Event: Swedbank Interim Report January-March 2013

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Speakers: Michael Wolf, Göran Bronner and Håkan Berg

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OPERATOR: Ladies and gentlemen, welcome to the Swedbank Interim Report January to March 2013. 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 once again thanks for attending this call. The economies in our home markets are relatively strong and we did see some positive signals in the global economic development during the quarter or the outlook of that, despite the unrest that continues to take place in Southern Europe.

Our forecast for 2013, with low credit demand and low interest rates, has so far come true. In light of the above, the results are fine. NII remain stable, despite headwinds on the deposit side. We continue to have good cost control and achieves, in my book, a strong 15.3% return on equity at the same time as we're building and strengthening our capital base. Our low risk profile and strong capital base supports the continuous improvement of our funding cost, and we do expect that this will also reflect in our external credit ratings going forward. Our focus on our four home markets can be even more pronounced as we now have found an exit in Ukraine and resolved to discontinue our operations in Russia.

The reorganisation announced at year-end is a critical step in our long-term ambition to now focus on improving our market position. With our large customer base it's key to meet all customers, based on their needs with accessibility and service levels that provides comfort, but also leads to deeper and broader business exchange. Simplicity is a key word for us and I'm convinced that reduced complexity and increased transparency is fundamental to achieve a higher customer satisfaction level.

The digital evolution has proven to help us and our clients to deal with both their daily but also long-term needs in a faster, simpler and more efficient way. During the last two years, our Mobile Bank has become the driver for many of our clients' daily banking needs. Like in other industries, there has been a transformation driven by customer behaviours from physical products sold in physical stores to digital products in digital stores. We see more and more that our clients solve their issues on the net and therefore more seldom visit our branch offices. They only turn up at the branch when they cannot solve their problems on the net, or when they have a need to discuss a more complex nature. The next step on this journey will be for us to provide our clients with even more information so that they are even better informed when making their decisions to transact.

During the quarter, we launched the Corporate Mobile Bank as well as the Mobile Bank for youngsters and we are working hard to fill our digital channels with new functionality, now latest OCR scanning into the Mobile Bank for payment services. This digital trend is an opportunity to serve the many transaction-intensive clients that we have in a more efficient way, which in itself allows us to invest more in these channels. But it also frees up time and resources for our client executives to work on clients where our ability to support an improvement in their businesses are dependent on deep relationships.

In the last few years, the effort to improve our market position with large and mid-sized corporates have given us evidence that we can be relevant and that our working methods actually create a deeper and broader business exchange. The great potential is of course in the affluent and the SME segment, but we all know how competitive the market is in these areas, and here patience and competence are key to get more business. If I should conclude, I would like to say that we have a strong focus in the bank on reducing complexity and the cost to serve or produce a unit. Given our large customer base, we strive to gain a competitive advantage by being the most efficient bank. Our growth focus is on being able to extend the business with our existing clients and step by step attract new clients.

With that, I would like to hand over to Göran Bronner.

GÖRAN BRONNER: Thank you, Michael. Looking at our numbers, starting with our Retail division, as usual I would say we have a very stable result. The NII is a touch down. As mentioned, we have sort of deposit margins coming down a little bit. On the other hand, we continue in the quarter to reprise part of the corporate book, which has been mitigating some of that. We continue to see a very good asset quality in that part of the business, and you could say that management is devoting more time towards the new organisation that was implemented at year-end in order to get the steering of this business area more exact in future.

Moving over to Large Corporates, I think the result, if we compare with the fourth quarter and also with the first quarter last year, a touch weaker. I think we started off very strong in January and then the crisis in Cyprus affected the risk appetite to some degree and we saw slightly less activity, so our corporate finance fees are a little bit lower than they were in the last quarter, and also we continue to have structural challenges, like many in the marketplace in the equities arena. Credit quality is very good and I think we are very proud over the return numbers. We are generating a return on equity of almost 17% in this business area, which we think is quite good, given the macroeconomic environment that we are operating within.

Moving on to our Baltic banking division, I think the result is good in the context we are operating in also there. We are in krona terms with slightly better results. We are executing on other income. We have a slightly smaller NII, but that is in krona terms. If we take it in euro terms, it's actually slightly higher, but still a fairly subdued credit growth in there, and going forward I think our friends in the Baltics are devoting more time in order to improve their efficiencies.

