Event:	Swedbank Year-end Report 2012
Date:	30 January 2013
Speakers:	Michael Wolf Göran Bronner
Call Duration:	0:56:11

Wednesday, 30 January 2013

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

MICHAEL WOLF: Thank you and thank you for making this call. Of course we're very proud with the year 2012 from a financial point of view. We have worked extremely hard to reach a profitability that not only makes us resistant to a worsening economy but also allows us to invest in the future and more specifically in service and accessibility and advisory capacity in the front line. The entire organisation has delivered throughout on the cost side and this has enabled us to adjust to the new regulatory environment and I think that is a very important achievement through the year. We have also, despite uncertain economic environment, increased our revenues and done good on re-pricing even if we believe there is more to be done on the SME sector and corporate sector in general in Sweden. LC&I performs steadily and has increased customer content in their business and if you look at the Baltic banking they have had a tougher environment due to lower interest rates but will have to continue to focus on costs going forward. The work to reduce the risk level in the bank continued and should have positive benefits going forward and the stellar performances also allowed us to allocate SEK750 million to the profit sharing system Eken in the bank which will give a Swedish employee in average 1.25 monthly salaries and the Baltic employees 2.5 monthly salaries in average. So, overall, I feel that we are very well positioned for the future and that has also enabled the board to increase the dividend policy from 50% of net profit to 75% and they have recommended the AGM to agree to a dividend of SEK9.90 per share and I see this as a sign of strength in these times. Despite this increase in the dividend policy we continued to build our core tier one capital base in the quarter from 17.3 in Q3 to 17.4 in Q4 and we will continue to build capital although in a slower pace going forward. So I feel that we have a strong competitive position, we can be with our customers going forward, we're investing in the front line and after Goran has gone through the financial side we'll talk slightly more about 2013. So please, Goran.

GORAN: Thank you, Michael. Putting more numbers on what Michael was saying there starting with our retail division. We continue to have a very stable income generation there. We have seen, of course, pressure on the deposit margins as STIBOR is coming down but we've been able to mitigate almost the full impact of that through continued re-pricing to the new regulatory regime really. Positive in the quarter as well is that we have seen a little bit higher sales activity in Robur and also higher provision or commissions relating to asset management in general and the asset quality continues to be very solid and Håkan will come back to that later on.

The division that we are seeing the most progress, I think, over the last number of quarters I think is LC&I. I think it's good to see that they continue to build client driven part of the income both through what they do from a trading point of view and the effects in debt capital market and so forth but also in their loan book. We are continuing to expand the margins and the risk adjusted result looks very solid. Activity has in general been a bit higher here in the fourth quarter, as you know, as the risk appetite has increased in the financial market which has been good. We continue though to sort of not reaching the return target we want out of our equity and investment banking business. Partly, of course, that is a structure phenomenon but also cyclical and we are continuing to work with that. Credit impairment wise we have had one larger credit impairment of 110 million in this quarter but the return numbers are positively developing and the cost control is really lowering the breakeven level so I think in general we have increased the customer share and decreased the breakeven level so we are in a very well placed position for that market environment if that would materialise.

Turning to Baltics. We are at the bottom of the credit expansion or the credit development in this cycle where we have said that during 2013 we expect credit growth to resume. We think that is still valid but, of course, their NII has been negatively impacted by the decline in deposit margins. In this quarter we have also had one-off effect charge in Lithuania relating to a penalty fee. Seasonally, the quarter has been a bit higher on cost. On the other hand we have had a little bit higher recoveries in the quarter than we have had during the prior quarters. But all in all I think we are meeting a rather slow environment that we need to think about how we can mitigate on productivity and the efficiency measures going forward really.

Summarising this on group level and adding on the treasury effect and the tax position of course the very good quarterly increase result is driven by one-off effects. We have a SEK300 million one-off effect in treasury relating to a buy-out of a Tier 2 instrument. We also have a pure reclassification of income between net gains and losses in NII in treasury where the NII has increased by 78 million and we have seen almost the equivalent decrease in net gains and losses. That sort of inflates the numbers a bit in NII terms in treasury it's important to remember. And then we have, of course, the tax gain that is booked in the fourth quarter. Overall though I think it's quite good to see that even though we have a headwind on deposit margins both in the Baltics and the retail primarily we are able to mitigate that through re-pricing on the lending book so the quarterly change on the underlying NII development is stable which is good considering the declining interest rates.

