Arkadin Managed Calls

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Speakers: Michael Wolf (President and CEO)

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OPERATOR: Gentlemen, welcome to the Swedbank full year report 2014. Today I am pleased to present Mr Michael Wolf, president and CEO. For the first part of this call, participants will be in listen only mode, and afterwards a question and answer session. Mr Michael Wolf, please begin.

MICHAEL WOLF: Good morning and thanks for attending this call. Despite the uncertainty in the global macro, our four home markets stand out to like countries that are performing extremely well in this environment. Very much thanks to strong domestic consumption and in Sweden, a strong property sector on the back of a quite significant urbanisation trend.

During the quarter, the picture of our competitiveness continues to confirm itself. We see a high client activity in the Swedish business, both in the private and the corporate side. We are benefiting from the economy which is growing in the property sector in areas where we have strong competence like the savings and payments and cards area.

Our market share on mortgages are back on back book market share levels, i.e. 25 to 26 per cent. We are taking market share on corporate lending, mainly in the property sector. And in the savings area, we see decent inflow of deposits and in the asset management area, our market share including sales of external funds reached 22 per cent, so we're very pleased with that.

If you look at our competitiveness, I think it's built on three cornerstones. Good cost control, low risk balance sheet giving us a strong funding position and thirdly our investments into the digital area are also benefitting our position. If we look at the digital area, we see an extremely strong development both in Sweden and the Baltics. If we look at Sweden, we have today 3.7 million internet bank clients and 2 million mobile bank clients.

In Sweden there are 2 million users of Swish, whereof 40 per cent of those clients are Swedbank or Saving Bank's clients. We have also invested in the corporate area on digital payments like Babs micro and switch for corporate, which enables smaller businesses to go from cash based sort of transactions to digital transactions.

Of the 10,000 corporate clients that have connected to Swish, 8800 are Swedbank or Saving Bank's customers. As a consequence of the digitalisation in the payments area, we see cash transactions in the branch dropping by 18 per cent during the year and the ATM's, there we see a drop of 8 per cent. On top of that, customer satisfaction is quite significantly higher in the digital area compared to the analogue world. 90 per cent of our digital clients are pleased or very pleased with our services.

Another positive benefit of this is that we free up time in our branch offices for more proactive client meetings and the number of advisory meetings in 2014 increased by 4 per cent. If we look at the business area of large corporates and institutions, also there we continue to benefit from a strong position in the property sector. We led the IP of Entra in Norway and we were also leaders of two preference shares issues by Hemfosa and Akelius during the quarter.

Turning to the capitalisation, we have strong buffers for more difficult times which are confirmed by our own and external stress tests. Our buffer is 190 basis points, versus the minimum requirement from the SFSA. We need that due to continuous uncertainty on the regulatory arena. I.e. we judge our capital position to be strong, but no excess capital due to the uncertainty on the capital side.

If you look at the environment and changes in the environment which we have had extra focus on during 2014 then I would like to mention two areas. Of course, Russia and Ukraine implicit effect on the Baltic economies. Then the oil price fall and its effects on shipping and offshore. But as I can conclude in the quarter, there is no effect on the asset quality side due to these uncertainties so far.

When it comes to the property sector in Sweden, the need for new housing starts in the urban areas is more and more acute and to fix that problem, Sweden needs to make major investment in the infrastructure to create more land plots that are close to these urban centres.

The price development needs to come down and the new capital roles that aim to make mortgages more expensive everything else equal, is not enough as a measure. Finally, I am pleased to announce that the board will propose a dividend of SEK11.35 at the AGM. With that, I hand over to Göran.

GÖRAN BRONNER: Thank you Michael. First of all I would like to say that I am very pleased with the results in this quarter. I think it confirms in numbers really very much the hard work that we are doing in becoming more relevant with clients. We are seeing better volumes. We have also worked very hard internally with re-pricing the larger capital base that the bank has continued to grow as a result of regulation and that is also being done nicely I think in the bank.

And it's a bit of a contradiction in hiking prices for clients and at the same time being relevant and wanting them to choose you. But I think we are managing that balancing act very well. On top of that I think we have been setting out an ambitious plan on the cost side. And I think this quarter proves and also we feel good about that going forward, our ability to deliver on that cost plan. So, the underlying result is actually very much confirming the road that we are trying to walk.

Moving on to the various business areas and giving you the highlights of the quarter and a little bit of a feeling for what is in store for the future. Starting with the Swedish retail operations. Swedish banking division, we have seen pressure on deposit margins of course, as a result of the low interest rate environment. It has been mitigated by continued re-pricing of mortgage loans. Margins in the quarter have been fairly static, as we are going in the quarter with -- we are ending the quarter with basically the same margins that we started the quarter, but we still have positive effects on NII in the quarter.

