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Speakers: Michael Wolf (President and Chief Executive Officer), Göran Bronner (Chief Financial Officer) and Anders Karlsson (Chief Risk Officer)

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OPERATOR: Ladies and gentlemen, welcome to the Swedbank interim report, January to March 2015. 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 Wolf, please begin.

MICHAEL WOLF: Good morning and thanks for participating in this call. I was actually reflecting this morning that it was six years ago Göran and I started this journey. At that time it was quite turbulent and the question was where the Baltics would end up. Six years later all three countries have now converted into the eurozone, so there is a dramatic change.

If you look at the environment that we are operating in, it's still very much transformation. The Central Bank's printing money. We lack political reforms. Especially in Sweden, I would like to highlight the need to increase housing starts and invest in infrastructure to create sustainable growth and productivity. In this environment, I would say that I am very proud of this type of results because it enables us to be long-term in our actions.

At the same time, we can support our clients, but we can also invest in new solutions for clients, like the digitalisation that is really changing the game. We can also adjust pricing according to the market situation and I am very proud of the co-workers who have taken us to this position. Since the second half of 2014, our competitiveness has manifested itself in increased business on both the private and the corporate sides and we have enabled digitalisation for the many customers also there, for both corporate and private clients. This has significantly reduced the number of transactions and client activity on the branches, so there are cost benefits from this journey.

Another positive effect with the digitalisation is that we can spend more time in the branches towards customers in the upper segment. Birgitte and her team are now gathering client executives for the upper segments in competence centres to enable our competitiveness to develop even further. This is a proven concept for Swedbank. We have done this for mid-corporate clients and you could say that LC&I is a competence centre. In both these areas we have seen improved client activity and market share as we venture into competence centres.

The big question around amortisation that we have been speaking about in the report is all around the regulator having to withdraw the new regulation as the court decided that it was not legal to implement it. Mind you, the Swedish Banking Association tried to come out with a recommendation prior to the SFSA, but the Competition Authority prevented that recommendation going in place. We think that the discussion around amortisation has been very strong in the last couple of years. You know our position since 2009. So we intend to work in line with the recommendation going forward.

Already today I would like to articulate that 95 per cent of all new customers with an LTV over 70 per cent are amortising and 60 per cent of new customers are amortising between 50 and 70 per cent LTV, so it's not a big issue. It's already work in progress. We do this to protect our clients' financial situation. Good evidence that this has paid off is 20 quarters of low credit losses in this bank. In this quarter we are reporting a 0.02 per cent credit impairment ratio.

Another area that I would like to highlight is Baltic Banking. Its performance is absolutely stellar: loan-to-deposit at 92 per cent; 15 per cent return on equity and 48 per cent of all new sales in this quarter came through digital channels. It shows that we can benefit from big data and we have a very efficient sales structure in the digital channels. That this is the right way to go is proven by customer surveys that we do, which show that 90 per cent of our digital clients in Sweden are either satisfied or very satisfied with their services.

As I said initially, there is a lot of transformation in this industry and this will continue to affect our business for a prolonged period of time. Therefore, we have prioritised our staff to quite some extent. We want to give them tools to be able to operate in this environment and we have been focusing quite on a lot on internal mobility, which means that we have a minimum of external recruits. This will show that we can build more competence throughout the bank and create even better co-operation between different units as our staff move around in the bank.

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

GÖRAN BRONNER: Thank you, Michael. I will, as usual, try to do a couple of quick financial remarks on each business area and summarise on the Group and then hand over to Anders Karlsson before we turn to the question session.

Starting with Swedish Banking, on the net interest income level here we have been negatively affected - as you all are aware - by the negative interest rate and low interest rate environment, which has affected deposit margins. Also, this quarter has slightly fewer days compared to other quarters; that affects the numbers as well.

On the positive side, we have seen repricing on the capital that we hold against the mortgage book as a cushion required by the SFSA and we have also taken advantage of the volume growth that we saw coming through particularly in the latter half of last year, which has materialised into net interest income for us. Net commission income is seasonally a little bit weaker than the fourth quarter. We have benefited from the growth in assets under management due to the fact that the market has had very strong performance. At the same time, we have lowered fund fees, as you are all aware. That has sort of netted that out, so we have transformed that into some client value.

Other incomes in this business area: we have a couple of one-off items. Among other things, we did sell Svensk Fastighetsförmedling. That generated a small profit. As well, we sold a property that was the head office of Sparbanken Öresund, and also Sparbanken Skåne – where we are a part-owner – did sell some branches that led to higher income of a one-off character.