Cost is seasonally higher in the fourth quarter. It's very much bang on what we expected it to be so it's not an uptick of any structure that you see in the quarter and of course we are extremely happy with being able to deliver almost 1.5 billion in cost savings during the year at 8%. That has enabled us really to lift the profitability to the levels that we are aiming for.

Turning a little bit to next year and the thinking around the resource allocation within the bank. The cost picture I think overall we are saying that the cost for 2013 will be equivalent to the costs in 2012 more or less. It will not be higher, if anything it can err on the lower side but that will, of course, depend on the macro economic development as well going forward and what we will see coming ahead. Within that cost there is of course a lot of traffic or changes between areas and what Michael is pointing to is that we do have investments that we want to do in order to sharpen our product offering both in terms of number of people actually in our regions meeting clients physically so we are employing people there. And we will also look to invest in our digital channels being an iPhone, iBank or internet banking office to make the using of it more friendly and more automated so it becomes more of a straight through processing. That we will put more resources in and hopefully we will bond more with the client by offering them more in terms of services and product deliverance. The money we intend to invest in this part we need to finance somehow and that will be financed through reducing our presence in Russia and Ukraine. We will continue to do that and we will continue to run down the Ektornet up that have had its peak year in 2012 and, as you know, we have costs of around SEK600 million in 2012 for Ektornet that we aim to run down next year quite significantly. And then further on we will look for other areas of improvement as well. We have talked about reducing the complexity and the number of products that we give clients and making it more straight through processing. There we aim to see efficiency gains as well. But in essence the exactness on the way we will end up being costs will be more dictated by the macro rather than by the central set target in a realisation of also the more recent realised way of governing the business.

Lastly, a few words about capital. We have previously talked about a capital target of core tier 1 around 13.5-14.5. I think we haven't really gotten anymore regulatory clarity so there are still uncertainty if the Pillar 2 on risk weight will be core tier 1 demand or total capital demands so in essence we have widened the span for capital target to 13-15%. The point is that we have in an environment where you see rather subdued credit demand and you have a very high profitability you accumulate capital very quickly and looking at the picture here you can see really how Swedbanj have in the last five years almost accumulated SEK40 billion worth of capital in protection to a balance sheet that has become smaller and with that we think we are coming to an end point where there is actually becoming inproductive for all stakeholders to have more capital. So we are already now in a full Basel 3 including the effects of IAS 19 we are at 15.4% in core tier 1 which is above our target and in light of that the board has decided to change the dividend policy and propose a higher dividend to the AGM in order to really slow down the speed of capital accumulation going forward. With that I think I hand over to Håkan for risk.

HÅKAN: Thank you. Looking at our quality the fourth quarter has been a good quarter with lower credit impairments than expected. We have seen some signs of improvements on a European and a global level in the economy but it's too early to say if and when there will be an impact from that in the Swedish environment. We still don't see any impact on impaired loans and credit impairments from the somewhat weaker economy. The increase in credit impairments compared to last quarter in Sweden is mostly due to one large corporate client within LC&I that is no longer in the balance sheet. Thanks to the early and proactive approach we have when problems arise we managed to solve them together with the clients and given the very low levels we have we cannot really expect much lower credit impairments. Looking at the early indicators it's still uncertain if and when we will see whether credit impairments will start to increase in Sweden. The Baltic countries continue to show a positive economic growth though at the slightly lower pace this quarter. This quarter we show the highest net recoveries this year. The main reason is that we, thanks to the recovering economy, managed to end the year concluding a few larger restructurings successfully. We have also done some reallocations of mortgage portfolio provisioning levels between the countries meaning a write back in Estonia and an increase of provisions in Latvia. The work-out portfolio from the crisis in the Baltic countries has decreased rapidly and working out the remaining portfolio will most likely give new opportunities for continued right backs going forward with the current real estate price levels. On the other hand the inflow from impaired loans and credit impairments from the portfolio not stemming from the crisis is currently almost non-existent. In Ukraine we have impairments of 117 million in the quarter. Roughly half is due to creating a collective provision in the SME sector and the other half is due to a correction of provision in levels of a couple of exposures in FRR. The market is still very uncertain and further impairments in 2013 cannot be excluded. However, our net portfolio has decreased to SEK 1.6 billion and we expect impairments in 2013 to be significantly lower compared to 2012. Looking to impaired loans they continued to decrease in this quarter due to reducing the crisis portfolio in the Baltic countries and Ukraine. The impaired loans in the non-crisis portfolio have been stable on very low levels in all our four home markets also in this quarter.