Summarising this for the bank, we do get a very stable NII. Part of the fact that we are coming in a little bit -- or the reason we're coming in a bit higher than expectation I think is that NII in our Treasury department has developed better than expected. Income in general are, compared to the fourth quarter, a little bit slower, but the main reason for that is that we booked one-off income effect of SEK 300 million in the fourth quarter. If we exclude that, we are actually bang on.

Cost control continued to be good. We are now reporting Ukraine and Russia as discontinued operations and we think that cost will be flat 2013 over 2012 for the remaining part of the bank, which in essence is that we are lowering our cost guidance a couple of hundred million krona. Asset quality overall feels very good in the bank and, like Michael said, I think we are extremely happy with our sort of key ratios, both on return on equity, of course 15%, but also cost income ratio and the efficiency in the bank and also capital. Reviewing capital a little bit more in detail, we have improved our full Basel 3 capital with 100 basis points during the quarter. Half of that effect is just the sort of change to regulatory expectation on the effect of the CRD IV now being in the process of being implemented. That gives us a better capitalisation or less of an impact, but also IAS 19 and profit generation and also the decrease of risk-weighted asset is building our capital story. Then of course we are continuing to sort of wait for regulatory plans on this part and also to get the final approval on our IRB Advanced.

I think I stop there and hand over to Håkan.

HÅKAN BERG: Thank you, Göran. The first quarter 2013 has been a good quarter, with continued low credit impairments. The somewhat weakening trends in Sweden we saw the second half of 2012 has stabilised, but considering the uncertain environment on the European and a global level, it is likely that we will see some volatility in the trends, depending on what happens outside our home markets. The asset quality in Sweden continues to show good results with good resilience also in the sectors where we see some impact from the lower economic activity. Given the very low levels we are currently reporting, we may though have some volatility between the quarters. The Baltic countries continue to show positive economic environments. Demand for lending is picking up, but the trend is fairly slow. We report net recoveries in the quarter, though at a slower pace compared to last year, which is in line with our expectations. The inflow of impaired loans and credit impairments from the portfolio not stemming from the crisis continues to be on very low levels, and as has been mentioned, Ukraine and Russia from this quarter is reported on as discontinued business.

When it comes to impaired loans, it continues to decrease this quarter. Roughly three-quarters of the reduction is due to Ukraine and Russia moving to the discontinued business and the remaining part is the result of reducing the workout portfolio in the Baltic countries.

MICHAEL WOLF: Okay. With that, we open for Q&As.

OPERATOR: Ladies and gentlemen, if you'd like to ask a question, please press 01 on your telephone keypad. Our first question comes from Mr Omar Keenan from Nomura. Please go ahead.

OMAR KEENAN: Good morning. Thanks very much for taking the questions. I just had two quick questions on net interest income. The first one, I was hoping you could perhaps elaborate a little bit as to any help that you got from the hedge and net interest income in the first quarter that we can perhaps expect not to be carried through to 2014.

And then just a second question, which is a bit kind of wider sort of philosophical question on NII, with economic prospects in Sweden seeming to be improving and that it seems increasing likely that policymakers will use risk weights again on mortgages as a macroprudential policy tool to control debt growth, just thinking kind of qualitatively, what do you think the impact on your business and the market for mortgages will be if later on in the year we saw risk weights on household mortgages be raised again to 20 or 25%? Okay, thanks.

GÖRAN BRONNER: Hi there. On the NII question there, I think the slightly better NII in Treasury rate is explained by a couple of different aspects. One is that we are -- since Stibor and interest rates have come down during the quarter, we continue to benefit from that declining rate. That's one explanation. Another explanation is that we have some traffic between net gains and losses and NII in Treasury; that explains it to some degree as well. And then also the third one is that we are sort of benefiting from our funding cost being structurally improved as well. That is actually a sort of higher quality, that's sort of part of the improvement.

Your question on risk-weighted assets, I don't think it will mean a behaviour shift towards the clients, because I don't think the bank has steered their mortgage business on risk weights or the capital utilisation of the regulatory framework. We have sort of a pricing that is richer than that or has historically been indicated by the capital consumption, so I don't think it will impact the capitalisations, sort of optical numbers on capital, but it will not drive margins, if that was the question you were after.