We also continue to benefit from the increasing volumes in the business area on NII and we also generate volumes in the quarter, so we have almost SEK20 billion of credit growth, primarily in the mortgage market. Commission income continues to develop very nicely according to growth, both in terms of asset management and also relating to card transactions and payment commission fees. So, basically very happy with that.

Looking at the future, I think we will continue to work with efficiency here, since the retail is, like Michael was alluding to, changed by the digitalisation. And we will also strive for a higher degree of automation in the back end as a result of new IT solutions. It's a long term programme which aims really to improve efficiency over time. We will also continue to strive for higher re-pricing of the capital. The capital cost is still not fully compensated for, we believe, in this business area. And that can also be reflected by the falling return on equity that you can see in the quarter as a result of the capital allocation now being more implemented when we have allocated out capital from Treasury department.

Moving on to Baltic banking, I think stability is the word, which is very nice. In a changing political and economic environment, I think we are very pleased to see that all our stress tests around the Baltics haven't shown up in any asset deterioration. And Anders will come into that further. But also, the economic activity is holding up very well, which is good to see.

Lithuania has joined the EU as of year-end and we did see a spike in deposits gathering in Lithuania as a result of increased trust in the banking system. Other than that, I would say that the business areas continue to be well placed for better economic environment around itself and be well placed for growing at that point in time.

Lastly, coming to Large corporates and institutions. Here, market volatility has been higher in the quarter. We have also seen the widening of credit spreads and more effects from low interest rate environments. Volume has been good; we are up SEK 14 billion in volume in the quarter, primarily relating to real estate transactions and high activity in a very strong real estate market. It's good to see that we can capitalise on that.

The trading results as such, relating to fixed income trading and FX, has been somewhat slower in the quarter. It's been a difficult quarter from that perspective and the third quarter was also a rather slow quarter. While the first half of this year was significantly stronger. But as we all know, there are seasonal and volatility in that area.

And lastly, I just want to point to the fact that the falling oil prices are changing the environment around us. Of course, it will increase the risk in the portfolio and Anders will come more into that. But it will also mean a changed client need. Clients have a higher degree of restoring, repairing balance sheets in the corporate sector and take on less leverage and restructure the part of the balance sheet. So it will be more equity related transactions going forward.

And I think we are in a very good position in our Norwegian business to capitalise on that from a business perspective. And the Anders will come further into the risk part. If I summarise this for the group, we have strong customer activity. We have SEK 38 billions of credit growth, 7 billion of that is from foreign exchange translation, but in summarising actually, a year where the loan book has grown with 110 billion, which is 9 per cent. 8 per cent excluding Öresund and this will be of course good tail wind for us in NII going into the next year.

Margin developments for the group as you know have been mixed. With the deposits margin and the low interest rate environment making it more difficult on that side, while the re-pricing as I mentioned on mortgages primarily, but also on corporate lending are continuing, and we think should continue.

In treasury we've seen a significant weaker result in this quarter compared to the third quarter. It is important to remember then that the third quarter was very strong in NGL and that we have volatility in that line. The reason for this volatility is -- one of the reasons is that we have done significantly more buy-backs of covered bonds in this quarter. That deteriorates NGL. We have also witnessed widening credit spread, that effects our liquidity portfolio and we get the valuation effect in the treasury area.

Cost control in the group, very good. As I said earlier on, we are basically if we exclude the acquisition of Öresund, we are on the same cost levels as we were in 2013. We are very pleased with that. We have had increased FX and a couple of cost drivers that were unexpected. And we've been able to mitigate that.

I am particularly pleased to see that we didn't have any year-end effect in the quarterly numbers and I think we are on plan to deliver on our cost targets going forward.

Lastly, just explaining for you a little bit more in detail, the capital. I think the capital has been effected by REA increasing with the volumes and that has been partly mitigated by a higher degree of collateralisation in our lending volumes that reduce the LGD effect. And also we have modest change in the Baltics, where we have moved to internal model. That has released some REA as well, that mitigates the REA increase that comes from the volumes.

We have also taken a dividend from the insurance companies by the end of the year, in order to be able to calculate that in the capital base. And we have also seen a positive effect on IAS 19, as inflation expectation has dramatically been reduced in the fourth quarter that has effected that calculation quite significantly.