MICHAEL WOLF: Thank you, Håkan. Let's then turn into 2013 and our focus during this year. Critical for us is to remain focused on profitability as it allows us to invest in customer experience, customer service and customer accessibility. The customer satisfaction measures that we have seen lately is plainly too low for us to be satisfied and we want to be a bank that is in the forefront that allows our customers to get easy and usable access to our services. And, therefore, I'm very pleased with the development during 2012 when it comes to our digital channels. In total we have 3.5 million internet bank customers in Sweden and 1.7 million active internet bank customers in the Baltics. We have 1.4 million mobile bank customers in Sweden and some 100,000 active customers in the Baltics. If you look at the number of logins that the Swedish internet bank and mobile customers have done in 2012 the number was a staggering 475 million logins where of 210 million were in the mobile bank so it's a channel that is moving in acceptance level quite significantly. 10% of all private individuals' security transactions were done over the mobile bank in 2012, up from 3% in 2011. All of this enables us to transform the bank and move a larger part of the customer base into the channels including the telephone bank and that part of the bank will also have profitability in customer responsibility for those customers. That in itself enables the branch network to focus on spontaneous meetings with customers but also more relationship driven meetings and we are employing 120 new advisors, both corporate and private advisors, to address tthe affluent and SME segment. If you look at our focus areas in 2012 we said that we need to move ahead in the mid corporate segment of private banking and we have done well there. This year we're going to focus on the affluent and the SME segment. So we feel comfortable that we are investing in the right areas and that we are enhancing our ability to deliver towards the customer base. I'm also very happy with the evolvement of large corporate & institutions. They have increased the client content in their earnings, they have less volatility, they have reduced costs and also there our selective customer strategy is paying off and I feel that our competitive situation there is improving as we move on into 2013. If we look at the Baltics they have a very stable business, they have adjusted nicely to their environment but the environment is still tough and they have to work with the tough space also next year. But if you look at the economical activities and provision income it looks quite good. It's the interest income that is under pressure due to the low Euribor rates. So the focus for 2013 is of course our earnings capacity and the investments into an improved customer experience with Swedbank. So, with that, I hand over for Q&As.

OPERATOR: Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. Our first question comes from Mr Johan Ekblom from Bank of America, please go ahead.

JOHAN EKBLOM: Thank you very much. Just two questions. First, on net interest income you highlight that part of the increase quarter on quarter came from Treasury in this unusually high or not sustainable -- can you just talk about how much of that -- was Q3A a more normal level that we should see going forward and is this a gradual face-out that we should expect? And then maybe related to that just thinking about net interest income trends for 2013 as a whole. You've clearly been successful in asset re-pricing in 2012, I guess the second half of the year saw significantly lower short-term rates. Given the growth assumptions you make do you think you can maintain a positive growth in NII throughout 2013 versus last year? Then just very quickly a second question. I think earlier in 2012 we talked about contingent capital and I think you've alluded that it's a possibility. Do you have any more clarity on that on whether we should expect issuance in 2013 or whether this is a later issue?

GORAN: Okay, three questions. Starting off with the first one I think this quarter in treasury as I mentioned we have sort of a translation effect on 78 million that boosts NII, that you should of course just take away. The second impact is of course that we make extra money in NII in treasury as the interest rates are going down so it becomes a natural hedge towards the deposit margin decline. I think going forward we expect the NII to come down in the region of 100-150 million if you think about STIBOR remaining where it is for the next quarter and then it becomes more difficult to project NII interest going forward because it's so many assumptions on where interest rates are going but there will be a slow -- if you assume everything ceteribus paribus there will be a slow decline with perhaps 50 million more in the coming quarters after Q1. So that is the best guidance I can do at the moment for treasury NII.

The underlying NII, looking at the client driven activity, deposits and lending I think if you assume that interest rates remained where they are I think we are stating two things. We don't expect a lot of volume growth to drive revenue in the planning assumption if it materialises and we are becoming more relevant in the more expansion market it will be a bonus but we do intend to expand NII going forward on re-pricing as we think that re-pricing still has leg to do with during 2013.

The last question I really no further news since the regulatory aspect and the resolution regime is not very clear. Once we have clarity on the resolution regime I think we can start to map in on a more contingent capital. I think we are in a very good position really since we have the most of the best quality of capital so we can really dictate where we want to come in there. I don't know if you want to add anything Jonas?