OMAR KEENAN: I was wondering, could you potentially sort of quantify the moving parts in net interest income, so the change in Treasury, sort of what was due to the hedge and then what was due -- you know, you expect, as you said, the better quality, structurally improved -- improvement in funding cost, and I guess, you know, you said that you don't steer sort of your pricing based on the risk weights, but, I mean, you must think that an increase in the floor of risk weights at 20 or 25% will have some impact on the market in terms of margins. Okay, thanks.

GÖRAN BRONNER: Well, if we have 15 or 20%, we don't think it will have an impact, so that's the short answer. Of course it would go -- if we would talk about risk weights of 35 or something, then it would be, but I think that's highly unlikely, actually.

The quantification there, I'm not going to give you exact numbers, but it's roughly the improvement towards what was expected and so forth in the last quarter. I think it's a third in each of the three elements that I'm talking about, roughly speaking.

OMAR KEENAN: Okay, perfect. Thank you.

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

JOHAN EKBLOM: Thank you. Just two questions. Just following up on the net interest income, I think the last quarter you were sort of guiding that the Treasury net interest income should decline over the coming quarters. Is that something we still should expect? I think historically you said that, you know, the Treasury should not be a profit centre, so things should trend to zero. Over what time horizon do you see that happening?

And then secondly, just on capital, I mean, I know there are some parameter changes, but in our report of 16.4% Basel 3 core tier 1 versus a target range of 13 to 15, presumably you've continued to generate capital. When will you expect to communicate with the market with how that capital will be distributed or allocated?

MICHAEL WOLF: Hi, Johan, and thanks for your questions. I'll take your last one and then I hand over I guess to Göran for the others. I mean, of course we have a very impressive capital base and we need regulatory clarity before we can communicate on further actions, but it feels very strong in this economy to sit with that base and it is an upside that we have, and let's await the final outcome of the CRD IV before we expect any announcement.

JOHAN EKBLOM: Just to follow up on that, I mean, what you're waiting for, is that to see how CRD IV will be implemented in Sweden? Is that what we should be waiting for?

GÖRAN BRONNER: I think we are waiting for CRD IV. We also have to wait for the resolution mechanism in order to understand the capital components about the core equity before we have -- so we need to have a better understanding how that will play out before we sort of calibrate our capital targets, so we know how the bail-in features will actually work in practicality and what kind of trigger points are we talking about for our bondholders and capital holders, so I think there are a couple of features still we need to know better.

JONAS ERIKSON: But on the equity side, Johan, there are two specific components that we mentioned already last quarter. One is the mortgage risk weights, which have so far been communicated from the FSA as a core equity requirement and we don't know yet whether that will impact the core equity requirement or a total capital requirement, and the other component is what happens if you actually breach the 12% that the

Swedish regulators are aiming for. The exact dynamics of that are still to be described, I think.

GÖRAN BRONNER: In terms of the NII in Treasury going forward, I think that if we then assume that short-term interest rates remain where we are, we will have a gradual drop for NII there, some of the sort of older positions are falling off and I think we are talking about the quarterly effect for the next two or three quarters of SEK 100 million of NII reduction in that.

JOHAN EKBLOM: That's SEK 100 million per quarter?

GÖRAN BRONNER: Per quarter.

JOHAN EKBLOM: Okay. Very clear, thank you.

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

NICK DAVEY: Yes, good morning, everyone. Nick Davey from UBS. I've got a few questions, if I can. So first is on group products and really I understand you talked a little bit about what you're aiming to achieve here from a business perspective. I just hoped you might elaborate a little bit more around what we should be looking from an earnings perspective. Obviously it seems quite seasonal in Q1. What should we be looking out for as far as group products begin to take a grip from an operational standpoint?

How should we be looking at earnings evolving going forward? That's the first question.

The second question, please, just another comment on market shares, which we've touched on in previous calls. Front book market shares in Swedish mortgages still look well below back book shares. Please, any commentary you can give us around pricing or criteria characteristics in the current market would be helpful, thank you.