Concluding that, we are at 21.2 CET 1 ratio a very strong and healthy position to be in. As Michael said, we don't see us having an excess capital at this point in time. The growth is actually a little bit stronger than we have previously guided for. We have also still a lot of regulatory risks outstanding that we would like to get further clarification on.

With that, I think I'll hand over to Anders.

ANDERS KARLSSON: Okay, thank you very much Göran. As already mentioned, the continued change in the economic and political environment imposes both business opportunities, but also heightened risks, which I will come back to. However, let me start with summarising the quarter.

Accumulated loan losses, net in 2014 ended up with SEK419 million, which is an equivalent to three basis points loss level, in Q4, we experienced credit losses of SEK254 million, mainly stemming from a number of exposures in Swedish banking and one single exposure in LC&I Baltic banking continued to show reversal, but as previously stated, at a lower pace. There are no underlying signs of deterioration in the portfolio.

Impaired loans continued to decrease in the quarter and now amounts to SEK6.2 billion, which is 47 basis points of loans to the general public. Further, sales have continued in Ektornet although at a slower pace. And the remaining volumes amount to 769 million, mainly in Latvia and only 50 million remains in the Ukraine. In Russia, we see a deterioration in credit quality and we have taken impairments of SEK289 million in the quarter.

The good news are that we only have SEK500 million left in that country. Then turning into some of the focus areas. And let me start off with the shipping offshore and the falling oil prices. The portfolio is largely denominated in US$. It has been stable around US$3.5 to US$4 billion since 2010, so the increase you see in Q4 is related to FX effect.

The fall in oil prices impacts this broad sector a bit differently. 40 per cent of the portfolio is impacted positively or neutrally. 60 per cent, which is mainly oil and offshore business is negatively impacted. However, when we look at the portfolio, we have lent money to companies with strong financials. We have focused on good collateral and conservative loan to values. And there are strong owners that we know well and most of them are listed companies, i.e. they have access to the capital markets.

We have run a number of stress tests on the portfolio. Two of them has been under the assumption of an oil price of US$60 and US$40 respectively over a longer period of time, i.e. it's not a "V" shaped assumption, it's a flat curve for a fairly long time.

The conclusion from those stress tests are that the impact in the short term is limited in terms of defaults and loan losses. But if it continues further down the road, we will obviously see problems in the sector and with that comes increased defaults and loan losses and for the banks being in that market. We are working closely with the customers. We see that the markets believe in a gradual increase in oil prices, but we work under the assumptions that it will stay on a low level for a fairly long time.

Then moving to another area, which is Baltic banking and the impact from Russia, Ukraine and the weaker Russian economy. As both Göran and Michael said, we have seen so far limited impact on our portfolio. If we dig a bit down into the portfolio, we can see that our estimate is that around SEK2.5 billion of exposure to customers that have a direct relationship to Russia.

We have followed those customers closely since this started earlier this year. And we have been working actively with them and they have been working actively. And what we can see is a completely different leverage in the Baltic corporate system compared to the last Russian export crisis in 2008 and 2009. However, if this situation continues or worsens, there will be negative impacts on the Baltic corporates. Thank you.

MICHAEL WOLF: With that, we open up for Q and A's.

OPERATOR: Ladies and gentlemen, if you'd like to ask a question please press 01 on your telephone keypad, that's 01. Our first question comes from Mr Peter Wallin from Handelsbanken, please go ahead.

PETER WALLIN: Thank you and good morning. I would like to start off with a question relating to your very strong capital position, but also the fact that you are reiterating the fact that you are not seeing yourself as having excess capital to date. Should we interpret that as yourselves thinking that having a buffer of around 200 basis points or 90 basis points over the regulatory current requirement is a reasonable buffer also ahead?

MICHAEL WOLF: I mean, before we know whatever will happen on the corporate risk weights, this is broadly what I think is good to have. Mainly due to capital uncertainty. As you know from stress tests and other things, our risk in the balance sheet could carry much less capital. But we have a regulatory environment that we need also to manage. So, with that in mind I think we will have a much more fruitful discussion around the issue of capital at the end of the year when we have more data on the table.

We have also seen a pretty nice credit demand that we have benefitted from during the year, and there will be some credit demand also next year. Which is hard to gauge exactly what level it will be, but we feel that we want to participate. So, I think we have a prudency here that is good in light of the uncertainty.

GÖRAN BRONNER: Göran here, just to add ther, if we've seen two peers one with no buffer and another one with buffer, and I think by the end of the day, you need a buffer even when you have regulatory clarity. So, where it's more likely to be sort of with the buffer, or at least sort of the size that SEB has talked about rather than being buffer free.

