benefit to risk weighted assets is roughly 40 billion

to 50 billion. I was just wondering if you sort of were any closer to kind of narrowing whether it would be nearer 40 or nearer 50.

And then my second question. We don't have any new information yet on sort of Pillar 2 or when there will be action of the mortgage risk rates, but could you give us a sense of the regulation timetable as you see it in May and June? Thank you.

MICHAEL WOLF: Michael here. If we take the second question first. Our belief is that there will be a paper out from the regulator prior to the meeting that the stabilisation committee has at the end of May. That's our best knowledge on that one and that should bring some clarity on how they want to treat Pillar 2 going forward.

On the first question I mean nothing new there. I mean we've had a guided range for quite some time and that range you mentioned and we're still in that range.

OMAR KEENAN: Okay. Thanks very much. So could I just ask a follow-up question on the Pillar 2? My understanding was that - at least in relation to the corporate riskweights - it wasn't something that was immediately on the agenda that sort of was being sort of being flagged by the regulator or any of the other banks. And you've just listed it on your presentation as something to watch. Is that because you're expecting something on corporate risk rates in May or is it kind of more a medium term concern that you have? Thanks.

GÖRAN BRONNER: No, corporate risk weights I think is more a general comment in which we comment also with regards to what our regulators are talking. FSA are talking quite a bit about sort of the low and uneven corporate risk weighting system in Europe, and

the review on that from a European perspective and how that potentially can impact Sweden with a risk-based system and with quite low corporate risk weighting. I think that has also been one of the reasons for keeping transitional roles in order not to let the low corporate risk rates come through in anticipation perhaps of something that comes out of Europe.

OMAR KEENAN: Okay. Thanks. That's very clear.

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

NICK DAVEY: Yes, good morning everyone. Three questions please. The first one on costs. You took the SEK100 million provision for some sort of restructuring in Q4. Costs seem stable or slightly up in this quarter, can you just give us a flavour of what is being done with that SEK100 million or when or if we'll hear more about that, please.

The second question on NPL coverage. You've got in your appendix slide the tick up there to 60% NPL coverage. If I'd capture NPL coverage stable on the quarter it would have been quite a meaningful reversal through the PNL, and so I just want to better understand what we can read into that move in NPL coverage. Are you pre-empting what you think is going to be quite a severe shift in asset quality trends in the Baltics or is this just a mathematical oddity, please?

Thirdly and finally on mortgage margins. We asked you last quarter where you felt these would go under a harsher regulatory scenario. You told us to ask your competitors. We have and everyone seems to be more or less of the same view that if regulation harshens mortgage margins should go up, but no one's willing to

commit to being the first mover there. I just wanted to pick your brains and see if any attitudes have changed and whether or not you'd be willing to be a first mover, if and when we get more regulatory clarity. Thanks.

GÖRAN BRONNER: Okay, shall we start on the last one. I think we have always said that we think it's fair that the more capital we have to carry should be re-priced with the end client. It's also the intention of the regulator to do that. So we hope that that will happen. We tried and we will not go first this time, but it was nice to hear some of our peers talking about re-pricing as well. So we take encouraging signs from that. Very good.

On the coverage ratio, I think the coverage ratio in the Baltics is pretty much the same, so the overall fluctuation on the group is now very much based upon the Swedish which has a very low level of impaired loans, so it gets a little bit distorted actually. So I don't think you should read anything into that the coverage move, actually. Follow the Baltic one; it gives you better sounds for recoveries in general. And the last one was about the restructuring reserve. Yeah, I'm facing the organisation on that Jonas (Head of Group Products) and all the others to start utilising it, and they are speeding up in terms of finding efficiency measures and increasing the productivity, much of it based on what can be done in terms of digitalisation over time.

NICK DAVEY: So let's say none of the benefits from that are seen in this quarter's numbers impacts?

GORAN BRONNER: No, none of the benefits of that in the quarter I would say.