Summarising on the key ratios, we can now see the full effect on return on equity by the new capital in this business area. The somewhat weaker cost-income ratio is a reflection of the integration work with Sparbanken Öresund continuing and the plan is of course to decrease that cost-income ratio now over time.

Turning to the Baltics, they are very much the same: affected by the shrinking deposit margins. They have also seen a slight decrease in income, both on net gains and losses and on the commission line relating to the Lithuanian euro membership, but they have been very good in mitigating costs. They are very good in sort of running their business and taking actions in cost-efficiency early on, so we're very pleased with the return numbers in that.

Asset quality is very good. The impact of Russia is smaller than expected, so smaller from a low level, which leads to reversals. But Anders will continue to elaborate on that.

Large Corporates & Institutions: it is the same story, affected by lower deposit margins. Here, lending margins have been stable. We are not seeing any move really there. We have seen higher activity in the trading area, currency and fixed-income related. That came very much on the back of a lot higher client activity as the Central Bank moved into negative interest rates, which was quite surprising for the market. On the other hand, we have seen lower commission income in Norway as a result of a weaker pipeline or more uncertainty as a result of the weaker oil price as business activity in general has stalled there for the time being.

Cost-wise, it is doing okay. We see, though, an increased burden on regulatory costs for system development that needs to be implemented and we are working on extending our product offering in cash management in this area, as we have told you before.

Summarising on a Group level, the margin development is mixed, obviously affected by the low interest rate environment. We benefit somewhat from loan growth. On the provision income we have slightly weaker seasonality and, with the price decreases that we do in Robur coupled with the lower corporate finance in Norway, we have a slightly weaker number there. But underlying, I would say it looks very good to continue to grow with GDP in Sweden.

The Treasury result has been slightly stronger than the last quarter on the NII side and the bottom line on Treasury, but we continue to have the same forecast where the Treasury result will go from here onwards and asset quality for the Group is extremely good.

Lastly, just a few words on capital. The Core Tier 1 capital has decreased from 21.2 per cent to 20.5 per cent and most of that is relating to an increased pension debt, IAS19. That has eaten SEK 2 billion in capital. We have also introduced a regulation around prudent valuation. That has taken out almost SEK 500 million in capital as well. We have seen some REA increase in various areas. The message here is still the same as it was previously: that we will continue to see regulatory uncertainty and that there is no excess capital around.

With that, I would like to hand over to Anders.

ANDERS KARLSSON: Thank you, Göran. Yet another quarter, the 20th, with very low loan losses amounting to SEK 59 million or 2 basis points and Baltic Banking showed reversals, although small. Impaired loans continued to decrease with roughly SEK 300 million, ending up at SEK 5.9 billion or 39 basis points. Most of the decrease came from Baltic Banking; thus Baltic Banking continued to show resilience despite the sanctions and the weakened Russian economy.

Lending increased by SEK 16 billion in the quarter, of which SEK 2.3 billion constituted lending to property management. This is corresponding to an annual growth rate of approximately 5 per cent, which is in line with our expectations. Accordingly, I can conclude that our measures taken have the desired effect.

Last but not least, Ektornet continues to sell off assets according to plan and the remaining assets now amount to SEK 600 million. Thank you.

MICHAEL WOLF: Okay. Then we open up for Q&A.

OPERATOR: Ladies and gentlemen, I remind you that if you'd like to ask a question, please press 01 on your telephone keypad. Our first question comes from Mr Pawel Wyszynski from Danske Bank. Please go ahead.

PAWEL WYSZYNSKI: Yes, hello. It's Pawel here from Danske. Three questions from my side. You talk a lot about digitalisation and the possibilities for this going forward. How are your IT systems ready to handle, say, the increased dataflow and will you plan anything to invest more in IT in the coming three years? I'll start with that one.

MICHAEL WOLF: If I take that, what we are doing in Sweden is to build a new data warehouse platform and that is still one or two years out before being fully there. That is one of the benefits of the Baltic operation. They were very early on gathering customer data and had their common data warehouse platform, which is creating the prerequisites for their success in digital campaigns today. As I said in the call, 48 per cent of all new sales in the quarter were generated through digital channels, so big data will be very important.