PETER WALLIN: Okay great, thank you. And then continuing on that topic, also in terms of; if we assume that we will have a much greater capital requirement clarity at the end of this year, if you at that point in time would conclude that you actually do have some excess capital, I mean how -- what would your expected timeframe be to start adjusting that capital base to the target level?

MICHAEL WOLF: That is a question we would love to take when that situation occurs.

PETER WALLIN: Okay, thank you. And then just a final question on your very strong volume performance, especially on corporate lending. So, how is the competitive environment there, and in terms of margin outlook considering that the underlying market is not growing that strongly and you're clearly gaining share. Is that by being price aggressive or are there any other factors contributing to your success?

MICHAEL WOLF: I think we have become competitive thanks to low funding cost, IRB advanced. Of course, coming into next year, we will try to increase margins and also reflect that we are in a low interest rate environment and we see some quantitative easing coming from the ECB. Look at our origination standards to adjust if necessary. So I mean, we have a positive dilemma here and I do hope that we can increase margins.

PETER WALLIN: Okay great, thank you very much.

OPERATOR: Now, our next question comes from Mr Peter Kessiakoff from Carnegie. Please go ahead.

PETER KESSIAKOFF: Yes, thank you. Hi, Peter Kessiakoff from Carnegie here. Just on the retail division and on the mortgage margins. First of all, as you mentioned the return on equity within retail came down to roughly 20 per cent, after having been above 25 per cent, and you also mentioned that you will most likely focus somewhat more on the margins on the retail side, to re-price further. Do you have any more clarity on how much you would like to re-price and is the ambition to get the retail division back to an ROE of 25 per cent or above? That's my first question.

MICHAEL WOLF: I mean, as you all know, the mortgage market is extremely competitive and I think it will continue to be. But bearing in mind the low interest rate environment and the pressure on deposits, there might hopefully be a push towards higher margins. So we'll see how competitive landscape pans out. But it would in my book be quite natural that we saw some further margin expansion next year.

PETER KESSIAKOFF: And on that I mean, looking in Q4 you've had a market share of new lending that has been inline or slightly above your share of the back book. Does this mean that you have felt that you have been very competitive on pricing and that there is room for you to focus more on the margins and perhaps focus somewhat less on your market share on the new lending? So, assume it goes down to 20 per cent and you instead increase margins, would that be something that you would see as a positive?

MICHAEL WOLF: I mean, we are of course monitoring our market position. But I think the market is where it is and there is no big takers of new volumes to gain market share out there. And then we should trade around our back book market share. And if the market changes, we have to reflect on that situation. But we don't want to be front running in price war at any cost. I mean, margins are too important in this environment to protect.

PETER KESSIAKOFF: All right, and then just a last question on the mortgage side. You have this transparency push that the FSA has come in with and are implementing in March, where you're supposed to show the average mortgage rate that you've offered customers, or given customers the last month. Do you have any comments on how you will tackle this or what effect you think this will have on margins and the mortgage market?

MICHAEL WOLF: I mean, we actually favour transparency, and I do believe that pricing across the risk curve will be more customary going forward than in the past. So I think the long term benefit of transparency is that we get a better diversification of the risk curve on mortgage business.

PETER KESSIAKOFF: Okay, but will this change the way that you act in any way, will you increase transparency further?

MICHAEL WOLF: We will follow the regulation around transparency and hopefully as I said you will see a much more diversified pricing on mortgages on the Swedish market as a consequence.

PETER KESSIAKOFF: Okay. Then, moving on to commission income. Just looking at the Asset Management custody fees in Q4, it was down a quarter of a quarter. Volumes were up, but we know that you had lowered fund fees during the middle of Q4, but also during the last days of December. Is the lowered fund fees the main reason for why asset management and custody fees were down a quarter of a quarter, and what should we expect into Q1 given the lower fund fees that came during the end of December?

GÖRAN BRONNER: Göran here. I think that is correct, that the lowering of the fees are the main reason. The driver of the fund fes is partly the zero rate environment, especially on money market funds etc. But also there is an area of course in a zero return environment for interest rates. There is pressure on margins in general in the asset management industry. I think that will continue to prevail and that is part of our planning as well. So I don't think we for any reason are surprised by this evolution.

PETER KESSIAKOFF: And do you have any comments on what the net effect is into Q1?

GÖRAN BRONNER: No, we don't give guidance on that margin or development. More how we plan and how we see the evolution going forward.

PETER KESSIAKOFF: Okay, I hear you. And then, I guess just the last questions just going over to the treasury. The results there, you had a bigger negative NGL at least compared to what I expected. And you continue to talk about levels of treasury total income in 2015 being around the 2013 level. Where should we expect the main negative there, is it on the NGL or is it on the NII?