A third question, just briefly, on the split of costs. I'm a little bit surprised within the split of costs between staff costs and non-staff costs. If I look versus your 2012 run rate, I think your number of FTEs is down 7%, your staff costs run rate is up 2% and I would have thought maybe with some of the investments you're talking about making, that I would have seen a bit more growth in your non-staff costs and a bigger reduction in staff costs. So just please if you could elaborate if there are funnies coming in and out of the variable pay in Q1 or anything else we should be thinking about on the cost side.

And then, please, just a final follow-up on this NII and Treasury number: you talk a bit in your report around credit and basis swaps coming through NII and Treasury, so if we can just exclude for a second all commentary around hedge impacts, could you in any way isolate the impact from basis swaps either this quarter or as a cumulative impact over the course of the crisis? Is there some sort of big cumulative positive that will unwind over time? Thank you.

MICHAEL WOLF: If I start with market position and those issues related that you raised, I would say in a principal manner it's quite important that you have very sustainable earnings capacity to work in a competitive market like Sweden, especially when you see some of the old value chains being broken up and I noted the other week that one of our competitors, SBAB, got increased return on equity targets, which is a good indication that with sub-par returns, you can't compete sustainably, and I think we are in a very, very strong position to focus on the market position issue. We don't want to use price to gain market position. We want to serve our customers, have a high accessibility, high service standards and in the higher segments, my book, in order to gain a deeper and broader business relationship, your knowledge about the customers' actual reality, their business models and how you can help them enhance that is what drives sustainable sort of business relations.

So with the reorganisation, where the many customers will be served through the digital channels, and the digital channels having a P&L responsibility for those customers, we believe that we fundamentally can drive down costs to serve at the same time as increase service level and accessibility. So that ought to become a win win situation, which of course increases our ability in the branch office to focus on those competitive segments, such as affluent and SME, where as I said, patience and relationship over time will yield results. So in my book, we can now, after four rather challenging years, where the focus was on balance sheet, risk reduction and earnings capacity, turn our entire focus to this market position issue, and I do feel that the preparedness to work hard is there.

On product complexity, I mean, we reduced product scope range with 10% last year and we've continued to do the sort of 10% in the ordinary business. The entire organisation is now doing quite a deep analysis, as this is one of the most complex projects ahead of us, where IT, basically all parts of the organisation needs to be involved in order to see how we can make a larger reduction over time, and that is going ahead according to plan. Apart from that, Group Products is improving the sort of control of the different product areas, such as saving, lending, payments and cards, where we have clear responsibility, we are now improving the steering model so that we can truly measure everything from A to Z, and by the end of the day, I think, that will drive bigger P&L earners in the organisation.

GÖRAN BRONNER: Looking more number-wise of things then, I think if you take your staff cost question there, I think in general the staff that is leaving us is very much relating to Russia and Ukraine, and that is on an overall basis quite small cost reductions, as such. In Sweden, we are not reducing staff. On the contrary, you could say that in certain areas we are actually recruiting staff, and also we are, as you know, having a little bit extra cost accounting-wise on the variable pay programme, so that could affect your numbers as well, depending on how you model it.

On NII, or sort of the projections of things, I think we're stating that the cost for continued business will be flat, 20, sort of 13 over 12. Income is always very difficult to gauge on and we continue to work with repricing, but it's a story that is sort of gradually coming to an end, of course, as banks are becoming more profitable and more well-capitalised. We are also starting to see that the new sales margins in the mortgage arena are slightly lower than back book margins. So there's a little bit of headwind on that aspect as well, going forward, but then to a very high degree, it will be a macro call where income goes.

On NII, you talked on the Treasury there. I think your question was to what extent had basis swaps valuation affected the NII, and that was not any prime driver of that NII income.

NICK DAVEY: Okay, that's very clear. Thank you.

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

ANDREAS HÅKANSSON: Yes, hi. Just really a follow-up question on the capital that I wanted to ask you about. What's your best guess when you're going to have the full visibility or you are able to communicate what you're going to do with all your excess capital? And then maybe just as a follow-up, you mentioned briefly that you expected you might have a positive rating change. Could you give us some timing on that and what will be the potential impact, because you're already funding quite cheaply, of course. Thanks.