JONAS: No.

JOHAN EKBLOM: Perfect. Thank you very much.

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

NICK DAVEY: Yes, good morning, everyone. Nick Davey from UBS. A couple of questions please from my side. The first on capital please. In your ICAAP you hit a trough quarter one ratio of 10.9% and were adjusting for Basel 3 and I just wanted to get your thoughts really clearly from a solvency perspective that's a very, very resilient place to be and, as you point out in the Riksbank, studies and financial stability reports you screen very strongly. But I'm more interested really in your thoughts on the absolute level of capital. What your assessment is really about the regulatory response were you to fall through at 12% core tier 1 in the stress scenario. What sort of interference you're banking on and therefore how comfortable you are to continue in a position where in a stress situation you might fall below this regulatory 12% minimum? Second please, if you could just give us an update on your RWA efficiency measures? I noticed in the appendix of your slides you're still talking around the corporate book and various areas of the large corporate business where you think you've got more RWA efficiency ahead. If you could spell a few more details about that for 2013. Thank you.

MICHAEL WOLF: Hi Nick. The first question it's a difficult one because it's so unclear what's going to happen under 12 etc, etc. At the end of the day if you look at the risk reduction in the bank that also continued this year it should most definitely be lower in an ICAAP that is not as stressed next time around as it was last time around. But we will have to do that exercise and it should be done by mid-year and then we'll communicate around it but that's not an unlikely scenario to have unless we get the detrimental downturn in the economy that changes all the prerequisites that we're working with. But with the knowledge we have today that's a likely outcome.

The big debate around capital regime is whether Pillar 2 will be total capital or core tier one capital. If you look at the legislator they're pretty clear that CRD IV is stating that Pillar 2 issues should go against total capital and not core capital whereas if you look at the SFSA's paper they're more eluding that it would go to core tier 1 and that's why we're arranging the 13 to 15 Then the next big question is what happens if you go below 12? There are some signals that the measures might be softer than we earlier anticipated but it's not very clear yet so we will have to come back in due time and be more clear on our measure, our reading of the final wordings of the new regulation. I can't really give you more guidance than that.

JONAS: Nick, it's Jonas here. I think it's worth mentioning as well that the actual scenario impact from the ICAAP last year was 165 basis points on the core tier one so to take the starting point where we are today and we'd actually bottom out the ground 14 full BAEL 3 ratio. Quite a lot has happened in the last year.

GORAN: But the important thing is that what we're saying is that regulatory uncertainty has actually increased to some degree but has the middle point gone up or down? And I think we are guiding for roughly the same middle point as previously but if you ask me on the margin the tendency of course for it to come down somewhat I would say in general from a regulatory aspect.

On RWA in the quarter -- Håkan can fill in on this -- we have filed for the IRB advanced and that is of course very good that we continue to have that in front of us and we do expect further LGD and PD impact out of that process. You can compare to some of our peers in there but we are also waiting for -- we need to agree with the finance inspection on that.

HÅKAN: Yes, we guided that total impact of the project including IRB advanced would be in the range of 40-50 billion in Q2 reporting and we stayed on that level despite some positive effects in Q3 and now that we have finalised the work and sent in the application and been able to fine tune the calculation we conclude that we continue to stay within the 40-50 billion guidance on the remaining work where there are still some work to do outside IRB advanced but of course the major impact will come from when we get approval on the IRB advanced.

NICK DAVEY: Okay, so further 40-50 billion from here and any time horizon on that process?

HÅKAN: Unfortunately, it's the FSA who is now running the process and the regulatory requirement is to have an approval within six months before, sorry, after the application is fully received but since they are deciding when the application is fully received it's still difficult to say so we will have to wait until we get further clarity from FSA on that.

NICK DAVIE: Okay, that's very clear. So, broadly speaking, you'd be able to offset future above of BASEL 3 and IAS 19 from those RWA measures?

GÖRAN: Yeah, we will come back on that issue going forward. I think what we're stating now is IRB advanced is a bonus on top that we can utilise. It's important for us of course not to differ significantly from clients because then we lose the transactions if we price for credit risks significantly different because we have different models on same clients. But it will be a bonus for us going forward from a capital perspective.

NICK DAVEY: That's clear. Thanks again for the helpful answers.

