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

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

MICHAEL WOLF: Good morning and thanks for joining us. This is actually our first result presentation from our new head office in Sundbyberg and after a few weeks in these new localities, I would say that the energy level in the bank is higher and it has enabled a lot of new co-operation, and not least we are becoming more cost efficient compared to living in the middle of the city.

Let's turn over to the quarter. If we look at the global economy, the US is seeing a reasonably sound recovery, whilst the picture in Europe remains mixed, and hence I'm very pleased to operate in four markets that are moving along nicely, and we see in the quarter a nice pick-up in activity level throughout our markets, and we haven't seen any effects of the Crimean crisis so far in the Baltics, although we are all shocked with the tragedy of yesterday's event.

Sparbanken Öresund, the integration work has started, and it's led by our regional manager Lars Ljungälv, so it's going to be a year of full work to integrate that unit into the bank, but it enables us to have a larger footprint in one of the growth areas in Sweden, and that is of course a positive for us going forward. Overall I'm very pleased with the fact that we grow where the economy grows, and in this quarter we have seen a volume increase of SEK 47 billion, whereof SEK 16 billion relates to Sparbanken Öresund. Both the corporate business and mortgages is growing, and we are back to a 22% new sales market share on mortgages.

Both LC&I and Baltic Banking have had a great development of their business. If we start with LC&I, they are on a high level, slightly behind the first quarter but on a high level, and we continue to be strong in the DCM area, but more pleasing is that we are becoming relevant in the corporate finance area in Sweden, and participated in a number of IPOs during the first half of the year. The Baltic business has done a wonderful job in re-pricing its lending book. The domestic economy is ticking along, and we see that development on the commission side, and the cost efficiency on back of their multi-channel strategy I think is stellar, a cost income ratio of 0.39% is very pleasing to see.

If we look at the Swedish banking business, there we continue to invest in digital services to meet the demand of the client of more accessibility and cheaper alternatives. And a few examples of services launched during this quarter is the expense control, which is for private individuals, they can monitor their outlays in the mobile bank, and the pick-up of this service is around 150,000 clients within the first couple of weeks. We have also enabled Swish payments between corporate clients and private individuals, and we see a quite nice pick-up among consumers utilising Swish, and this is of course a efficiency opportunity for corporates that normally handles cash, like sports clubs, etc, etc. So this is going to be interesting to see how this develops. And the last one is that we now have a card reader that you can use for smartphones and tablets, and this is extremely important for small businesses to be able to drive their top line. So, a good set of new services being launched during the quarter.

Financially I think we are well equipped to meet the new requirements that competition, regulation and other things puts on us, and I do feel it's extremely important that we are in the forefront of these changes, especially on the digital side, and we need to be realistic that this will have to force us to become even more cost efficient over time in order to be able to invest into these type of solutions.

That both Fitch and S&P are acknowledging our low risk and solid capital position of course improves our competitives on the funding side, and to be able to have the lowest funding cost is extremely important in this part of the cycle, I would argue. And therefore we feel that it's quite contradictory that Swedbank, which according to the stress tests of the SFSA and the Central Bank, have the lowest aggregated risk level, gets the highest capital demand. We can also notice that the last -- the latest rate cut of the Riksbanken will put more focus on the law makers and the regulators to dampen the growth in household debt, and we are all agree -- we are all agreeing on the structure of the landmarks, i.e. that the supply side on housing is the problem, but also the agility in the housing market, so this can only be solved through political decisions.

With that I hand over to Göran, who will go through the numbers for you in detail per business area. So, Göran, please?

GÖRAN BRONNER: Thank you, Michael. Starting with Swedish retail, I will present, excluding Sparbanken Öresund, that was integrated in the end of May for us, to start with, and then I will show you the effects of Öresund and then the complete picture for Swedish banking.

The result has been very stable as usual. I think we have seen somewhat decreasing deposit margins, and towards the end of the quarter we also saw an increasing trend of the mortgage margins, which was encouraging. The different thing in this quarter is that we have much stronger volume development that we have seen in previous quarter, which we feel very good about. We are not only back on our way toward a normal market share on mortgages, which is nice, but we are also developing very nicely on the corporate segment within this business area. The commission income has been particularly strong. I think it's just a sign that we can, sort of, capitalise on the stronger GDP growth in the economy, so it's provision income relating to Swedbank Robur but also to payment commission and Ektornet commissions, etc.

In the quarter we are booking in this business area one-off income relating to one of our daughter companies that are, sort of, finishing off the distribution agreement that transforms into, sort of, prepayment or an income for us there. So it's a little bit a one-off in that other income area. And as usual, the underlying business has very nice key ratios.

Then turning to the impact on the financial numbers of Öresund, the actual numbers, and I think you have all received some sort of guidance on this previous, we partly have the impact then of having them six weeks, almost six weeks in the -- during the report period, but also we have some one-offs, and you see that as we have an income of SEK 79 million and a cost of SEK 86 million for these six weeks. And of course you need to remember then that we have sold eight branches that had a large part of the old Öresund's income, and we are in 12 banks sitting with very much the largest part of the cost base in Öresund, and that's part of the, sort of, whole transaction going forward.

The one-off effects relates to badwill, and that we'll book badwill, making us having an income of SEK 460 million, and on top of that then we have taken a restructuring charge, in order to meet the converting of clients into Swedbank from Öresund, of around SEK 600 million. That gives us tax relief and the net impact on the bottom line is close to zero, so the impact of the dividend policy relating to this transaction will be close to zero.

Then moving into the full picture, where we include issues, sort of, a different set of numbers where you, sort of, have the two previous pictures on top of each others, and the only comment I really have on this page is of course that the volume growth, if you add both Öresund and the, sort of, organically created volume growth, is very healthy. And the other impact I would point towards is that of course the income ratio becomes very much weakened, as a result not only on the one-off, but also if you start integrating something that has some very, very weak cost income ratio. But that's work to be addressed for us going forward, and I'm sure you will have questions around that.