What we see in Sweden is more of an effort to move transactions in the mass market, both on the private and on the corporate side, to digital transactions and that is really taking off. We have one million Swish clients only in this bank and a 40 per cent market share in Swish overall. If you look at corporate, we are having 13,000 or 14,000 corporates on Swish out of 16,000 or 17,000 in total, so Swish really fits our customer base well. This drives down transactions in branch offices, which is another task that we are aiming for because we want the branch office mainly to service higher segments, which requires more time to build relationships and through that create a better business volume. So, all in all, we are well equipped.

Like any bank with some legacy, one of our challenges is the legacy in the IT environment and the product complexity, so we have a big effort going on to reduce the number of products and decrease the number of IT applications, but it's a multiyear task.

PAWEL WYSZYNSKI: Okay, so no huge IT investments at least in the coming three years; rather, continuous investment?

MICHAEL WOLF: Yes, you can say that. We upped our IT development budget from SEK 800 million to SEK 1.1 billion or SEK 1.2 billion in the last couple of years, so we want to continue to operate on this level. But we have also told the organisation that if they can bring down IT maintenance costs, we can move back to IT development, so there is an incentive for the operation to sort of become even more efficient. Then there is the ramp-up time when you recruit new developers, but that's basically our thoughts around IT.

PAWEL WYSZYNSKI: Okay, perfect. The second question: if we see an increase in the countercyclical buffer in Sweden, would you increase your margins in order to compensate for the extra capital you'd need to hold?

MICHAEL WOLF: That's our ambition. We think that history tells that once you see capital regulation changes, the market is repricing those, so it's quite likely that that would happen.

PAWEL WYSZYNSKI: Okay. The last one on Robur: are you happy with the current level that you have or can you go lower? Also, could you give us a little more flavour on your last decision, the third time you cut the fees, why you did it and the reason behind it?

MICHAEL WOLF: What we have done on Robur is to ensure that we allow Robur to be long-term competitive with the fee changes that we have implemented. Is this the end of fee changes? I doubt it. If we continue to see low interest rates for a long period of time, these might come down further. Mind you, that's one of the benefits of having a return on equity of 15 per cent. We can afford to be competitive on the Robur fees for a prolonged period of time. In this environment, of course, fees have a dramatic impact on the performance of the funds as well, so this will help cater for our long-term competitiveness in the funds themselves.

PAWL WYSZYNSKI: So would this go for equity funds as well or are you more talking now about fixed-income funds?

MICHAEL WOLF: We lowered equity funds from 1.42 to 1.25 in February, so, yes, it also includes equity funds.

PAWEL WYSZYNSKI: Going forward as well?

MICHAEL WOLF: Yes. We want to be competitive and we want to be relevant in whatever environment we operate in.

PAWEL WYSZYNSKI: Okay, perfect. Thanks for the answers.

OPERATOR: Our next question comes from Mr Peter Wallin from Handelsbanken. Please go ahead.

PETER WALLIN: Thank you and good morning. I've seen that you're quite pleased with seeing the corporate lending volume growth decelerating a bit in this quarter. Could you give some flavour as to how you are achieving this or is it clearly because you're increasing your front book margins?

ANDERS KARLSSON: Morning. No, it's a combination of two things, basically. One was, as you might recall what I said in conjunction to Q4, that we see that prices are increasing in the property markets in a way that we believe are a bit too fast. I also said at that point that we're looking into the credit origination standards. We have done two things. We have changed our internal steering to a certain amount and we have implemented new origination standards, taking the current interest rate environment into account. So I would argue that that's the reason.

GÖRAN BRONNER: If I would complement, just to say that so far the measures taken have mostly been reflecting price and not risk, but risk will be implemented going forward as well.

PETER WALLIN: Okay, so you have stricter origination standards, but that's not really what's been driving it in this quarter. This is mainly, then, the improving margins. Is that correct?

ANDERS KARLSSON: That's correct.

PETER WALLIN: Okay. Then also, coming back to what might or what everybody expects to happen tomorrow in terms of further rate cuts from the Swedish Riksbank, could you give an update on how the compensation in terms of especially corporate deposits is going in terms of implementing fees for that? Do you have a plan for maybe broadening that kind of compensation action if we see a further rate cut tomorrow?

GÖRAN BRONNER: In general, we would try to hold our clients unhurt by the rate cut that potentially could come tomorrow, especially the household lending. Selectively on the corporate side, we might introduce a price for specific corporates that has capital market access, but if we go down to the lower corporate segments we don't intend to introduce fees for them at this point in time, really.