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

ANDREAS HÅKANSSON: Yes, hi. I had a question on your profitability targets. You have the target of a 15% return on equity and for 2012 you're now at 16.7. We hear one of your peers said this morning that they're going to arrange a 15% return on equity with a normalised interest rate environment. When will you give us an update on where you are compared to your target but also could you give us a flavour if you would have a normalised interest rate environment how much would that impact your profitability? Thanks.

MICHAEL WOLF: Thanks for that question. If you look at the 16.7 that was the fourth quarter return on equity. If you take away the tax effect, it's around 15% so, yes, in the quarter we meet the target. On the yearly basis we are 14.4 and we want it to be over 15 at any given environment, that's our ambition.

ANDREAS HÅKANSSON: And can you give us an update and what would 100 bp in short rate dp to your net interest income? We can do the numbers ourselves.

HÅKAN: I think we have that in the fact book very understated the sort of interest rates sensitivity in the range of of 1.5-2 billion second to every hundred basis points in there. But I think it's like guiding -- if we make two more billion in income how much would your target be then. So the environment is what it is, the here and now.

ANDREAS HÅKANSSON: I agree. Thanks.

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

JACOB KRUSE: Hi, it's Jacob from Autonomous. Just two questions. Firstly, on the mortgage margins there was some announcement from SEB that they were cutting mortgage pricing for a big chunk of Swedish clients and I just wanted to see if you are responding or if you're seeing anything in the market or your market shares on the front book from those initiatives? And, secondly, on the dividend payment and the pay-out ratio policy have you received any kind of feedback from politicians or regulators on this target and were they informed prior to you raising your pay-out ratio? Thank you.

MICHAEL WOLF: Any changes in the mortgage market take three to four months to come through in the numbers so I couldn't comment on that but if you look at our margins they have been stable throughout 2012 when it comes to new lending. Of course fixing periods that has fall due, have been raised to the new margin level that was established during 2012. If you look at our contacts with the regulator of course we meet them frequently and we talk about our performance, our risk levels and our capital targets so that has been part of the normal business conduct with them and no specific feedback from that.

JACOB KRUSE: But they were aware of the 75% pay-out ratio prior to you setting it?

MICHAEL WOLF: Yes.

JACOB KRUSE: Okay, thank you.

OPERATOR: Our next question comes from Mr Omar Keenan from Nomura, please go ahead.

OMAR KEENAN: Hi, good morning. Thanks very much for taking the questions. My first question is on costs. Firstly, just looking at your outlook, the language seems to be that you're looking to keep costs flat, total costs flat, year on year whereas before I think the focus was on excluding variable compensation and the savings bank's fee so I was just wondering if that's a purposeful change in language and whether you could add any more colour on that? And then, secondly, just a quick question on the Baltics. I would have assumed that the fourth quarter would have been the trough for Baltic NII instead of the third quarter so I was just wondering how you see things there playing out the rest of the year? Perhaps it's a little bit early to expect volume outlook coming back but with deposit margins at the floor and more coming through in terms of asset margins and volumes potentially picking up in perhaps 12 months' time then should we get more -- I guess what's your NII outlook for that division? Thanks.

GÖRAN: Starting with the Baltic I think, yes, we are at the trough. The question is how long will we be at the trough and what will be once things grow a little bit faster how big speed will we see and I think we're quite uncertain of that given the macro outlook in general. I think the message today is, yeah, even if we think we are at the trough and things will improve we might have some more efficiency work to do anyhow. That is the communication. So that's the Baltic. If we talk more on the costs in general I think we're trying to say a couple of things. One is we reduce cost with 8% last year even though we actually set aside more money on variable pay to underlying 8 and more and that is quite an achievement. We need to stabilise the whole work process and so forth and it's quite uncertain macro environment we're living in, we don't know if we need to do more on costs if the macro turns out much worse than expected so we leave that question a bit open. At the moment we feel sort of the profitability that we have returned towards now and the cost level we have now we're very happy with. Within that number there's a lot of traffic. Of course our cost reducing activities that Micke was talking about that we need to do in terms of Ektornet, in terms of the product complexity and rationalisation and so forth but there are also a lot of things we want to invest in in order to sell more products to more clients within the existing home markets. So we want to sharpen up our product offering and we need to learn the organisation not to compete on price instinctively but to compete on service level, loyalty and also having a superior product and that we're wanting to put money behind.

OMAR KEENAN: Okay, that's great, thank you very much.

OPERATOR: Our next question comes from Mr Richardo Rovere from Mediobanca, please go ahead.