Moving then into large corporates and institutions, I would like to say that overall we had a very strong first quarter there. I think this quarter proves the point that we have really lifted this business area to different income generation and then a different return numbers for the growth overall, even though it's slightly weaker than the previous quarter. We continue to feel that we are relevant with the clients, and that we add volumes. Margins are fairly flat in this area. In this quarter we have had a drop-off of earlier accrued fees that you do on NII that makes the comparison slightly weaker, but in essence on the margins, we feel that it's flat. And we are able to continue to capitalise on the, sort of, strong market with regards to corporate finance related activity, both on the debt and equity side really. So it feels good. Good cost control as well in this area. W have investment needs that we have talked about previously, but are managing that in a very well manner.

I think if I were to add something here going forward, it's of course in a market that becomes more heated and where loan growth and loan demand increases, it's important to keep track of risk awareness and not get carried away with covenant light transactions in doing business, and we are attracting new clients, so it feels positive.

Then the last but not the least business area is the Baltics. A little bit the same story here, like when I talked about LC&I. We're happy to see that the financial impact, like Michael said, on Ukraine is not there, nor on asset quality or really on the revenue line. There's still no loan growth to talk about, so slightly different environment compared to Sweden, but good activity on many other, sort of, products that we are selling with our clients, and we have a good feeling with the clients, and that manifests itself in good commission income development. Even though we have a small one-off of SEK 35 million there, I think the numbers looks really good.

If I were to say something in particular that we are pleased about, it's of course the cost control of this business area. In the quarter we have a 0.39% cost income ratio, so I do think it proves the point that management are able not only to generate whatever growth and income is out there with our clients in a very good manner, but they are also utilising their resources in a fantastic, optimal way.

Summarising this on group level, what I would like to then add is treasury, of course. Treasury has benefited in the quarter not only slightly by the falling interest rates, but also by the fact that we have done slightly less buybacks than normal buyback capital, and that has contributed positively on the net gains and losses. And then we have a small one-off income also in the treasury area, so the treasury result is better than the last quarter.

Cost targets for the group overall, I would say that the cost excluding Öresund is SEK 275 million above previous year's cost, that is at -- in the first quarter we were SEK 185 million or so over, so we are trending down cost-wise towards last year's cost base, and we feel confident that we will manage to keep our cost, flat cost as we have previously guided. We have either comparison in the second half as well as we have measures that has taken place, such as having the impact of the new head office contribute into the cost line. So the underlying cost control I feel happy about.

Right. Then finishing off with the last slide and picture around capital, we have previously contributed the IRB advanced, the effect of the, sort of, a couple of more weeks, and the final effect is slightly higher. The Öresund transaction, coupled with the very good volume increases that we are seeing in the group, which we should be happy about, are also eating a little bit of the area, and the quarter one level going out of the quarter is 20.9%. And the new target will be set, as Michael are saying, by the end of the year from the board, but if you take the requirement that will come from regulators, the 19.3% is with a new IRB advanced around 20%. So we have a good buffer above of that, and we don't see any excess capital currently. With that, I think I hand over to Mr Karlsson, our CRO.

ANDERS KARLSSON: Thank you, Mr Bronner. This quarter is the 16th consecutive quarter below credit impairments ending at SEK 30 million in losses. Baltic Banking continues to deliver reversals, but as previously stated, at a lower pace. Impaired loans are increasing slightly in this quarter with SEK 59 million to SEK 6.3 billion. And that's due to the inclusion of Öresund and one single exposure in LC&I. Baltic Banking continued to decrease, but as anticipated, at the slightly lower pace.

In Baltic Banking, we, as I said, report net recoveries of SEK 16 million, which is in line with our expectations. At the same time there is a continued low inflow of impaired loans and credit agreements, and as Michael stated, we haven't seen any negative impact of the geopolitical situation in Russia and Ukraine. However, we are continuing to follow this closely, together with our customers. In Sweden, the Swedish Banking and LC&I portfolios continue to show good resilience. As Michael also mentioned, during 2014 the low risk position of Swedbank has been recognised by the Swedish FSA, by the Central Bank of Sweden, and in this quarter also by Fitch and Standard & Poor's. Fitch changed the outlook to positive. Standard & Poor's increased the standalone rating to A flat from A-, while the final rating was confirmed A+. Through the advanced IRB approval from the Swedish FSA relating to our corporate exposure in Sweden and Norway, our risk rates have decreased and are more comparable to our peers.

And finally Ektornet sales have continued during Q2 primarily in Latvia, amounting to SEK 140 million. Impairments in the quarter is SEK 67 million, and that is related to one single asset in the US, and then you have FX effects of approximately SEK 40 million on top of that. Thank you.

MICHAEL WOLF: Thanks, Andres. Then we open the floor for Q&As.

OPERATOR: I remind you to press 01 to ask a question. Our first question comes from Mr Peter Wallin from Handelsbanken. Please go ahead.

PETER WALLIN: Thank you, and good morning. I would first like to hear your view about the quite strong commission momentum we've been seeing now in the first half of the year. If you could elaborate a bit on the online drivers, and also if it's reasonable in your eyes to assume that the trend will continue in the second half of the year?

MICHAEL WOLF: I can start with saying that what I'm pleased with is that our franchise proves that it can grow where the economy grows. I mean, traditionally we have been perceived to be slightly weaker in the major cities, and we are performing well there. So in essence, we are having a franchise from Baltic Banking through LC&I and retail that benefits from the general growth in the economy. The trends will definitely be dependent on the activity level in the economy, and as long as we can participate with that, I'm happy. Do you have anything to add?