NICK DAVEY: Okay. Thank you.

OPERATOR: Our next question comes from Mr Masih Yazdi from SeB. Please go ahead.

MASIH YAZDI: Yes, good morning everyone. I just have one question for you on capital and Pillar 2. I know we're waiting for some more clarity there from the Swedish FSA to come this spring, but could you already now give any kind of indication on how much capital you're holding as of this week in Pillar 2, based on the most recent ICAAP that was approved by the Swedish FSA? Thanks.

GORAN BRONNER: No, I don't think we are prepared to make our sort of Pillar 2 process public before we know really the regulation and what they will require from that point of view. But we will -- I mean we will have as a philosophy to be open and transparent so we will come around in that issue, and we do definitely favour a more transparent view from the regulator on that one. It must be in their interest that we are all transparent.

MASIH YAZDI: Okay. Does that mean that as soon as you have an announcement from the FSA you might actually go out and be transparent about what your Pillar 2 requirements are, ahead of any of your competitors doing the same?

GORAN BRONNER: That's something we have to deal with at that point in time.

MASIH YAZDI: Okay. Thank you.

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

ANDREAS HÅKANSSON: On Russia you said you had 1.5 billion, I think you said, 960 billion-or to corporates. Could you tell us are these mainly Swedish corporates with business in Russia or is it Russian corporates? And if it's Russian corporates how do you see the development? When do you think you would have to take bigger charges on that or what's your outlook for that Russian exposure? Thanks.

ANDERS KARLSSON: This is Anders. It's Russian exposures mainly towards real estate. All the 17 are performing clients, so we -- at this point in time we don't see that we need to make any more impairments on these specifically.

MICHAEL WOLF: And the backdrop here is that the interest rate charge on those loans is pretty favourable for the clients and there is no keen interest to pre-close those lending commitments from their side. So we are sitting them out.

ANDREAS HÅKANSSON: Okay. Thanks.

MICHAEL WOLF: Thanks.



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

SOFIE PETERZENS: Yeah, hi. Here is Sofie Peterzens from JP Morgan. Just a couple of quick questions. In terms of the Baltics your MPL ratio is now under 4%, around 3.8%, versus around 12% two years ago and 20% four years ago. I mean how should we think about the Baltics recovery? You mentioned that they will disappear or at least fall soon but kind of what is the normalised loan loss provisioning level in the Baltics?

And then I was wondering if you could give any colour on what you expect from AQR and lastly will you give a new capital target with the second quarter results if we kind of get more clarity now in May on the Swedish regulatory rules? Should we use 16.5% as the minimum Basel 3 core equity 1 level, or do you think it will be even higher than that? Thank you.

MICHAEL WOLF: On the capital target I mean, as I said earlier, we hope to get the paper from the regulator before we start the summer and then there will be a hearing out period so all the different stakeholders will during the summer have time to give their views on that paper and the paper will then be firmed up later this year. So I would not envisage any firm clarity at the second quarter result presentation due to this timetable of the regulator. And I mean we haven't changed the guidelines. We talked about the range last time we spoke and that created some noise in the market and that range that we gave for the regulatory outcome still prevails. We haven't heard anything new.

And then I hand over to GÖRAN for the AQR and the NPL number.

GÖRAN BRONNER: The NPL number I think has been very nicely coming down since the crisis back in 2009 and we don't see in this quarter any tendencies for it to go up. We have no inflow or impaired loans at all in the quarter. Having said that, of course the risk picture with what's going on from a Euro political point of view has increased, but we have very little hard facts and we see there are very little concrete effects of it, so it's just a wait and see game, really, how things develop.

The AQR question I don't really understand what you were asking for. Maybe, Anders, you got it.

ANDERS KARLSSON: Yeah, I think you asked about the possible impact. And as far as capitalisation comes in the Baltic countries this will not be an issue. Also it's extremely time consuming but it's not going to have an impact on our Baltic operation is our assessment at this point.