GÖRAN BRONNER: If I start with the last then, I think we have good discussion with the rating institutes. It's very much backward-looking compared to where the market trades, so I agree that it won't mean a lot, but on the margin it has an impact over a longer period of time. I don't have anything more to say really when we can. You'll see we are on the right track there and we are getting traction among our debt investors to people who lend us the money really about the long-term viability of Swedbank, because that is good and eventually it will turn up in rating as well, absolutely. And then --

ANDREAS HÅKANSSON: Sorry, Göran. The divestment of Ukraine and Russia and all of that, have the rating agencies had any particular comments on that move?

GÖRAN BRONNER: I think of course on the margin that's a good step, but they have been so small it can't be a major trigger, but it's more the fact that it proves the point that we said we were going to sort of divest out of these, and now we've done it, so it's more proof in the pudding that we speak to our strategy, rather than the exposure as such, I think. Then the best guess on capital, I think we have all been wishing for clarity there, and on the resolution side, unless you have something differently popping up in Europe, I think we can have some sort of better guidance in the second half of this year, maybe third, fourth quarter, and then for Swedbank specific, we have on the IRB Advanced, we perhaps are talking year-end or so, something around there, give or take a quarter here and there.

ANDREAS HÅKANSSON: Thank you.

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

PER GRUNDBORG: Yes, good morning. The issues I had has been answered, so nothing more from me.

OPERATOR: Our next question comes from Mr Jeff Dawes from SocGen. Please go ahead.

JEFF DAWES: Hi, good morning, everyone. Jeff Dawes here from SocGen. One quick question from myself. You mention in the report that you want to mitigate against the prolonged low rate environment. We've already spoken about mortgage pricing coming off a little bit, we've spoken about the hedge. What other ways are there for you to actually mitigate against these low rates?

And as a follow-up to that, is it fair to say that net interest income in all the operating divisions is likely to be quite flat until we see rates go up, and therefore the measures that you take are more to defend the current NII run rate rather than to actually increase in net income interest run rates? That's my only question, thank you.

MICHAEL WOLF: I mean, we continue to reprise on the corporate book, so that is one way to mitigate, and then of course to be diligent on the costs side, but I also believe that we should be able to regain some market position, which would overall help the absolute numbers of NII.

JEFF DAWES: Okay, and then just on that gaining of market share, I mean, you've spoken about how you won't use pricing to gain market share, but your competitors are using pricing, so what is the process by which you are going to get market share on the books?

GÖRAN BRONNER: Well, I mean, I think there is of course -- we have one of our peers who are much more aggressive on pricing. I think all other Swedish peers, including ourselves, are trying to defend our own prioritised clients in that, and of course that will impact pricing over time if that continues, because as we try to sort of secure that we don't lose our good clients on price, we will eventually be putting prices down a little bit, absolutely. But we are not taking a sort of step forward saying that we will match with a centralised pricing model from headquarters, so to say, the pricing that our aggressive peers is having. That's something that our businessmanship out in the branch office needs to do, and that will eventually put pressure on pricing, absolutely.

JEFF DAWES: Okay, great. Understood, so prices are likely to come down, but by less than you see other peers coming down?

GÖRAN BRONNER: I think we have started to see the front book margins sort of coming down 5 to 7 basis points in this quarter that we saw. How much of that will continue, it's very hard to say going forward. It depends on many circumstances, so I'm not going to try to guess on that one.

JEFF DAWES: That's fine. Very clear, thank you very much.

OPERATOR: Our next question comes from Mr Jan Wolter from Deutsche Bank. Please go ahead.

JAN WOLTER: Yes, hi. Jan Wolter here, Deutsche Bank. Two questions. First to Göran, the Riksbank flagged Sweden is likely facing lower rates for longer. Have you thought about any incremental negative effect from this that you're not able to mitigate, for example, lower yields, liquidity portfolio, deposit competition etc? So that's the first question, please.

GÖRAN BRONNER: I don't think we ... you can't really hedge. We're not in the sort of hedge fund business, so if we do sort have a liquidity portfolio, we gain, as you have seen in the past quarters, interest rate, but we are not -- if there is a big shift in short-term interest rates in Sweden, that will filter through to P&L.

JAN WOLTER: Okay, thank you. And the second question there, you indicated earlier on the call that you need clarity on regulation and bail-in before taking any further action on capital and give the market guidance. How does the board and management reason here? Outside regulation, do you feel that there is enough capital for both dividends and buy-backs or other types of capital repatriation and to execute on the growth plans that you have in the home markets, or is there a conflict between those two targets, please?