GÖRAN BRONNER: No, I agree completely. I mean, I think it's proof that we are, sort of, a reflection more of the society really, that we grow with society. The thing that is, sort of, uncertain going forward is of course the margin development in certain product areas. So to be in a more stronger environment, will there be more competition in there? That's a small question mark.

PETER WALLIN: Okay. Great, thank you. And then I have a question on the Swedish mortgage market, and you're saying now that you're seeing -- you're taking, essentially, your share of the new mortgage market, and still also seeing your margin trending up at the end of the quarter. Should we expect that the mortgage margins will be continuing to improve in the second half, especially as the higher mortgage rates before it's implemented?

MICHAEL WOLF: I think that's fair to say that margins will improve on the mortgage side in the third quarter, I mean, there was strong momentum in the last weeks, and since then you have seen widening list prices compared to, sort of, market rates. So there, you don't really know where the rebates goes with the client in the end there, but that we will have higher mortgage margins is very -- I think is very expected considering also the capital that has been added on there.

PETER WALLIN: Okay. Great. Thank you. And then a final question of mine regarding the very strong trading revenues in the quarter. Money market rates are continuing down quite significantly and I mean, the beginning of the third quarter should we expect to see the similar positive effect on the treasury and also in Q3?

GÖRAN BRONNER: I think treasury benefits clearly from, sort of, a falling interest rate environment, and we haven't really seen the full positive effect of that yet. There is something to come in the second half as well, since part of the risk is in the banking book that comes out -- comes out there. You should, though, bear in mind also that the long-term ability of that, with very low interest rate and a flat yield curve, will be more -- very difficult to oppose. So at a later stage of this, sort of, cycle, that kind of income will be very difficult for banks in general to uphold.

PETER WALLIN: Okay. Great. Thank you very much.

OPERATOR: Our next question comes from Mr Omar Kenen from Deutsche Bank. Please go ahead.

OMAR KENEN: Good morning. Thanks very much for taking the questions. We have, over the past few weeks, some fairly material move in rates following the 50 basis point rate cut from the Riksbank, and clearly that's going to have a further impact on deposit margin in the second half. If I use your updated sensitivity that you publish in your fact book, then it looks like the rates move that we've had will have an annualised SEK 700 million or so drag on net interest income from the third quarter. So we're all just wondering how much positive offset there is on mortgage margin now. Sort of, you've made comments that the margin has improved. If I look at, you know, how rates have moved, STIBOR looks 40 bips slower, and banks have roughly cut their list prices by about 25 bips, which should roughly imply that margins have expanded by 15 basis points. So just wondering whether you could make, kind of, comments on those observations and perhaps, kind of, help us, sort of, put it together and think about the net interest income outlook in the second half. Some of your peers earlier this week talked about flat development in H2, so just wondering whether it's -- that's something you recognise. Thank you.

GÖRAN BRONNER: I think with regards to the sensitiveness to deposit or NII on the falling interest rates there, you should not read that as a guidance of any kind of NII from management really, and it becomes very much a function of, sort of, parameters, just there, so it's very difficult to see from that what the exact impact will be going forward. So I -- a little bit of caution I give you in that one. To comment on your question, is really that the drain you have on the deposit margins will be offset by your stronger expansion on lending margins. I think it's very early days for us to calibrate where current marketplace is going, what the competition will take as -- both in terms of deposit margins in the end, and also in terms of lending margins. As it looks right now, I would say that we should expect to have at least be compensated by the mortgage margin and expansion on the deposit side, but that is as it looks right now.

OMAR KENEN: Okay, perfect. That's very clear. And do you have any benefit from re-pricing of deposits that helps you offset lower rates that you're including in your assumption?

GÖRAN BRONNER: So, sorry, I didn't catch the question.

OMAR KENEN: Is there scope for further re-pricing of deposits to offset the impact of lower rates in the third quarter (overspeaking)

GÖRAN BRONNER: That possibility is diminishing by the hour, I would --- or by the fact that you come to zero.

ANDERS KARLSSON: But you could say that customers are looking for yield, so you would probably see a conversion of traditional savings account into different asset classes. So you will see some rotation of the volume over the time.

OMAR KENEN: Okay. That's clear. Thanks very much.

OPERATOR: Our next question comes from Ms Vikki Saraka from GE. Please go ahead. Our next question comes from Mr Richard Heinz from Nordea. Please go ahead.

RICHARD HEINZ: Hi, good morning. I have two questions, and maybe a follow-up, if I may? Göran, when you said that you expect the increased mortgage margins to compensate for lower deposit margins and lower return on free equity, would that mean that the NII would grow in line with, you know, a stable margin plus the volume growth that you are seeing as well in the second half of the year? That's the first question.
Secondly, if you could comment on your corporate lending growth that you have seen in the quarter, is that driven by underlying investments or increase in working capital etc, in the companies, or is it primarily driven by capital market transactions etc? And finally on coverage ratio, coverage ratio declines from 60% to 56%, still a very healthy level, but if you -- could you give us an indication what you think is a normal level, given the point in the business cycle we are in, and maybe a bit of guidance going forward? Thank you.

MICHAEL WOLF: If I talk about the corporate activity, it's primarily in the property sector, and there we have seen quite a high activity, so it's not yet underlying investments that drives it.

GÖRAN BRONNER: On the NII, I mean, we don't give, sort of, specific guidance on the numbers there. I think there are many, many different variables affecting the NII. I mean, we have headwind on deposit margins. We have tailwind on mortgage margins and volumes, I would say. We have a bit of a tailwind in the second half of the year on treasury, and -- but that can later on turn into headwind. And then we have a funding related tailwind as well in treasury that helps us a bit as well. So I leave it up to you really to make the numbers out of that actually.
On the coverage ratio, I don't think -- you shouldn't read anything in the move from 60% to 56%. It's more, sort of, specific on particular credits, and I think over time it's been a fairly stable number around 60%, going from where we actually had SEK 42 billion of impaired loans to down when we had SEK 5 billion or SEK 6 billion of

impaired loans. So I think you have -- history gives you a fairly good picture where the coverage ratio is.