SOFIE PETERZENS: Okay. Thank you very much. And on the Baltic losses what is the normalised level of losses, given that you have had recoveries now for the first few years?

GÖRAN BRONNER: Well, if you go back to banking statistics in the Nordic atmosphere or past 25 years so it seems to be a banking crisis and then you have 15 years of no loan losses, and then you have another banking crisis. So I won't get myself into the subject of trying to guide you on normalised levels.

SOFIE PETERZENS: Okay. Thank you very much.

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

JAN WOLTER: Yes, morning, Jan Wolter here, Credit Suisse. Two questions from my side. First, any thoughts on if you're actively looking for more deals like Skåne Bank or was that deal more than an exception?

And the second question is you mentioned earlier on the call that the previous indication that Treasury NII could come down by 500 million to 1 billion that reduction could be less now. What is the reason for this and what has changed in the market or in how you run the Treasury? Thank you.

MICHAEL WOLF: Michael here. I mean we want to grow in the growth areas for home markets and we'll continue to be opportunistic. When opportunities arise we'll evaluate them. And I think if you look at banking it's more like a GDP type of growth business, and after 20 years of quite upward trend I think this industry has to get used to constant improvement, automatisisation, digitalisation in order to defend the natural pressure that would be applied to the industry. And it's more an effort to make all staff realise how fun it is to constantly improve, something that the industry has been able to create as a culture. So I think you will see banking more emulating the traditional industries in the outlook going forward.

GÖRAN BRONNER: The NII I think we tried to answer saying that funding had surprised positively, sort of, in the quarter and that credit spreads are coming down and we've been able to

attract funders in good levels. I think also with regards to Skåne of course we would like to participate in consolidating but Öresund were not part of the savings banks agreement and if you're not that you have a significantly weak cost efficiency. So it's quite natural for you to give up at some point and there are very few banks that are not on that agreement.

JAN WALTER: Okay. Perfect. Many thanks for that.

MICHAEL WOLF: Thanks.

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

CHRISTOFFER ROSQUIST: Yeah, fine, it's Chris from Barclays. Two questions primarily on the Swedish Banking business. You just mentioned earlier on the call how you want to grow in your key markets, and you mention that you will continue to be optimistic. So I suppose that covers acquisition bits but we still see that your share of new mortgages is below your share of the total stock, although that share is growing. And my understanding of the background to that - and please if you could validate that - is that you don't want to compete on price but are focusing on relationships where you see potential for ancillary income. So if you can validate that that's still the sort of approach to growth and to the market, but also if you could perhaps provide some colour as to why you're still below your market share. Is that because your strategy is taking time to implement? It takes time to educate the

branches or is it simply that you have not come across a sufficient amount of relationships that you want to fight for?

The second question I had on the Swedish Banking business is around the deposit margins. So I think you had growth with regards to volumes but also some pressure on the margins, so is that a deliberate development or are you in a position to actually cut prices to -- if you were willing to risk losing some volume but to instead improve margins? If you could just elaborate on your decision process around that, please. Thank you.

MICHAEL WOLF: If you look at the mortgage business I think that what you have seen in the last sort of 18 months is this gradual improvement of market share. And that is a reflection of us not utilising price as a main driver to recuperate market position. Secondly, we have seen improvement in the growth areas - especially Stockholm - and that's a key to be able to deliver on 25% back book market share levels. So I'm cautiously optimistic that we continue to close that gap between the front and back book market share. And then on top of that I mean you never know what competitors are doing, but we're not seeing any outlier behaviours to the extreme we saw a few years ago where we had a few players really taking active part in the front book market share at abnormal sort of historical levels. So cautiously optimistic.

On deposits, I mean we don't engage in price wars there but we don't either want to lose customers. So it's more a matter of keeping our customer base and engaging pricing based on that parameter rather than anything else.