MICHAEL WOLF: I mean, if you look at our growth ambitions, I think we have tried to be rather clear on that. We want to grow with the GDP development in our four home markets and then of course try to grow and extend the business relationship on existing clients, and next I would argue that our market share on lending is slightly higher than the ancillary business market share on the same client base, which means that we should be able to leverage off from the lending relationship we have in order to gain ancillary business. So I don't see right now that there is any major conflict between the issues you raised, i.e. our ability to both be very efficient on the capital side and still meet our growth expectations.

JAN WOLTER: Okay, very clear. Many thanks.

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

PAWEL WYSZYNSKI: Yes, hello. Pawel here. Just two quick questions. I was wondering, on the cost side you were saying that you're going to cut costs a little bit more as you are keeping your cost guidance flat. Could you give us some flavour of where will you cut these costs, and also on the lower Basel 3 effect, if you could split maybe the CVA effect and the lower SME risk weight effect.

GÖRAN BRONNER: Yes, on the cost, we're going to take everything from Jonas. No, on the cost I think it's more that remember that the cost programme started in the first quarter of 2012, so we've been working on a downward slope and therefore sort of we are overshooting it a little bit, so I don't think it's any particular areas that I will pinpoint really there. The only thing with cost is that the first half I think will be lower than the second half. We have things we want to do and they are a little bit backloaded in that.

And on the impact on Basel 3 there, if I simplify very much, I would say the SME is half and CVA is half, but on the SME part there, we were expecting part of that impact coming already earlier, so a small part of that we had already guided for previously.

PAWEL WYSZYNSKI: Okay. Perfect, thanks.

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

JACOB KRUSE: Hi, Jacob from Autonomous. Just two questions. Firstly, on this whole mobile banking/cashless branches etc, I mean, I think more than half of your branches are already cashless and you're saying that most of your transactions are becoming internet-based or mobile-based, it looks like. Should we start to see anything here on either staff levels or the number of branches or cost levels over time, and if you could say something about that.

And just secondly on the benefit from the SME treatment under CRD IV, I have to say, my understanding a little bit, looking at some of the other European banks, has been that it's not so clear that this comes on top of the SME benefit that is already in place in the current Basel II framework for companies with less than 50 million of turnover. How confident are you that you're getting these SME benefits for your non-standard portfolios, or is this only the standard book? Thank you.

MICHAEL WOLF: Jacob, on the first question then, the digital evolution, I mean, one of the effects of what I tried to say is that going forward, your normal branch that is there for customers who can't solve their problems on the net or need to spontaneously run into a branch because they can't solve problems elsewhere, that's going to be more pronounced, it's going to be more service-like branches. Where the client executives then sit for affluent and SME customers could definitely be in a different place, so over time that should lead to a more efficient branch network. We could actually have more branches at a lesser cost going forward, and the transformation of the manual cash handling have actually reached two-thirds of our branch offices. We are well under way there to take away one of the big sort of stumbling blocks to transform the branch office fundamentally. But as you know, we are now splitting the customer base between the regions and Channel & Concepts, so this is, as I said before, a three to five-year journey we're looking at.

GÖRAN BRONNER: Maybe I didn't catch your question properly, but how certain are we of the impact on capital of the CRD IV for the SME? I think of course that's our best guess of the implementation right now coming through. It has some interlinkages really also with the effect that we get on IRB Advanced in that segment, of course, but it doesn't affect our guidance for IRB Advanced that we've given you previously, which is 40 to 50 billion in risk-weighted assets.

JACOB KRUSE: Okay, that's fine. Thank you.

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

CHINTAN JOSHI: Hi, good morning. Three questions, please, the first on mortgage pricing. Göran, your comment around front book coming down to 5 to 7 bps, can you tell us, how do you look at that margin, as in what funding cost do you take in that? Is it just covered bond pricing or do you also take into account other sources of funding?

GÖRAN BRONNER: Actual back book funding cost is sort of the base we compare it to.

CHINTAN JOSHI: So if deposit pricing and senior pricing is -- well, you don't have a lot of senior, but if deposit pricing is coming down, then that should help defend the margin, or do you still think including the front book deposit re pricing margins could still be down a little bit?