RICHARD HEINZ: All right. Thanks a lot.

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

MAGNUS ANDERSSON: Yes, good morning. I have three questions. First of all on costs, where they were a bit higher now in the second quarter, but you also keep your guidance of flat costs and say that you will reach SEK 17.7 billion for the full year. That implies quite significantly lower costs in the second half than in the first half. I'm just wondering what does that imply for 2015? It seems like costs should be able to be lower in underlying terms in 2015 than 2014, unless you have some investments you feel that you will take, so if you could comment on that, please? And secondly on your outlook for the Sparbanken Öresund acquisition, you keep the same guidance as you gave in February, which implies a quite dramatic cost income ratio improvement until 2016-2017 from the levels you're at right now in underlying terms. So if you could give us some flavour of how you are going to reach that SEK 350 million to SEK 450 million in net profit?

And finally just on the capital, you're now at almost 21% versus the FSA requirement of around 19%, or just about 19%. Do you see any scenario where you think you would have to be higher than the current level?

GÖRAN BRONNER: Your observation on cost is correct. I mean, we worked hard with cost in the past three to six months so we are trending down, and that will create space, everything equal, in 2015. So we have not today, sort of, decided what kind of investment needs are out there, or if we need to create even more space. So it comes really back to how we gauge generally the income level of the bank as well, but we are, sort of -- during the autumn we will formulate that. You should also remember that, sort of, a key strategic parameter has always been that we say that we want to be the most cost efficient bank. It's of course is an important driver, we do think. We don't think that you can -- bank will be slightly different top line-wise in this new environment, so -- but we will come back on that one.

Öresund, you could say that what we talked about in conjunction with the transaction is all -- everything is valid. We will not see any significant impact on the cost income ratio during 2015. It will be a year where we actually spend money, which we have now restructuring charges towards, but we will also have running costs for spending money in converting clients and integrating all of those clients in the bank, and then start dismantling the whole cost base of Öresund basically. So -- but we see significant, sort of, costs in areas being realised during 2016 and 2017. So the business case there is intact.

Do we see -- the third question was do we see any regulatory aspect that could make us go higher than 21%? I would hope not, since I think we are very, very well capitalised compared to the risks that we are carrying, so it would be a very, very high drag on the growth of the economy, but there is of course leverage ratio and minimum risk rates and corporates, it's an issue that is outstanding that we have heard our regulators being vocal on, so that is something that we await more clarification on. The only thing, I can feel that we are doing quite well compared to peers on that one, so hopefully it won't affect us.

MAGNUS ANDERSSON: Yeah. So just if I – if I -- just on cost then, it's not necessarily wrong to extrapolate the level in the second half into 2015?

GÖRAN BRONNER: I didn't say that. I said that we have space, but the management might use the space.

MAGNUS ANDERSSON: Yeah, okay.

GÖRAN BRONNER: So you have to be in our minds then.

MAGNUS ANDERSSON: Okay. Thank you very much.

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

ALVARO SERRANO: Hi. Thank you for taking my questions. Just around the volume growth in the quarter, could you explain your perception as why have you gained back some of the market share, and also it looks like the risk weights were up underlying quarter-on-quarter about a couple of percent, I think. Is there anything to read into that, given the trend of last -- for some time now of increasing efficiency in risk weights? And then I've got another question on the mortgage market. You've obviously touched on it already, but I just wondered your views on the increasing noise around introducing amortisation, some sort of forced amortisation or encouraging amortisation? I know you've mentioned that you think it's a supply side problem, and it needs to be addressed by politicians, but what are your views on the probability or possibility of introducing some higher amortisation rates, and what could be the impact of that? Thank you.

MICHAEL WOLF: If I start with the mortgage issue and start with the amortisation, I mean, we have, I deem, reasonably high amortisation level in the book as we speak, and we test each client and their sustainability over time to carry their mortgages in a tougher environment. So I would argue that the politicians are trying to make this a bank issue, whilst it's actually a structure problem, and we have an upcoming election and they would like to have it in this corner. But overall they do understand the problem of structural measures that needs to be taken, and I think the debate needs to include all measures, because if you're only addressing the amortisation and not the supply side or the agility of the market, or the interest rate tax deductibility issue, you will not get a stable solution. You will get a short-term solution, and that might be necessary if you can't sort the political side, to ensure that the existing clients are protected, and that new clients are taking on debt that they can't sustain over time. So this is -- it's a very complex issue. So that's the answer on that one.

If you look at our new sales market share on mortgages, they are 22% in the last month, so we have step-by-step moved up to our back book type of market share, so it's not like we are over-participating in the market short term to regain that market share. So it's been a very prudent development over the last 18 months, and I think that is important to bear in mind. We have had, in the market, quite a large number of outlier market shares in terms of new sales, whilst ours have been gradually improving.

GÖRAN BRONNER: If I just add on the volume there, I would say that if we talk more on the corporate volume, I would say of course our, sort of, funding position and the effects of the risk transformation is something that gradually -- you benefit from gradually, so we are -- that puts us -- since the strategy is working there, it puts us in a very nice, competitive situation, so that will help us. Another thing that I actually think helps as well over time, has helped us over time, is of course that as the SFSA has calibrated all banks, and they are now under -- all banks are now under IRB advanced, we have a level playing field in terms of how we put capital towards our transactions. And Swedbank started off in a very conservative position there compared to many of our peers, and we have now a level playing field there, and from that perspective, that helps us in the corporate segment as well. So I do feel that we -- and we have a very nice relationship with the clients, so it feels good on that part. Your second question around risk rates, I did not really remember.