CHRISTOFFER ROSQUIST: Thank you. And just so I understand how you will close that gap, as you mentioned Stockholm is one example. Is that now when prices have sort of converged for mortgages in Sweden that based on your brand and your network that you will gradually automatically recover as you're a national option for mortgage holders or are there other levers that you can use to close that gap?

MICHAEL WOLF: I mean one of the levers that we are utilising is that we're increasing staff, client facing staff. So our ability to cover a greater customer base is being enhanced, and that is the most important issue here, but also of course our brand. And the better we do in the higher segments, like in LCI and Private Banking, the more our brand in Stockholm gets understood and known that we also are a viable player in the high segments and the private segments -- private market.

CHRISTOFFER ROSQUIST: Understood. Thanks so much.

MICHAEL WOLF: Okay. Thanks.

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

RICCARDO ROVERE: Good morning to everybody. Just a couple of questions. First of all on risk weighted assets. They are up quarter on quarter, while a peer of yours that was reported a few days ago was actually reporting risk weighted assets down. Now,

maybe I am too naive to say that you do the same thing in the same place but at the end of the day you have -- you do banking in Baltics, you do banking in Sweden. They're more corporate than you, fair enough, but it's a bit surprising to me to see such a divergent plan. So the only possible explanation that I can find is that you on the corporate side do not calculate all the parameters with internal models. If you had full IRB in this quarter would you have experienced reducing the risk weighted assets in this quarter or can you elaborate a little bit why your risk weighted assets are up also on the credit side, if I remember correctly one of your previous answers?

And the second question I have is losses in LC&I. How should we see this quarter, this particularly benign quarter? Is it going to go on like that for quite a while or do you think this is exceptional? Thank you.

GÖRAN BRONNER: I think credit quality has been good - like Anders said - the long number of quarters.

We don't see any change in that of the asset quality during this quarter but I agree it's very, very low levels and it's the same in all Swedish banks.

On RWA I haven't really looked at what the number was in the full IRB actually, so since we do parallel reporting to the FSA at the moment I could see. But it's important for you to understand that the reason -- the main reason for RWA going up in this quarter was that we -- once a year we change our standardised model for operational risk according to the income levels of the bank and then adjust the RWA. I think some of our peers - or one of our peers - are on a different modelling there with AMA which requires less operational risk RWA. So it's not really a relevant comparison. We have increased slightly on credit risk relating to our

volume increases. So it's a quite natural quarter in terms of RWA and we're still awaiting our big model approval.

MICHAEL WOLF: Basically what Göran says is that operational risks have not increased. Income has increased and, as a consequence of that, the capital requirement.

RICCARDO ROVERE: Okay, okay, thanks.

OPERATOR: Our next question comes from Mr John Beckman from Danske Bank. Please go ahead.

JOHN BÄCKMAN: Yes, good morning. It's John Bäckman from Danske Bank. Two questions, please. The first one is how much do you charge for capital internally now? Do you take 15% mortgage risk rate or another number, please?

And the second one relates to the Öresund acquisition. If you get the full approval from the FSA do you expect Q2 to include one month of consolidated result and has your view changed on synergies or is there any update on the cost of IT synergies?

Thanks.

GÖRAN BRONNER: The consolidation will be either one or two months depending on when we can close the transaction. We're just waiting for the final approval from the FSA. We've got all other approvals so we're very close to closing. That was -- what was the first question?

JOHN BÄCKMAN: The first question was regarding how much you charge for capital internally now.

GÖRAN BRONNER: That I don't think we have disclosed externally but I think since we have a rather wide guidance for where capital is going, we know it's going to be more capital required, but we haven't really started changing our capital allocation. We're waiting for something to come in the second quarter. But I think we've been early on having a lot of capital out in the business side previously, so we've been working with higher capital targets for quite some time compared to some of our peers I think.

JOHN BÄCKMAN: Okay. Thanks. And then just to follow up on the synergies expected in the Öresund deal.