RICHARDO ROVERE: Good morning to everybody. Just one question. When you depict your scenarios on pay-out returns and so on what kind of level of rate do you have in mind for the next let's say the foreseeable future? And then another question, I just wanted to better understand our previous clarification on the impact of advanced on corporate. Is the 40-50 billion you were talking about just related to that? I'm not sure I got it completely. Thank you.

MICHAEL WOLF: If we look at the pay-out ratio this is the pay-out ratio for the foreseeable future as we deem credit demand to be low and despite this pay-out ratio we can, with unchanged effects on IRB advanced etc, etc, not counting them in grow or credit book with 4% and, as you know, we still have some positives from the IRB advanced so we are in the position where we have a very robust balance sheet and the capacity to support our customer base but we don't see that level of credit demand right now. So I feel comfortable with this pay-out ratio and I don't think we'll revisit it in the near future.

HÅKAN: And on the 40-50 billion it is -- as risk weight assets decrease -- it's a combination of a number of smaller projects that we are running where we have seen some positive effects during 2012 and they will continue in 2013. But the major impact is when we're getting approval of the IRB advanced application.

RICHARDO ROVERE: Okay, thank you. And just to be clear, on the level of rate that you have in mind for the foreseeable future, the level of short-term rates, I'm not sure --

MICHAEL WOLF: Okay, sorry, we're planning for low interest rate environment for the foreseeable future.

RICHARDO ROVERE: It's basically the current ones?

MICHAEL WOLF: Yeah.

RICHARDO ROVERE: Okay, thank you very much.

OPERATOR: Our next question comes from Mr Jan Wolter from Deutschebank, please go ahead.

JAN WOLTER: Yes, good morning, Jan Wolter here, Deutschebank. Two quick questions. First, how important is it to you to maintain the nominal dividend level? So let's assume that profits fall by 10% or something this year or next year, will the dividend fall with that similar amount? That's the first question. The second is how important is it for you to get back to 25-30% market share in new mortgages or don't you think in that way at all nowadays? Thank you.

MICHAEL WOLF: Okay, I'll take the second question and Goran will take the first one. Over time of course we want to be a large player in the Swedish mortgage market but we also want to have a responsible lending policy and as long as we don't see an increase in new production of apartments and housing in Sweden we feel that it's not the best of business decisions to lend more money to existing housing. It's rather we want to inspire politicians to deregulate and build more housing so we need that in the big cities. And we will come back on mortgage, I'm quite convinced on that. Step by step but I think we have had a prudent way of looking at it up until now and of course over the years it will be slightly more important to look at volume and market share than just risk. But mind you we have four vintages of low participation in the market that has increased debt levels in Sweden so I'm very comfortable with our strategy and our tactics and time will be our friend on this one. You can't have this sort of abnormal moment in market share for the longer haul. Things will revert to mean over time.

GORAN: Just adding on that, Michael, I think it's of the new origination that we are doing we have significantly better LTV quality. So that's very good to see. On the dividend the nominal amount is of course completely uninteresting in this aspect. We model income generation capacity against our capital position going forward and I think important there to state here is of course since we are raising the dividend policy quite a bit is that we want to achieve. Of course we think our business model and asset quality we want to achieve a position where we have the lowest funding cost. We cannot obtain that position if we don't got an extremely good capital position. So that is the overall objective from a funding capital position to be able to fund yourselves cheaply, be the most relevant player in the market, then you can choose your clients to a higher degree. It would take years for us to come to that position but let us one step at a time and that has of course been an aspect in not having a too aggressive capital quality repatriation or dividend policy. But we think we are on very, very safe grounds on this aspect.

JAN WOLTER: Thanks. Just to be clear what I'm asking is really if your nominal dividend level right now proposed SEK9.90 that could be 10% lower if profits fall 10% year on year so you're not strict on keeping the nominal dividend level, that is not important to you in your policy?

GORAN: Absolutely. You are correct there. The important thing is to continue to strive for what I just said.

JAN WOLTER: Okay, thank you.

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

SOFIE PETERZENS: Yes, hi. It's Sofie Peterzens from JP Morgan. I was wondering if you could just talk a little bit about your funding costs and how you see them develop over the next year or so and also how much of there got a little bit more expensive did as an eight, a nine, funding you still have on your book? Then I was wondering if you could maybe also talk a little bit about your mobile customers that bank with your iPhone and iPad applications, how much -- what's the difference in revenues for a mobile phone banking customer compared to a traditional branch customer? Thank you.