ALVARO SERRANO: Yes. I was just saying that the risk rate were down SEK 40 billion, SEK 40-something billion, SEK 42 billion, I think, quarter-on-quarter, but you had obviously the reduction of the IRB and obviously the increase from Sparbanken, so -- but it looks like, underlying, there's been an increase around 2% quarter-on-quarter. I'm not sure if you recognise that figure, and if so, is that related to volumes or that the volumes are more -- have a higher risk rate charge, or you don't recognise the figure?

Gregori Karamouzis: You're right, Alvaro. It is credit -- as volumes go up, credit exposure goes up, risk exposure model goes up, so it's a correct observation. If you take out the one-offs relating to Öresund and advanced IRB, the volumes drive up risk for your margin in the quarter.

ALVARO SERRANO: Thank you.

OPERATOR: Our next question comes from Mr Haakon Fyre from DNB. Please go ahead.

HAAKON FYRE: Yeah, hi. Good morning from me as well. Just one question left really. Did you experience any negative lag effects from the STIBOR drop in the quarter? Given how steep and swift the drop was in June, were you able to fully re-price the higher yielding savings accounts you would usually re-price when STIBOR moves?

MICHAEL WOLF: We couldn't really answer on that one. I mean, I think we adjusted reasonably quickly, and --

GÖRAN BRONNER: I mean, of course we have seen some effect on deposit margin erosion already in this quarter, and -- but the majority, sort of, of that effect will come in the third quarter.

HAAKON FYRE: Okay, and then a quick follow-up. Did you say that mortgage margins, depositors would fully offset the negative deposit margin impact in Q3?

GÖRAN BRONNER: I think we said that considering where we stand today, we have good hope to see the mortgage margin substituting the deposit margin erosion, but we said it's very early days to see where the competition takes us, both on deposit margins and lending margins.

HAAKON FYRE: Okay. Excellent. Thank you.

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

MASIH YAZDI: Morning. Masih from Central Stockholm here, at SEB. A couple of questions from me. You were saying that you like the fact that you're growing with the economy in the quarter and that led to underlying lending growth of about 37 billion. Do you think that's a growth level you could, sort of, uphold going forward if the economy or businesses continue to grow at that pace, given that you have a pretty, sort of, high pay-out ratio of 75%? And then, secondly, on mortgages and the mortgage market, if you could choose, sort of, between going back to your back book mortgage market share of 25% and protecting the margin improvement we already see now in Q3, which one of these would you prefer if it'll be a difficult common issue? Thanks.

MICHAEL WOLF: I mean, first I wish you guys welcome up to Solna in a year or two, so it's going to be good to have you as neighbours. On the market share issue, well, I think you need to be reminded that the savings banks are very strong at present with good liquidity. So, they are putting a lot of their mortgages on their books which used to be with us. So, if you exclude them, I would say that we are at our back book market share. I don't think -- I don't perceive that there is that trade-off, bearing in mind our improved funding cost and strong position in the major cities because that is traditionally our weak spot, but regional stock on the region, Gothenburg West, are doing fine in this area, and as long as we participate in the major cities, we'll probably not have to make that trade-off, but it's all about where competition moves us.

GÖRAN BRONNER: On the first question there, I don't think you can take the second quarter's volume and analyse it. That's not our interpretation of where the macro picture is really. You have an inter-quarter effect. It's always -- corporate wants to do transactions in front of the summer and so forth, so I -- it's not a new growth rate of lending, I think, and you should also be reminded there is a lot of talk about amortisation for mortgages and so forth, and all of these are directed towards slowing lending growth. So we will have to wait and see on that one as well. And a lot of the corporate exposures are relating to property, so the property market can't continue building assets in the same pace, I would say. Risk analysis is important going forward as well, so the conclusion is the dividend policy is intact.

MASIH YAZDI: Okay, thank you. Just one follow-up question to Michael. Just your note there on the fact that it's illogical for Swedbank to, with evidently lower risk, have higher cap for commerce than your peers. Just sort of more colour on why you make that remark. Do you think there are any chances that any of the cap for commerce that have been guided or introduced could change in your favour or why do you make that comment, please?

MICHAEL WOLF: If you look at the logic that the SFSA is bringing forward, for example, the counter-cyclical buffer, they argue that we have seen a abnormally high credit growth the last few years, especially in the mortgage market, or particularly in the mortgage market. We haven't participated with those type of growth rates, the last five years, and there -- we were penalised because we have the highest back book. If you go sort of look at the price development of housing, the last five years, when we haven't participated, it's been quite stellar. So the emphasis(?) on their own book is very fine and can cater for a big house price drop and, hence, a play with the large back book is penalised in this type of model. And there is no correlation then between risk and capital demand.

GÖRAN BRONNER: Can I also just add that, of course, if you put the largest buffer in the bank with the mortgage, it just all stress tests from the SFSA themselves, from ourself and also from the Riksbank, shows that the law just -- the credit law says in case of a stress scenario, that's not appeared in the mortgage book. It appears actually in the corporate book, so we know in stress test, the Swedbank comes out the best, but we have the highest buffer. That's pretty illogical unless you actually want to put the capital there in order to get the steering effect of increased margins, so we're -- but from the buffer, the buffer perspective, it's very illogical.

MASIH YAZDI: Thank you very much for that. Very clear, thanks.

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, our usually quarterly question, please, on Treasury and net interest income which, I think, this time a year ago, you started to become very cautious on, and the original guidance that you put through, despite long rates actually falling in the period, hasn't come to pass. In fact, I think if I look this quarter, your contribution to net interest income from interest-bearing securities, has gone up, Q on Q. I don't know if that's a right observation, but anyway, Treasury and II seems resilient. I just want to get some update, please, of what you're seeing on that side, and what your outlook is.

The second question, please, on this amortisation point. You mentioned that you've stressed your borrowers for enforced amortisation of various levels. I just wanted to get some flavour, if you can give it to us, please, on what actual tangible impact you think enforced amortisation can have on the market, will have on the market, as far as impacts to debt affordability and whether or not you see this actually having any kind of a meaningful deceleration impact on credit demand. Just any kind of incremental colour you can give us would be helpful.