GÖRAN BRONNER: Nothing has changed in the recent transaction from what we communicated around that transaction. We are, as I said, very close to closing and as we have closed we will try to give some more information ahead of the second quarter reporting in order for you to update your models.

JOHN BECKMAN: Okay. Thank you.

OPERATOR: Our next question comes from Mr Magnus Andersson from ABG. Please go ahead.

MAGNUS ANDERSSON: My questions have been answered. Thank you.

OPERATOR: A reminder that if you'd like to ask a question please press 01 on your telephone keypad.

Our next question comes from Mr Carlo Digrandi from HSBC. Please go ahead.

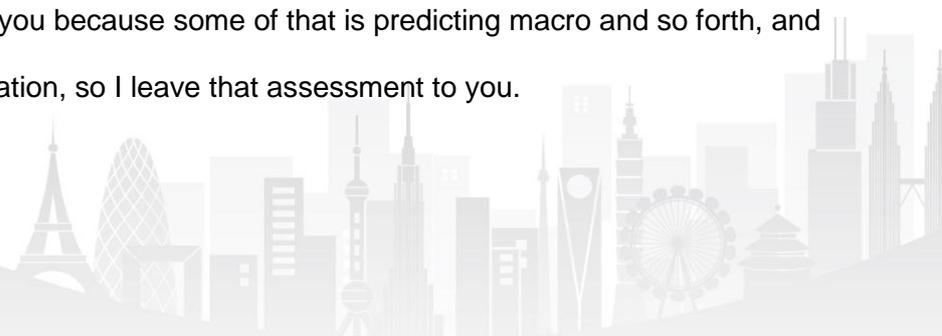
CARLO DIGRANDI: Yes, hi, just one question on the trend of the group. You just suggested that margins for the mortgages are flat or flattish, although deposits will continue to improve. So I was wondering if you can give us some guidance about the trend for the group throughout the year this year given the pressure that we have seen in Q1. Thank you very much.

GÖRAN BRONNER: I normally speak about a tailwind and headwind sort of. I think small headwind is the deposit margin continues to be. And there you have the risk of further cuts in Stibor. I think also we have talked about as interest rates become lower and the curve becomes flatter, it's more difficult to make money in Treasury and Treasury-related activities. That's a headwind as well. On the tailwind side of the story I think we have positive signs for a funding related tailwind, and we of course expect to see some tailwind on mortgage lending as new capital is being priced in.

CARLO DIGRANDI: Can we say that the combination of the two will lead to tailwind then?

GÖRAN BRONNER: I will leave that to you because some of that is predicting macro and so forth, and some of it is regulation, so I leave that assessment to you.

CARLO DIGRANDI: Thank you.



OPERATOR: Our next question comes from Mr Matthew Clark from Nomura. Please go ahead.

MATTHEW CLARK: Good morning. A few follow-ups please. Firstly, on the operational risk where you're working under the standardised approach. I just wanted to check are you looking to move to the advanced approach? Is that part of your pending model approval? That's my first question. Second question is on the interest rate outlook. Are you expecting an interest rate cut to come through this summer? And then associated with that are you expecting any offsetting specific measures to help try and cool the housing market while stimulating other parts of the economy, and how do you think that might affect you?

And then finally, just coming back to this issue of the Treasury net interest income and the 0.5 billion to 1 billion headwind that you previously mentioned, it's very hard for me to reconcile the better net interest income result in Treasury as coming purely from funding. I mean I can only really get tens of millions of benefit from lower funding, looking at the volumes you've issued. Is there anything more you can say to just help us understand why that's comes in better and why that may or may not be sustainable? I guess is it just that you've had a lucky or a good quarter this quarter or is there anything more specific that's led to that strong resilient result? Thank you.