PETER WALLIN: Okay. Then a final question of mine: so far, it seems as if Swedish banks in general have been fairly successful in compensating for higher capital charges on mortgages. Where do you think we're standing today in terms of the relative profitability of mortgages in relation to higher capital charges? Are we fairly pricing them now or is there still more to go?

GÖRAN BRONNER: With time, there's probably a little bit more to go because the profitability, the return on the capital is still not adequate and then you could say also that there are signs of even more capital being applied, so we need to watch that a little bit. But we must remember that we are leaving a quarter that's seen fairly huge repricing taking place, so for the time being also it will be difficult to drive the margins higher in the short term.

PETER WALLIN: Okay, great. Thank you very much.

MICHAEL WOLF: But there it's also fair to recall the increase in capital on this business. It has moved from SEK 4 billion two years ago to SEK 26 billion today, so there has been a fundamental need to achieve this repricing.

PETER WALLIN: Great. Thank you.

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

MAGNUS ANDERSSON: Yes. Good morning. Just to follow up first on Peter's question on mortgages and repricing, do you think that it will be as easy to reprice your mortgages in an environment where interest rates stop falling or actually stabilise as it has been in an environment with continually falling rates, ie an environment where clients have experienced lower costs while you have expanded your margins? That's the first question.

GÖRAN BRONNER: No, of course it's been easier to reprice the capital in an environment where all banks have had an incentive to compensate for shrinking deposit margins. That will increasingly, though, become difficult to do. Over time, the huge deposit base will support the corporate lending more than it does the actual mortgage loans in the balance sheet, so over time it will be much more important for us to reprice corporate lending if we are to stick with the zero interest rates on the majority of deposits rather than the mortgages.

MAGNUS ANDERSSON: Okay, thank you. Then, just on costs, you're keeping a guidance of lowering costs for 2016 towards SEK 16 billion. How should we look at that development over the years? Will it be very backend-loaded in 2016 or should we start seeing more coming through towards the second half of 2015? That's the first one. Secondly, since you launched this target in connection with the Q3 report, has anything happened or come up that makes you more or less convinced that you will reach this?

GÖRAN BRONNER: Overall, it's a rather linear development, so you should start to see some effects coming through and especially in the fourth quarter. A key risk aspect for us with delivering this is that we can successfully migrate our clients from Sparbanken

Öresund into the platform of Swedbank. That is intended to happen in the latter part of this year. If that materialises, the risk picture around the cost development goes down significantly.

There's always movements in such a big cost base. For example, we have seen a verdict on the VAT on postage in Sweden. That gives you some relief. But on the other hand, I would say we continue to see regulatory costs in the systems development arena increase, so there is always a lot of traffic in the costs but it is nothing that we at this point in time would say has significantly changed the picture.

MAGNUS ANDERSSON: Okay, great. Finally then, on capital, you now have roughly a 100 basis point buffer in terms of the Common Equity Tier 1 ratio versus the regulatory minimum requirement and you refrained from giving us a capital target because of the regulatory uncertainty. But this kind of buffer, 100 basis points, would you consider that as a minimum buffer you would like to have to any minimum requirement or is it low or high or how do you look at that gap?

MICHAEL WOLF: It all depends on where the regulators go with countercyclical buffers. If they add buffers, we don't need to have the same level of buffer. So it's a moving target, but it's not far off. But with more buffers from the regulators, we need less buffer. That's the simple answer on that one.

MAGNUS ANDERSSON: Okay, thank you. Very clear.

OPERATOR: Our next question comes from Mr Peter Kessiakoff from Carnegie. Please go ahead.

PETER KESSIAKOFF: Yes, hello. Thank you. Just a question on amortisations. It seems you're strengthening your requirement on amortisations on Swedish mortgages down to an

LTV of 50 per cent and you write that the annual amortisations are currently SEK 10.4 billion, which is equal to about 1.6 per cent of your book. Are you expecting that to increase from strengthening amortisation requirements? That's the first question.

MICHAEL WOLF: Yes. Already today on new lending, 60 per cent of the loans are amortising between 50 and 70 per cent LTV, so that number will go up as we act in line with the now not implemented regulation. Mind you, it's quite clear that the reason for the regulator to come with additional countercyclical buffers is all related to the mortgage market, so it's kind of counterproductive not to force amortisation and then get hit with the countercyclical buffers, so there is a game between those two factors.

Secondly, the market, including the banks, has been driving amortisation for a couple of years now and it is well accepted by the general public that this is a good thing.

PETER KESSIAKOFF: So your ambition is at least to increase those annual amortisations but no figure on how much?