Third and final question on Pillar 2A buffers. I think at the time of the last quarter's results, you gave us a range on capital outcome. I think the worst end of your range potentially allowed for three percentage points of Pillar 2A buffer. It seems like the original, or the initial, proposal for the Swedish authorities is that, is the Pillar 2A buffer lower than that? I just want to understand whether that's given you any more insight, whether you can become even -- slightly more constructive on where Pillar 2A ends up, for you, or whether there's something inherent in your book or how you think for the two is actually calculated for you which is somewhat worse than the standardised number which has been put round for all the banks. Thank you.

GÖRAN BRONNER: Yes, Treasury result. They're -- I think you need to view the Treasury result, NGL and NII together. I think we have become, in the past two quarters, slightly more positive as interest rates have come down, and we are saying that there will be some effect in the autumn of that as well, going forward. But the long term outlook, in a very low inflation or any interest rate environment, is challenging to keep the profitability up. I don't think we will guide more than that. If I can take the third question then, the Pillar 2 add-on there, we haven't disclosed anything on the Pillar 2 discussion with the central bank so forth, and we will come back on the capital at year end. And the only thing we are saying is that the 19.3 that the regulator put us on when they disclosed to the market, is 20% incorporating IRB advance and we haven't -- we have a sort of no negative or positive use with regards to the buffer. We think the buffer we have, what -- we feel good about the buffer, it's an adequate buffer up there, so ... but at the same time, we don't see an excess capital.

ANDERS KARLSSON: And Nick, this is Anders on your question about -- I understood it was the resilience of the mortgage portfolio and credit losses, popping up in --

NICK DAVEY: Sorry, if I can clarify. They're not too worried about the credit loss side, more interested in whether it will actually have an impact on demand, on credit demand. So we've seen acceleration in credit demand, even ahead of the interest rate cuts and I'm just wondering, really, if the discussions around enforced amortisation in H2 are going to have any kind of tangible decelerating impact on that household credit growth?

MICHAEL WOLF: Yes, I mean, that's definitely the purpose of this discussion from the legislators. They want to dampen the growth among household debt. That's how we should read it, I think, and they utilised two ways for that. One is the capital and the other one is, of course, discussions around amortisation.

NICK DAVEY: Thank you. If I could ask --

MICHAEL WOLF: Exactly what the impact will be, time will tell, of course.

NICK DAVEY: Okay, clear. If I could ask you a quick follow-up question on the Pillar 2 side and the overall capital guidance? So you're now saying this 21% level doesn't seem like excess capital to you. I'm just wondering at what point you start allocating 21% capital to each of your divisions, if this is the new reality?

GÖRAN BRONNER: I used to make a distinction. I mean, 21% capital is a new reality. We will allocate that to all business areas as soon as possible, and we work with -- start to work with that, so that will happen in reality during the second half of the year. But then you must distinguish what the regulator pushes you to have, and what you as a sort of CFO would think is an adequate need of capital in terms of carrying your risk towards your bond investors and equity investors. And, of course, we think 21% is way too high. There is a price that Sweden, we pay, for being so conservative.

NICK DAVEY: Okay, thank you.

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

JOHAN EKBLOM: Thank you. I think most things have been answered, but just a few quick follow-ups. So, in terms of the capital, can you just update on what remaining capital efficiency measures you might have and also if you have any views on timing of potential AT1 issue. And then, secondly, just on the rundown of the Ektornet. I mean, we saw quite a substantial reduction in the revenue contribution and, I guess, in the expense side as well. Is this a new level or should we just expect a gradual wind-up there, wind-down there? And then, finally, just we saw the associate income very high, clearly because of the Entercard impact. How should we view that line, going forward? I mean, is there a big sustained impact from that transaction? And also, the new contribution from the Sparbanken Öresund, how substantial is that relative to the recurring associate for contribution?

GÖRAN BRONNER: If I start with the lowest one there, they are the income line. That's always a difficult one, because it has a tendency to be plagued by one-offs every year in some effect there. I mean, the Entercard thing is a prepayment by a distributor sort of taking back their volumes. They are prepaying margins that we otherwise would have had coming in later on, so you are correct there that the 230 will disappear towards the back end, or in the future, sort of. Ektornet, I think, I mean, we have always guided that we wind down the Ektornet, particularly 2013 was a very strong savings year for Ektornet, and therefore, we had the income, another income there, but we also had a lot of costs. So it sort of -- it improves the quality of the whole bank of winding down the Ektornet. Now we are down to how much in the Ektornet, 1.5 billion or so.

ANDERS KARLSSON: Down to 1.3.

GÖRAN BRONNER: 1.3 billion, so we're doing very nicely there and we are observing that peers in the market are actually increasing their collaterals over take, so we feel that we are in a good position there. But if you look -- to give you an -- I don't have it in my head to give you any guidance on that, really. I have to come back on that one for future. AT1s, I think -- I mean, we will issue AT1s at some point in time. We don't feel that we are in a hurry to do it since we are filling it up with core equity so ... and we think that, by waiting with all these capital alike instruments and the T2 has been a good strategy to be late, because we are on a good journey, risk wise, and we continue to be that and we have rating institutes like ANDERS KARLSSON is saying -- that are formalising things that the market has already assessed. So we will come, but we won't disclose when, and our ambition is, of course, to be, from an investor point of view, expansive.

JOHAN EKBLOM: Thank you very much. What do you have left in terms of capital efficiency measures?

GÖRAN BRONNER: There is always capital efficiency measures to be done, Anders is working with AMA. We're working with other things. You could also say that, as you start to steer the organisation more on a certain system, you tend to see more effects out of it. So, the introduction of the IRB advanced sort of did increase during the application period. That's an effect because we sought to steer on it, because we already implemented it in the business earlier on. So from that perspective, it's an ever ongoing story. We don't have anything that we put on the table for you, because there are so many other aspects in this and the big journey in terms of capital efficiency in Swedbank, the major bulk of that, is over.