MICHAEL WOLF: Hi. Yes, we are working on AMA -- we don't have a timetable for that but that's one of our projects. When it comes to the second question that was again, sorry? Interest rates. Well, I mean there are six people in that board that decides on that

and they will tell us in a few weeks time. The professional community seem to be hinging on a lowering of the reference rate, but I mean that's something for us to just relate to once it's decided. Nothing much we can influence on.

GÖRAN BRONNER: On the Treasury NII I can only reiterate what I said, really, that when I look at my front book margins on funding compared to my back book I continue to see that we find ourselves on increasingly better levels, and that will come to the benefit of the clients primarily but also to the benefit, to some degree, to the shareholders.

MATTHEW CLARK: Okay, but --

MICHAEL WOLF: I would like to add that I mean we have worked extremely hard the last five years to up the number of investor meetings on debt side. But also through transparency, through rating agency meetings, to show the transformation of the balance sheet. And in my book we are rewarded for the low risk of our balance sheet and nothing else.

MATTHEW CLARK: Okay, but just to come back to the orders of magnitude, 0.5 billion to 1 billion is a pretty big number and it's hard for me to see more than tens of millions of benefit from incrementally lower funding costs. Would you dispute that comparison?

GÖRAN BRONNER: I think it's very difficult for you outside to reconcile the P&L in Treasury because there are so many moving parts and there is traffic between NII and NGL and

valuation effects as well, so I don't think you can draw any big conclusions, really, from sitting outside. So, unfortunately you have to trust me.

MATTHEW CLARK: Okay, and then just to follow up on the operational risk. Is that advanced operational risk project part of the 40 billion to 50 billion previous guidance or is that in addition to it?

MICHAEL WOLF: It's not included in that number.

MATTHEW CLARK: Right. Thank you.

OPERATOR: Our next question comes from Mr Jacob Kruuse from Autonomous. Please go ahead.

JACOB KRUISE: Hi, thanks. Just a quick one on the Treasury. You said you have some covered bond buybacks in the quarter impacts on the result. Could you just give some numbers on what that did and what the impact of NII will be going forward? Thank you.

GÖRAN BRONNER: Sorry, I didn't hear that, the 16 billion ...?

JACOB KRUISE: No, no, no. In the Treasury division I think in the interim report you say you repurchased some covered bonds in the quarter.

GÖRAN BRONNER: Yeah, yeah, yeah.

JACOB KRUUSE: Could you just say roughly how much of an effect that had on your Treasury trading income and also what it would do to NII going forward?

GÖRAN BRONNER: No we haven't published that. It's part of a normal activity. We have big benchmark bonds in Sweden. We work with one, three, five year maturities and they -- as they come in towards one year and above we start to buy them back, so that the maturity date we don't have to sort of have a big liquidity drop of 100 billion. So it's a normal procedure in that you fund yourself with more than, sort of, what your maturities are and that's why you have that traffic. And it goes for all Swedish banks.

JACOB KRUUSE: Okay. Thank you.

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

CHINTAN JOSHI: Hi, good morning. I just wanted to follow up on Matt's question. If I think about monetary policy, Sweden clearly appears to be more diverse, more downside risk to rates. But at the same time the housing market needs to be cooled down. How do you see this debate playing out? Clearly capital requirements on mortgages are likely to go up but does that have a bearing on what your thoughts would be about margins to offset any divestment policy?

GÖRAN BRONNER: I think by the end of the day all Swedish banks will strive towards a re-pricing and increase capital charge due to higher capital charges on their mortgages. That is the ambition and I think we have already shown to everyone that we are ready to do that, and we take positive signs from having some of our peers also now talking about that and it's also the intention of the regulators to make in a relative perspective the house loan more expensive.

CHINTAN JOSHI: That's clear. Thank you.

OPERATOR: If you'd like to ask a question please press 01 on your telephone keypad. Then no further questions registered on the telephone.

MICHAEL WOLF: Can I thank everyone for participating, look forward to hearing from you in the next quarter. Bye.