MICHAEL WOLF: No, I think we talked about weaker treasury results for a long period of time, and then that has been delayed due to lowering of interest rates. I think it becomes more -- the risk of weaker treasury results becomes higher of course in a zero rate environment. The predominantly effect of that will appear in the NGL item.

PETER KESSIAKOFF: Okay, and I guess just one last question on some clarification. In LC&I, you mentioned that lower funding costs and A-IRB approval had made you more competitive and that you would perhaps focus more on margins going forward. Was that more or less on the real estate sector, or was it the corporate side in a broader basis?

GÖRAN BRONNER: I think it's really -- one effect is re-pricing due to capital just. And the other one is relating to demand. And that you could say the demand is very strong in real estate, so I think there's a good case, as Michael was talking about, balancing your market share against your price. And then you could say in the oil sector it will be higher margins due to higher risk. So, there are slightly different drivers in different segments.

PETER KESSIAKOFF: Okay, thank you very much.

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

MAGNUS ANDERSSON: Yes, good morning. A couple of questions. First of all, a follow up on the treasury related income question that you've been talking about several times before. Just if interest rates stay at the current levels, what do you think the impact would be in 2016 over 2015? I guess positions would continue to roll off so that you would get the negative impact year on year there as well.

GÖRAN BRONNER: 2016 over 2015 will be more difficult to predict, because you have so many other moving parts, it's not just a rule of sort of interest rate risk. But I can say that in 2015 over 2014, we expect the impact to be up to SEK1 billion, depending on what happens in the market.

And then if you assume that nothing else were to occur and you go into 2016, there will be a further negative impact, but to a much lesser extent. But from a planning perspective, it becomes almost irrelevant because there are so many things that will be happening between now and then that will impact both your behaviour and how you steer and so forth.

MAGNUS ANDERSSON: Okay, thank you. And secondly, could you quantify the impact of the buyback to covered bonds, the SEK 16 billion you made in the quarter and also the valuation effect from the widening of the credit spreads?

GÖRAN BRONNER: We never do that Magnus, because in the end, the more detailed sort of quantification we do, we try to guide more on a broader spectrum for you because there are so many moving parts it becomes impossible for us, so we don't do that.

MAGNUS ANDERSSON: Okay, and then on the re-pricing, you clearly are talking about that you would like to see higher margins in the retail segment. Just what are the areas you find to be most mispriced considering the capital requirements today?

GÖRAN BRONNER: I think the mortgage side is definitely the most mispriced big part of the portfolios from a RAROC – risk adjusted return point of view, so that's clearly the area that we are focussing on. And we will strive for higher margins there and that should be positive for NII going into 2015. As well as very strong volume development and a very competitive situation with our clients, I think will drive NII in 2015 as well.

MAGNUS ANDERSSON: Then finally on this IAS19 impact, you had a net positive of 1.1 billion SEK. An important thing throughout the year has been this adjustment of inflation assumption. Is your inflation assumption in line with the actual wage inflation within the group as it is right now?

GÖRAN BRONNER: I think we have done two things. We have moderated our salary assumptions in the model, because we have a run of portfolios since we went to defined contribution rather than defined benefits. And that will lead to lower salary expectations over time, that's one thing. The other thing is that we earlier on, we changed to using market instruments for gaging inflation expectations.

You could say that when you review our IAS19 debt going forward, it becomes more important where the real interest rates are going, rather than where nominal interest rates are going, which we felt was more correct in an environment that's going from sort of high inflation environment to low inflation environment.

MAGNUS ANDERSSON: Okay, thank you very much.

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

MASIH YAZDI: Morning, this is Masih Yazdi from SEB. A couple of questions, the first one on credit growth. I seem to recall when you decided on your 75 per cent pay-out rate a couple of years ago, you said that with that pay-out ratio, you could grow your balance sheet about 5 per cent annually. And now in 2014, it's grown by 9 per cent. And the reason why your capital ratio still goes up is falling risk weights. How do you view that going into 2015, do you think you could grow your balance sheet by as much and that you'll see that offsetting factor following risk weights or should we expect your lending growth to come down to closer to that per cent? Thank you.

GÖRAN BRONNER: I think your analysis is correct. I think we cannot grow our balance sheet with 9 per cent over time. And I think that a nice position to be in to be relevant to new clients, so I think there is a good case for what Michael was talking about, raising prices. The important thing is that you don't extend your risk in this, which I don't think we are doing. But in a low inflation environment, you need to review that risk parameter all the time. At the same time, the resource that our corporate DNA is more geared towards a very strong real estate market and domestic economy in Sweden, so we have less exposure to the industrial sector and the export orientated economy than some of our peers are having.