JOHAN EKBLOM: Very clear, thank you.

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

ANDREAS HÅKANSSON: Yes, hi. What I was going to ask on mortgage margins and capital, and I think we've gone through that so we can go to the next question. Thanks.

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

JAN VOLTER: Yes, morning. Jan Volter here at Credit Suisse. A couple of questions, if I can? The first, Göran, I think you commented that it would be difficult to uphold the Treasury result, and what kind of timeframe are you thinking about, and can we assume that higher short rates will have a negative effect on the Treasury result, just based on your current positioning? So that's my first question, please.

GÖRAN BRONNER: I'm not going to take talk of how the immediate impact will be there. I think what the -- all banks -- the Treasury department needs is a steep yield curve. It doesn't matter -- you can hold money on the steepness, so to say, because you lend longer than you fund yourself, always in the sort of day-to-day exercise of the bank. That makes your money, that's one thing. The other aspect is if interest rates, in general, are falling, especially short rates. The long rate doesn't matter. It has less of an impact. In terms of how the Treasury result -- it will gradually fall off if we can't sort of substitute the interest rate risk with new interest rate risk that gives us carry, and that will happen particularly during 2015, and the effect will be back ended, of course. But, of course, part of that you expect that we will have occasions where the yield curve is still a little bit steeper and we can extend our risk ... risk maturities a little bit. And so it's -- a part of it is normal business in Treasury, but this time you should also remember that we come to a floor on interest rates. We are sort of closing up on being -- and soon we might be at zero.

JAN VOLTER: Thanks. And LC&I trading income was down slightly Q on Q and the swing came in group functions. Is it a fair observation that client activity didn't have much to do with the high level on the net financial items this quarter?

GÖRAN BRONNER: No, that's a correct assessment, I would say.

JAN VOLTER: Thanks. And then the final question is just, you say that you don't have excess capital any more. Does that imply that there is not much capital left for further acquisitions or how do you see that? And if you do feel that you have capital to deploy in acquisitions, do you see any further objects in the Swedish market, please?

GÖRAN BRONNER: I mean, we have said that we operate in four countries. There is always small, sort of, add-on acquisitions that we look at in terms of that. There is not -- nothing that requires a huge amount of capital. Within one acquisition and Öresund the 3 billion, it is sort of -- there might be a similar type of core acquisition, but of a lesser magnitude, but we don't see any really big thing requiring capital at this point in time.

JAN VOLTER: Okay, many thanks for that.

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

RICCARDO ROVERI: Good morning. Good morning to everybody. These three questions from my side. The first one is a bit of a strategic one. Before you stated that the fact that the Swedish FSA is imposing the same, basically, risk rate on mortgages and the fact that all Swedish banks now are on advance, the IRB, is creating a kind of even playing field. But the reality is that Swedbank is required to hold four, five percentage points higher capital than your peers, and I think this may be due to the fact that you are the most Swedish among the Swedish banks, and this is just so -- I might be wrong, but my view is that the regulator, regulation, in Sweden is generating a kind of regulator arbitrage. So I just wonder whether there is any assenting for you to become -- to start becoming less Swedish than you are today, to allocate capital somewhere else where you are not required to hold 25% of your risk rated assets for mortgage, or something like that? Is it something that you look at? Is it something that you agree with? Is it something that you want to do it? This is my first question.

The second question I have is on NII, on customer loans. You provide very good detail, quarter by quarter, of the NII breakdown and the NII of loans to the -- on customer loans is up just a 0.5%, Q2 on Q1. The loan book, actually, the average book is up more than 2% in the quarter. So my -- that comes from the data levels. So my question is, has the growth in the loan book materialised the most toward the end of the quarter, because, if this is the case, we're going to see an impact in Q3? Or, otherwise, the only thing I can think about is that the new origination has much lower margins than the back book. So which one of the two?

And the third question I have is, if I remember correctly, before you stated that, you know, corporate risk rates, may be leverage ratio, are an issue, but on leverage ratio what we see is that this is constantly down quarter for the quarter, and now it's just above 4% where you started from something like 4%, 4.6% or 4.5%, right at the end of 2013. So you flag it as a possible concern, but it keeps going down. So I just want to understand how you are -- how you play with the leverage ratio in managing the bank? Thank you.

MICHAEL WOLF: Okay, if I start. I think what we try to say is that there is a level playing field on corporate risk rates. Whilst we don't agree with the logic of us having the highest capital requirement through the risk-rated assets floor on mortgages, which is the lowest risk, which is confirmed by all external stakeholders. So there is an inconsistency. And then you could argue that the reason for the regulator to do something like that is that they want to have a steering effect rather than a buffer for risk thinking. So, that's how we try to paraphrase those issues, so I hope that brings some clarity for you.

GÖRAN BRONNER: With regards to the NII question there, I think we are saying that margins on corporate loans are fairly flat. Margins on mortgage loans in Sweden are increasing towards the end of the quarter, the end of the period, and in the period you are also seeing a shrink in the profit margins. That is making sort of the quarter roughly flat on margins or on NII in total, and then I guided on the future a little bit, as I did. With regards to the leverage ratio and how it, sort of, incorporates into our steering, I think we are on a very high capital level today as a result of the mortgage, sort of, add-on. We are rather well placed compared to peers in terms of leverage ratio, but we're following that sort of development and see what will happen there. If there were to be, sort of, a regulation that puts leverage ratio higher than 4.5% or up towards 5%, of course, that's something that will impact our steering.

RICCARDO ROVERI: Okay, thank you. Just to get back one second on the first question. From your answer, I understand that you will not privilege growth outside of Sweden rather than in Sweden. Is this a good idea?