GORAN: If I start with the funding costs. If you look at the fact book you'll find the mix between senior and covered. On the senior side we currently have an average back book cost around 155, 160 basis points over STIBOR. On the covered side it's roughly eight basis points over back book, sorry, over STIBOR on the back book. If you look at new origination if we were to do a five-year deal today on the covered side we would print that at between 35 and 40 perhaps mixed between Swedish and Euros and if we look at the senior side it's 50, 60 basis points higher than that. So we're clearly replacing extensive funding with cheaper funding and the question obviously is -- in our internal pricing system we let that flow straight out to the business -- and so the question is to what extent this will benefit Swedbank AB and shareholders or whether that will benefit clients and that's another question. On the isolated funding costs that's how it looks today.

MICHAEL WOLF: Good, thanks. If we look at the iPad bank, the mobile bank, the internet bank and also the telephone bank what we see is that customers use that because it's convenient, it's easy access, they have control over their economy because it's real time and they transact not only payments but also security transactions quite easily over those new devices. I believe that those devices will not only benefit the many customers that only have a transaction relationship with us but also the more affluent customers show that those channels are an important tool for managing their financial statements and financial transactions. The key here is to make these channels a proper tempor so that they feed this customer base and feel that they have full responsibility for their earnings over time and that would then enable the branch network to spend more time on customers that you need to have a deeper relationship with in order to understand the risk and help them expand their business and that's the sort of driver of the reorganisation but it's also supported by the actual behaviour of our customer base.

SOFIE PETERZENS: Okay, thank you very much.

OPERATOR: A reminder that if you'd like to ask a question to the speakers please press 01 on your telephone keypad. We have a question from Mr Shintan Joshi from Nomura, please go ahead.

SHINTAN JOSHI: Hi, good morning. Can I explore a little bit more of where asset margins could increase into in 2013? And, secondly, I notice you mentioned the spreads in the wholesale market are quite attractive at the moment, how are you thinking about pre-funding aggressively in Q1 and Q2? Thank you.

GORAN: Hi, Shintan, Goran here. The first question and then Jonas can elaborate on the second. Asset margins -- of course it's always difficult to know where the new sales margins ends up because it depends on what peers and competitors are doing as well. But I think we have certain areas within the bank that has been better and certain areas that has not been as successful in re-pricing so we do think there are still activity on-going in terms of re-pricing and then there is of course maturity ladder where you cannot re-price until things mature and my feeling that is in general the banking system is sort of restoring back its profitability so I think the general competitive environment everyone is focusing on these issues and that will continue to support our activities in that and we clearly are pointing towards areas where we feel we see underperformance to start to come into more performance alike. We are not going to quantify this. We just highlight that we continue to emphasise on that being an important business driver.

SHINTAN JOSHI: So that should be on mortgages and corporate side so the scope on both sides do generally have some improvement?

GORAN: I think in general I think the re-price -- mortgage renew sales margin have been generally very stable this year and I do think and I think Micke this many times that the re-pricing is much more centrally driven there from banks while the corporate exposure which actually consumes 75% of the capital is the more lengthy process. So in general we are looking for the corporate ones to contribute more going forward than the mortgage side, that's fair to say I think.

SHINTAN JOSHI: Okay.

JONAS ERIKSSON: On the pre-funding question I think we have in previous years had a feel towards the first half of the year in our annual funding plan. We have a little bit of that this year but not at all as much as we've had in the past. I think we feel quite a lot more comfortable with both our position and the market situation now when we plan our funding than we did only a year ago. But it will actually be a little bit more of a coincidence also when we update programs and come to the market in that respect so I think you're still right but it's not because we are very concerned about the future, that's not the reason for the pre-funding really. It's more that it happens to be that we update in both our US programs and we're also looking at the Euro market.

SHINTAN JOSHI: Okay, thank you. If I may ask one more. The cost income ratio for the group is around 46%. In the past you've indicated trying to trend towards a Handelsbanken to have a lower cost income ratio but the cost guidance doesn't imply that. Things should be more revenue driven from here on. I just wanted to think about longer term thoughts, not just 2013 but if you take a three-year view what are the opportunities that you may have since your inability to stop investment programs because you can't let infrastructure grow old? Thank you.

MICHAEL WOLF: Okay, on the cost income ratio I think our view is that cost efficiency will be a factor in the competitiveness and we should have the most cost efficient bank and our customer base is very apt to use digital channels and new technology which will help us transform the branch network over time. We have a product complexity that we want to address so, for us, competitive cost base will be extremely important to maintain and develop.