JONAS ERIKSON: We base the internal cost of funding that we measure margins against on wholesale funding only.

CHINTAN JOSHI: And that is front book?

JONAS ERIKSON: It's back book.

GÖRAN BRONNER: Actually back book.

CHINTAN JOSHI: So that means there is a potential for some defence of that margin from funding costs coming down?

GÖRAN BRONNER: On the margin, yes.

CHINTAN JOSHI: Okay. The second question was on SME again, and you highlight in your text that you were able to offset deposit margin compression with SME, with commercial repricing, but if I look at your LC&I division, then I really don't see NII going up. It's actually down 2% quarter on quarter, whereas volumes is a little bit up, so where do I catch this commercial repricing, which I think was about 100 million, but I can't spot it, and in which division I should be looking?

GÖRAN BRONNER: Part of it is coming through in the Retail corporate book, and then with regards to LC&I, the underlying NII is actually improving because we have a little bit of one-off traffic in that NII in the fourth quarter, and also we have a little bit of negative small traffic in there, so the lending book in LC&I is actually developing very nicely.

CHINTAN JOSHI: Could I get that -- what was the headwind in Q4, just to understand how the improvements are progressing?

GÖRAN BRONNER: I think in the Q4 it was a bit inflated because with the move of ... the change between business areas, a few clients, and then you got sort of accumulated NII for the year that improved the NII. If you see between third and fourth quarter in LC&I, you have a big jump there. It's bigger than sort of the projected timeline for the improvement.

CHINTAN JOSHI: Okay, understood. And then on capital, you had now positive migration for a number of quarters. I mean, if I make the assumption that GDP growth is in the 1, 2% range, unemployment will remain stable, should we continue to expect more positive migration?

GÖRAN BRONNER: I think it's difficult to project that in the Swedish operation because the quality and the ratings are quite good as they are, so I wouldn't sort of stick my head out, and we haven't really seen massive downgrades in rating during the crisis either, but I definitely think we are sort of set for a longer journey in terms of positive rating migration in the Baltics. Remember that we have almost 100% risk weighting in the Baltics. We are tying up 25 billion of equity there to sustain our operation and that is very procyclical in its element. I think that a true risk would cater for a lot less capital in that operation, really.

CHINTAN JOSHI: Thanks, and finally 40 to 50 billion on the corporate risk weights, any timeline on when we might see that?

MICHAEL WOLF: No. I mean, the quality of the report to the FSA was perceived to be good and now their normal iteration starts and they are in control of the timeline, so we're going to do our best to serve their questions as they now look at the test results that we're going to run with them during the next period of time.

CHINTAN JOSHI: Any ballpark range, like 6 months to 18 months even? What's the industry experience like for them to get through this stuff?

MICHAEL WOLF: I mean, we have seen quite lengthy processes in the past, but my feeling was that the quality of our application was about standard and that should help timewise, hopefully, but it's in their hands. Maybe Göran wants to say something.

GÖRAN BRONNER: No. I mean, in the end it's very difficult for us, since it's not in our hands, so we can just say that we think we have a good application and we hope to get it processed.

CHINDAN JOSHI: Thank you.

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

SOFIE PETERSEN: Yeah, hi. It's Sofie Petersen from JP Morgan. Two very quick questions. First of all, you still had some Baltic recoveries. I think they were around SEK 70 million. How should we view the Baltic losses going forward? When will the recoveries disappear?

And then my second question is around your internet banking. With everything moving more online, are you concerned that it will become even more price-competitive in Sweden in terms of mortgages, as it will be easier for the customers to compare prices among the different banks? Thank you.

MICHAEL WOLF: If I start with the last one, then Håkan takes your first question. Yes, competition will increase, but we will be able to mitigate some of that - and hopefully most of that - by the costs to serve coming down, straight-through processing becoming more comme-il-faut, and I do feel that we have a very strong position in the digital environment and that the acceptance levels among our unique customer base is very strong through the new technology. So, so far, so good.

SOFIE PETERSEN: You're not then concerned that some of these customers are quite price sensitive? In your view, the customers, they are more aligned to your mobile banking or your products that you offer online?