MICHAEL WOLF: Oh yes. On the back of that conclusion that -- or clarification I made, I do believe that we are very much benefitting for -- from our geographical footprint. We are operating in four economies that have a good outlook, good stable fiscal policies, and a very strong corporate environment. So, we are quite excited to be operating in these geographies. Of course, over time, if you get more regulation around leverage ratios, etc, what you might see is that the Swedish mortgage market goes to a securitised market if you can't re-price. But that's out there and it's a possibility, but not a reality of today.

RICCARDO ROVERI: Okay, very clear, thanks.

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

JOHN BÄCKMAN: Yes, good morning. It's John from Danske. Most questions are answered already, obviously, but just regarding Swish, I think you've said previously that you had something like 40% market share on the retail side in Sweden, on Swish, but you don't make any money on it, or a lot of money on it. And now we're starting to see Swish with corporate as well. Is this set up different or is it more you saving costs rather than getting paid? Thanks.

MICHAEL WOLF: I mean, the way I look at it is that this is a very good replacement product. You see less ATM withdrawals and you see less manual cash-handling, so we are benefitting through that. The corporate client, they will benefit from avoiding to handle manual cash and all the administration that comes around that, and security issues. And, of course, they would have a willingness to pay to make that transformation happen from cash to Swish, so it's logical to build up a big customer base among the consumers that utilise Swish to give that benefit to the corporate environment in transactions between corporates and consumers. So that's the reasoning behind our pricing strategy. And we are also, with Swish, making life difficult for other payment methods that are coming to market by other entrepreneurs. So I think this is an excellent digital solution for the consumers in Sweden, and I guess that most countries would envy to have something like this, and the infrastructure in Sweden loves this, and we should be very happy with that.

JOHN BÄCKMAN: Okay, thanks. And then just to follow-up on Öresund, I think you've had the 16 billion of loans transferred already, but those are not mortgages, right, because there is another 17 billion residing with the SBAB. Will we see those starting to come into Swedbank in Q3? Thanks.

GÖRAN BRONNER: They will come in over a -- there is an agreement there with -- so that if we come gradually over a longer period of time, but you are correct that we don't have any mortgage loans there.

JOHN BÄCKMAN: Okay, many thanks.

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

JACOB KRUSE: Hi, thank you. Just two quick ones. So, firstly on the Öresund book. Would you expect the risk rates of those loans to fall roughly to your average corporate risk rate level, going forward? And secondly, on the cost side, just to be clear, so you have -- you're effectively guiding for an annualised cost base -- for a cost base of just over 8.5 for the second half, so annualised just over 17. And then you have Ektornet costs which, I suppose, will come out some time by the end of this year, and potentially some synergies from Öresund over perhaps more 2016. So it looks to me like you should be able to target a cost below 17 billion before investment. Is that roughly your thinking in terms of that space of cost that you were mentioning previously? Thank you.

GÖRAN BRONNER: It's tough to say anything about the thinking. If you extract, sort of, Öresund one of going into next year and then you annualise the Öresund, you come to the number that you're talking about, so it's a -- you're doing your -- the analysis is correct, sort of. Whether we will be there or nowhere, we will come back to it.

In terms of risk rates for Öresund, I think there are -- some of the clients are duplicating clients, you could say, where you have some short-term benefits on the capital, but then they, sort of, regulation-assessed that we can't, sort of, use the rebook all of these clients in our book and have the risk base that Swedbank has. We have to follow the sort of -- the back history with Öresund, so we -- it actually requires us to approve, or seek approval, for an IRB Advanced with the FSA for this part of the portfolio. And the regulation is that way, and which we will most likely do, and that means that the capital synergies of the whole equation -- a rather good proportion will come rather quick, but the major part of the capital synergy will be realised at a later date.

JACOB KRUSE: Okay, thank you.

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

CHRISTOFFER ROSQUIST: Thank you. Just one follow-up question on your investment banking fee income. So you commented before that you're growing in line with economy. I was just taking a look at public data, so announced deals, M&A, it looks like they built up to very high level in Q1 and beginning of Q2, but then dropped off significantly in May and June, and I just wanted to understand, is that some kind of seasonality or if this is the end of pent-up demand or if you could give us any visibility of your pipeline for these kind of transactions? Thank you.

MAGNUS GEEBER: This is Magnus Geeber, in charge of LC&I, and we have, of course, seen a very good activity during the first half of this year where we have been actively participating in the IPO market, not so much in M&A from that perspective, but we do see that we have continued demand during the second half of the year as well. So we're actually comfortable with our pipeline.

CHRISTOFFER ROSQUIST: Thank you.

OPERATOR: Our last question comes from Mr Adrian Cighi from RBC. Please go ahead.

ADRIAN CIGHI: Hi, it's Adrian Cighi. I have one additional question on mortgages, please. When you allocate capital internally and establish your internal pricing, do you already price in a 25% mortgage risk rate or do you expect that to start at a later time? I know one of your peers stated that they're planning to introduce the 25% mortgage risk rate sometime in October. Thank you.

GÖRAN BRONNER: We have not allocated out the capital yet on transaction level, so that is yet to come, the positive push that comes from that, but there are many other ways that you can steer your margin development with not only capital allocation.

ADRIAN CIGHI: And just a quick follow-up on that, do you expect any potential upward list price move on the back of such sort of price in more capital allocation move?

GÖRAN BRONNER: You have to -- the list prices are set by the market, not by internal capital allocations.

ADRIAN CIGHI: Okay, thank you.

OPERATOR: That's our last question. Please go ahead, speak.

MICHAEL WOLF: Then I truly thank you for being so active. We really appreciate all these questions as it helps us clarify everything in the complex report and complex environment, and in a complex bank. So thanks for doing that, and helping us clarify, and I wish you a good summer and see you in Q3. Bye.