GÖRAN: I think we have said it's quite difficult to steer on an absolute level along that because it's so much macro in it and therefore we sort of tried to get the feeling in the organisation why shouldn't we be able with such a broad base of clients -- that should cost per client or transactions would be very low -- why shouldn't we aim for the number one position there over time? So that ambition still remains even if we now talk about flat costs it's not a contradiction. Then I think if you look beneath the flat cost measurement of course we are reducing costs in Russia, Ukraine, Ektornet which is a drag on the P&L and we want to input costs that produces revenue so it's about improving the big step all things that we actually think are sustainable and increase the return and the EPS growth over time. In Russia, Ukraine and Ektornet is clearly just the cost burden for us that legacy that we want to sort of wrap up if at all a possible way.

MICHAEL WOLF: And it's the cost income track.

CHINTAN JOSHI: Thank you, have a good day.

MICHAEL WOLF: Thank you.

NASDAQ OMX

OPERATOR: Our next question comes from Ms Clair Kane from RBC, please go ahead.

CLAIR KANE: Hi there it's Clair Kane from RBC. Just another follow-up on the long-term pay-out ratio. I guess you're at 15.4 now and that includes, as far as I know, the 40-50 billion RWA mitigation which you expect for the second half of this year. If, by the end of the year, you've got that approval, you're kind of around the 16%, now what stage do you start to bring in buy-back programs to get down within your target range? And then my second question please is the re-pricing of the SME market, you've spoken for some time about the need for that to move forward and the reluctance of yourselves and other peers to lose market share in the near term. What catalyst do you think is going to drive that now given most of your peer group are where they need to be really on capital, so capital is not really driving it? Do you think there will be now a further renewed focus on profitability on that sector? Thank you.

MICHAEL WOLF: Thanks for those two questions. If I start with the capital. We want to be a bank that has robust buffers for whatever scenarios might play out so that is a consequence of risk reduction activity and other things. Then it's also important not to be over capitalised so that balance act is going to be judged at any given time and we want to be on the safe side but also not see to that we are over capitalised. So I can't guide you more than that because there is so many uncertainties so we'll revisit the question once a year and of course once we have regulatory clarity we will also address that from that point of view.

GORAN: On the RWA thing there in the 15.4 we have not included the 40-50 billion on reduction relating to modelling and so forth, that is on top. Having said that of course there is an on-going discussion about leverage ratio, risk weight scores and so forth that we would need to be monitored but from our point of view, of course, it's good to know we are on the high end on corporate risk weightings because we haven't introduced IRB advanced but let's also think about how the regulatory aspects will play out on that particular point going forward and if you compare us with certain peers you can see that if you think that credit qualities almost sort on the same things because we operate in the same market there are huge capital differences relating to the modellings in there still to come but we don't really know how the regulatory aspects will play out and correctly so. The one on SME --

MICHAEL WOLF: Re-pricing on SME. It's not a negative that Nordea raises their capital targets to 15%. So it shows that there is some re-pricing to meet the new capital regulations in the marketplace and it has taken place in the mortgage area, it has taken place in the large corporate area and it has been slower in the SME sector but it's a competitive environment out there and it's a business that many banks want to have on their books so you have to say that you have an ambition and you have to work diligently on it. At the end of the day it's critical for banks to price risk correctly to get the sound and sustainable economy so that's our advantage point on this one.

CLAIR KANE: Thank you.

OPERATOR: Our next question comes from Mr Richardo Rovere from Mediobanca, please go ahead.

RICHARDO ROVERE: Yes, thank you for taking my further question. Just a kind of general one. Before setting a guidance of 75% pay-out ratio which is clearly a very high one and don't get me wrong, we like it, have you ever thought about another different way to use the huge capital that you generate quarter after quarter?

MICHAEL WOLF: We are very happy with our four home markets and our position there and we think that we can exploit that further. There are market segments and geographical segments that we want expand in. It's a low risk strategy, it's showing good returns as we speak and that's where our focus is and there's so much more to be done in our existing home markets so management will do its outmost to take the benefits from the positional strength that we have put ourselves in.

RICHARDO ROVERE: Clear, very clear. Thank you very much.

OPERATOR: There are no further questions. Please go ahead Mr Michael Wolf.

MICHAEL WOLF: Once again thank you for attending and thanks for asking so many good questions. Thank you and look forward to meeting you at the next quarterly results presentation.