MICHAEL WOLF: I mean, if you ask a customer why they change bank, the least offensive answer is to say price, because then they don't have to make anyone embarrassed, so price has a tendency to become slightly overrated as cause. I think the whole experience matters, where price is one important component. But fundamentally we want to drive digital revolution, because cost to serve will come down and therefore we can also provide some of that benefit to the customer. So I guess that's part of the game, to become more and more efficient and by that becoming more and more competitive, so in our book, with our enormous customer base, we ought to have a competitive advantage here. I don't see us being victims of this trend, rather benefactors.

HÅKAN BERG: On Baltic banking assets quality, we guided last quarter that we feel we still have good asset quality, but naturally the recoveries will gradually come down going forward, and that is what we're seeing this year, so continue good quality with recoveries but slower pace compared to last year. The major driver that impacts the levels is the real estate prices in the three countries, since most of the workout portfolio remaining is real estate based.

SOFIE PETERSEN: How should we view normalised losses for Swedbank going forward?

HÅKAN BERG: That's a very good question. We haven't really commented on where we expect the exact levels to be. What we have communicated is we do see that we have very low levels in Sweden. We don't see any signs of changing trends in the Swedish environment currently and for yet some time to come. I think we're conservatively provided for in Baltic banking, meaning that we will have recoveries, but at the slower pace.

SOFIE PETERSEN: That's it. Thank you very much.

OPERATOR: Our next question comes from Mr Carlo Di Grandi from HSBC. Please go ahead.

CARLO DI GRANDI: Yes, good morning. Before, you just spoke about repricing in the corporate segment, so I was wondering if you do plan to extend this repricing not just to the loan base, but also to whatever these fees and commissions. What I notice is that the growth is probably not so strong and probably there could well be the possibility to reprice to some extent in order to reinforce the revenue line going forward, unless I'm missing something there. Thank you very much.

MICHAEL WOLF: There is no specific plans to reprice the fee structure as we talk, but, I mean, what we want to do is extend the business scope with our existing client base, because at the end of the day, our market share in the SME segment is slightly higher on the lending side compared to ancillary business, so the potential rather sits with us becoming -- or having a deeper and broader business exchange with this customer base.

CARLO DI GRANDI: Thank you.

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

NICK DAVEY: Yes, good morning again, everyone. Just a couple of quick follow-up questions, if I can. First, can I just invite you, please, to make a comment on the dividend for this year? If you could just, please, very quickly clarify for us exactly on what net profit number you'll be at least proposing the 75% payout. We understand there's some negative numbers coming through discontinued in Q2. Should we view it as a payout on continued operations or on continued plus the discontinued underlying numbers from Q1, Q2? Please, just some clarification there.

And then a second follow-up question, I don't know if there's anything more you could say on the risk-weighted asset number, because there's 40 to 50 billion of mitigation as a guidance level has been, I think, outstanding for a few quarters. My understanding was that this was an overall RWA reduction target that you had. It now seems to me that it's just the IRB A approval, what that's worth. So any comments you could make on the overall trajectory of your risk-weighted assets, IRB A and other mitigations would be helpful. Thank you.

GÖRAN BRONNER: On the dividend there, I think you should take the part of the thing that will go over the P&L statement through other comprehensive income will not affect the dividend, but the 390 million that you see as a loss in this quarter will affect the dividend.

NICK DAVEY: And the 1.9 in Q2 will not?

GÖRAN BRONNER: Yes, it will not, exactly. That's the working assumption. On risk-weighted assets, there I don't think we have so much more to say, other than that we are constantly working and making the bank more capital efficient, and I can agree that we sounded like parrots in 40 to 50 billion for quite some time, but that's also been a journey where we've been gradually more successful than what we've been able to think in the beginning as we explore more things to do, so to say. So we still have the IRB Advanced, then of course it's becoming more and more difficult to be more -- the longer period. It goes in the other type of activities that we are doing.

NICK DAVEY: Okay. But for now, 40 to 50 billion, that's just the IRB A approval in isolation and everything else we --

GÖRAN BRONNER: Or call it including other things else, but the magnitude of those will be smaller.

NICK DAVEY: Okay, understood. Thank you.

OPERATOR: There are no further questions on the telephone.

MICHAEL WOLF: Then I'll take the opportunity to thank everyone for a very active Q&A session and look forward to seeing you soon. Thanks.