And therefore, I think we automatically are getting a slightly higher growth rate in there. But coming back to this issue, I think we all agree that you can't grow on property price increase because it's about finding new housing stock in this market. And we would like to continue to grow with that. And you could say, "Of course, that's a good growth prospect for Swedbank." Since we have such a huge population growth and we actually have a huge deficit of housing. But it needs to be calibrated. A long answer, sorry.

MASIH YAZDI: Okay, good answer thank you. I'll stop there.

OPERATOR: Our next question comes from Mr Richard Henze from Nordea go ahead.

RICHARD HENZE: Good morning guys, its Richard from Nordea Markets. A couple of follow up questions. Göran, when you said that you expect the result from treasury that could decline up to 1 billion in 2015 compared to 2014, were you referring to the NII or to the combination of the NGL and NII please?

GÖRAN BRONNER: I was referring to the total treasury result and I said that the absolute vast majority of that will come in NGL.

RICHARD HENZE: Okay, perfect. Secondly, on the mortgage margins I was a bit confused about what you said during your presentation, that the margins were flat in the end of the quarter compared to the beginning, but it was still a positive contribution to the NII. Can you elaborate a bit more in terms of front book and back book margins and as well, you also mentioned that you think that the return on equity risk adjusted is a bit low in this segment. What is the adjusted return on equity for this kind of product approximately?

GÖRAN BRONNER: I just want to say that the NII in the quarter we got help from re-pricing of mortgages that were done in the third quarter. We didn't see any further expansion on new lending in the margins in the quarter. But I think there are good tentative signs in the beginning of this year that we see further expansion of margins. And I think we will not guide you on exactly what kind of RAROC we have on the portfolio, but we can say that we are not -- it needs to improve, the return. Especially compared to other capital intensive products. The mortgage portfolio has gone from being extremely nicely profitable to not being so profitable.

MICHAEL WOLF: And basically if you look at the return on equity on a different basis area, you see the swing now on the back of allocating out for the floor of 25 per cent. So, if you go a year or two back, there was no discussion where the last penny would go to which business area. Now there is a more competitive situation for retail. And if they want to be that outlier organisation, they need to think about that issue.

RICHARD HENZE: All right, thank you and finally on the lending growth. It's primarily driven by property management. Property management was up 9 per cent quarter on quarter and 24 per cent year on year. It's quite impressive growth ratios. Can you talk a bit about what has driven this, are you being more price aggressive than the others in the market and what do you expect going forward?

MICHAEL WOLF: I mean, this is the competitive edge of Swedbank, we've always been strong in the property sector and look at what LCI did in the quarter. The IPO of Entra the Hemfosa and Akelius deals, so we stand out in that market place and we have quite a lot of confidence that makes us able to pull of deals like that off. Generally speaking, if you look at the Swedish economy, its domestic consumption and the property sector that drives the economy. Yes, we have a competitive advantage with low funding costs. We've got A-IRB into play, but we also improved our collateralisation during the year.

So, it's not coming on the back of risk but bearing in mind the volume growth we had and the market share pick up, we can during 2015 work more on margins than in 2014.

RICHARD HENZE: All right, thank you very much.

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

OMAR KEENAN: Good morning. Thanks very much for taking the questions. I just had a question on interest rate sensitivity. In your fact book, you said that the sensitivity is 3.2 billion to 100 Basis Points, whereas last quarter it was 2.7 billion. One of your peers earlier talked about sensitivity of 2 billion going to 3 billion in the quarter and 75 per cent of retail deposits paying nothing. So, just wondering, could you just elaborate a little bit of why the sensitivity is 3.2 billion and perhaps just give a bit of colour around what proportion of the 416 billion deposits in the Swedish banking business now have -- you pay nothing on the deposits. And finally, could you kind of help us understand what impact negative rates could potentially have on margins in retail? Thank you.

GÖRAN BRONNER: First of all I would like to say of course that negative rates will have a large impact on the profitability in the retail sector. We are not though that convinced that it is a policy measure that is actually effective, just for the reason that the banking system is quite poor of transforming that into changed client behaviour. And I think there is evidence of that in banking systems that actually have negative rates. But the impact itself I think -- and we will most likely come back with an updated figure or even that we have in the facts book, I don't have it off hand. But there's work being done on that. That the impact that you referred to, 3.2 billion will be a higher number of course going from zero rate down, since your re-pricing ability is basically being significantly deteriorating, especially for households. I think depending on what kind of negative rate you have, you do have a re-pricing ability in the corporate sector of course. But on your retail deposit base, I think there are difficulties in re-pricing actually, and therefore the impact will be higher than the 3.2 billion. But that will also be one of the main reasons why we didn't really feel that if you want to pursue quantitative easing and the bank is not really giving the clients the negative rates and there might be compensation on lending rates, it actually becomes a contractionary policy instrument, not an expansionary policy instrument.

So our feeling is that there are other instruments relating to currency weakness that are much more efficient, if you want to pursue quantitative easing. Having said that, I think we feel that the Swedish economy is in a sweet spot like Michael said in the beginning and it is the inflation number itself that's the problem. While actually development of the economy is improving I would say, and more so now with the weakening Krona.

OMAR KEENAN: Yeah great, thank you very much and just on the point on what proportion of the retail deposits now effectively pay zero? And what proportion still pay something?

GÖRAN BRONNER: I don't have that number at hand. I will try to see to it that we get some information on this later on.

OMAR KEENAN: Great, thanks very much.

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

ANDREAS HÅKANSSON: Yes hi. Actually I think we've gone through almost everything. But could I just ask you a very short follow-up on that one charge you took in LCNI, could you tell us any sectors or what country it's coming from?

ANDERS KARLSSON: Andreas its Anders. It's within the manufacturing sector and it's a Swedish exposure.

ANDREAS HÅKANSSON: Is it an exposure you've had problems with before or is it something new in the quarter?

ANDERS KARLSSON: We've seen it coming for a while.

ANDREAS HÅKANSSON: Thank you.

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

RICCARDO ROVERE: Good morning to everybody, thanks for taking the questions. I just have two or three questions. Again, on a NII hedging in the treasury department, NII keeps going up. Rates have gone down, so I suppose you're hedging against falling rates. Now, if rates remain where they are and it's reasonable to say so, because Draghi is saying so, is it fair to assume that the level of NII in the group treasury will stay as it is? This is my first question.

Second question I have is, the spread of issuance of covered bonds are falling across the whole of Europe. Nordic banks do rely a lot on covered bonds. Would you be prepared maybe to prerefund a little bit or amend a little bit a maturity of your funding, citing the opportunity of the current levels of spread which are kind of unprecedented? Maybe giving up a little bit right now, but lengthening the maturities going forward?

The third question I have is on dividends. Because the consensus was going for 11.5. You are proposing 11.35 so you are falling short of 15 cents. Multiplied by the number of shares is literally SEK170 million. It is literally nothing on your risk weighted assets. It my numbers are not wrong, it's kind of five basis points. So, I struggle to understand, what is the reason behind not matching the market expectations on such an important topic when it was costing you -- so you were basically a few basis points of the dividend? What is making you so concerned that you need to preserve, depleting the equity by five basis points or maybe ten basis points when you have a capital ratio above 21 per cent?

And the final question again is on the Baltic and oil services. I know it's a difficult question, but if you had to talk a ballpark, what would be reasonable for worst case scenario on the back of Russia and oil price? Thank you.

MICHAEL WOLF: If I take the third -- thanks for asking those questions. If I take the dividend question. I think it's very clearly articulated by the bank that we have a dividend policy of 75 per cent, and we adhere to that. It's a simple answer and it's most predictable for everyone.

GÖRAN BRONNER: Now, I will try to answer your first question. I think we talked about the major part of the impact in Treasury would come in NGL, so I think the only thing I will say is that you will look at the stability on the NII line on treasury in there.

With regards to pre-fund due to low credit spreads, I think that's something people have asked us all along the sort of decline of interest rates and the compression of credit margins. It's always -- for us, I think it's balancing out risk against profitability. And I think we are in a good risk corner now, I don't think we need to be more conservative from here.

We have a lot of capital, we also have a very prudent funding strategy and funding plan, so I think we will keep that as it is. And the NSFR is around 100 so I don't expect us to alter that funding strategy in any significant way.

And your last question was about what is the tail risk of the Baltic banking. I think our stress test shows that it needs to be a very, very significant happening in the Baltics for us to have a significant tail risk, but maybe Anders you would like to comment?

ANDERS KARLSSON: Yeah, first of all as we said, it's a limited amount that is exposed to -- directly related to Russian trade. And if you look at the export numbers from the Baltics to Russia, they are quite inflated by a huge chunk of re-export, which is not really adding value to the Baltic economies. So, the underlying dependency on Russia is lower than the figures might indicate.

What I said is that our estimate is that it will be a limited impact. When it comes to the oil sector, I think it is far too early to say anything about that. Our customers are reacting and responding to the change to market conditions and we are acting together with them.

RICCARDO ROVERE: Okay, thank you very much. If I just have a quick follow-up. Given that write-backs in the Baltics are basically over, they've dried up. If you had to give us a kind of normalised cost of credit for that division going forward, would you feel comfortable to give a number here?

GÖRAN BRONNER: We have never guided on cost of credit or credit impairments because the volatility of single exposures can be quite high. But I think what we try to convey is that we feel very confident about that equality in the Baltics. And you must remember that there has not been any new lending basically in these three countries in the past five years and everything was stressed. From a PD perspective, they were much more severe going back to 2009 and 2010. So it's very difficult to see significant losses in.

RICCARDO ROVERE: Okay, thank you.

OPERATOR: Our next question comes from Mr Anton Kryachok from UBS. Please go ahead.

ANTON KRYACHOK: Thank you very much and good morning to all. Just two questions please. One is on capital. Once we get better visibility on various regulatory initiatives down the road in 2015, what would be the main factors which you would consider when setting up a management buffer above the required regulatory capital per month? And the second question please, sorry to come back to the same but again on treasury. Can you give us an indication of how many bond buy-backs can you expect to do in 2015 versus the volumes that you have seen in 2014? Thank you.

MICHAEL WOLF: I mean, this capital issue is, as Goran alluded to, I mean the buffer that he mentioned is broadly for a correct level. I think you need to have some capacity to grow, you need to have capacity to take swings in volatile items like IFRS accounting for pensions. But the main issue that creates uncertainty is in future capital roles. So that's why we act like we do this quarter, and at the end of the day, we will know so much more come later this year that we will have a much more reasonable debate around the different components of that. So, allow us to come back later this year on this issue, and more clarity will be in place.

GÖRAN BRONNER: On the treasury buy-backs, I think over the years it won't be any difference 2015 over 2014, but as you know, there are volatilities between quarters in that. But over the years, no change really.

ANTON KRYACHOK: That's very clear, thank you.

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

JAN WOLTER: Yes, hi. Jan Wolter, Credit Suisse. Just a couple of questions and the first, the board decided not to set a capital target after all. What is the key uncertainty that needs to be resolved in order for the bank to set a new Core Tier one target and a new total capital target as well?

And second question, just around the cost target of 16 billion in 2016, are the cost efficiency measures back or front loaded, and do you foresee a staple fall in 2016, or should we expect a more gradual fall in costs starting in 2015? Thank you.

GÖRAN BRONNER: Hi Jan, sorry for not being clear on the capital issue on this call but it's the regulatory question that is the main driver for the uncertainty.

JAN WOLTER: Yes, what kind of regulation? Sorry to interrupt, but what kind of regulation are you looking at as the more problematic one, the one where you need more clarity in order to set a target? Thank you.

MICHAEL WOLF: The standardised approached on corporate risk weights if that comes into play. And as you know, that could lead to other changes in what the SFSA has established. You never know, so there is a lot of uncertainty there.

GÖRAN BRONNER: On the cost side, I think that over two years it is likely back ended. And the reason for that is that we are converting -- you know we bought four banks in our zone, and we need to transform all of their clients on our platform. And before you can really realise completely, and that will happen sort of rather to a larger extent in 2016 than 2015. But for 2015, we expect to be -- but it's not in 2016 all of the money will come, it will come gradually but with a higher degree in 2016. And in 2015 we will be below 17 billion in costs.

JAN WOLTER: Okay, many thanks for your help.

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

ADRIAN CIGHI: Good morning and thank you for taking my question. One follow up question on mortgages please. National statistics point to a substantial year on year decline in the volume of housing transactions in both November and December of last year. Do you see that translating in loan volume impact this year, or do you see that as a blip that should recover this year?

MICHAEL WOLF: I think that there is, as you confirmed, lower volumes coming late in the year. And if you see the supply on the major housing sites, that confirms the picture. I mean, you have a tax system in Sweden that locks property owners in. So that could definitely be one of the reasons. And then secondly, there is some uncertainty on the buying side, what the effect of a new mortgage amortisation plan would mean and entail. So every time you have changes around amortisation, you get a little bit of uncertainty which effects the market. So, let that come into play and we'll be a better judge of total volume going into 2015.

ADRIAN CIGHI: Thank you.

OPERATOR: There are no further questions on the telephone.

MICHAEL WOLF: Then once again, thanks for being so active, we really enjoy that you ask so many questions. I look forward to seeing you out on the road. Bye.