MICHAEL WOLF: No figure on that one, but we are a market leader and we need to act responsibly over time and amortisation is part of that responsibility.

PETER KESSIAKOFF: Okay. Two more questions. Just a follow-up after Pawel's questions on the higher countercyclical buffer where you mentioned it could be a reason to raise margins, is this margins towards both corporates and households or is it mainly towards households?

GÖRAN BRONNER: In general it affects all business segments but, due to the construction of the buffer, it will affect the mortgage side even more.

PETER KESSIAKOFF: Okay. Then just one last question. You mentioned that volumes are up in local currency within the Baltics and you also highlighted the significant improvements that that division has made. What are your expectations on lending growth for the coming year or years within the Baltic region?

MICHAEL WOLF: Not significant. They are affected like everyone else by low global demand. The difference in the Baltics compared to Sweden, though, is that the industrial companies are at their capacity and you have seen quite significant salary inflations, so there is a trade-off between investing in more capacity which could be positive in the Baltics. We will not see significant credit demand but hopefully a slightly improving credit demand.

PETER KESSIAKOFF: Okay. Thank you.

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 related to net interest income. The first one is: you gave, I think, the last rate sensitivity at about SEK 3 billion. I was just wondering if you could give us an update if that's changed much going into the second quarter, what proportion of deposits in Sweden now pay no rates of interest and how much you believe front book margins on the mortgage are ahead of the back book that can potentially compensate that for the second quarter.

Then lastly on net interest income, the sequential increase of about SEK 80 million in the Treasury division: was that mainly due to the hedge and how should we think about progression going forward in the rest of the year for this line item? Thank you.

GÖRAN BRONNER: Shall I start with the last one being Treasury then? I just will repeat myself there, trying to see with the same language as we have for a couple of quarters. It's really that you should review the results, the two lines together. We are guiding that the Treasury result, as soon as the interest rates will stop moving downwards, if you will continue to have such a flat curve that we currently experience, that we will have a headwind on the result in Treasury between SEK 500 million and SEK 1 billion in that result line. Nothing has really changed in this quarter. There is always a bit of traffic that varies in volatility between quarters and the lines and I will not try to sort of guide you on every quarter in that aspect. If anything, rates have continued down, so we haven't really found the bottom yet. In the movement of coming down, we are having a little bit of a too-good result from where it will end up being. That is the message I would like to convey on the Treasury. It's basically the same as the last quarter.

What else was your question? I think 75 per cent of the deposits are currently on zero interest rates, roughly. It is true that some of the repricing of the mortgage book will carry on as a tailwind going into the second quarter, but at the same time I would like to say that since the quarter-end you have also seen the STIBOR continuing to go down and that will filter down as negative NII as well. It's very difficult for us to give you guidance on this one. The longer we go on negative rates, it will become more difficult to reprice mortgages as an income substitute. It's much needed to become a corporate lending that will have to bear the cost if we continue to keep the deposit base on zero interest rates.

OMAR KEENAN: Okay. Very clear. Thank you.

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

ANDREAS HÅKANSSON: Yes, hi. We've covered a lot of the NII questions, but I just ask something on your loan growth? SEB, which reported the other day, didn't really report on the corporate loan growth and the reason they said was that almost all lending in the market is related to commercial real estate and they think that the standards have been brought down to a level where they don't really want to participate. You reported a 5 per cent growth in commercial real estate in the quarter in Sweden and you said that you're outpacing the market and so on. Could you tell us how you view that market at the moment? Thanks.

MICHAEL WOLF: The market has been a market with huge credit demand as more and more investors seek yields and you have seen price increases. The picture is quite clear to everyone. We feel that we are well positioned in that market. We are a market leader. We know the customer base very well. You can see also that we have been very active on the capital market side of the equation, not only on debt issuance but also on rights issues, so we see more equity coming into the sector. As Anders alluded to, we raised prices in the latter part of 2014 and we're now changing origination standards and growth has come down significantly from the high levels of 2014. So that's basically the story here.

ANDREAS HÅKANSSON: Okay. But are you sharing the concerns that SEB is having about the market and that people are doing quite aggressive transactions, not necessarily you, but are aggressive transactions being done in the market at the moment?

MICHAEL WOLF: I don't want to comment on whatever SEB perceives happening out there. I don't see the market with the same glasses as they do, so I can't really comment on their comments.

GÖRAN BRONNER: We could say that as yields are coming down, Anders was telling that he was tightening up lending origination standards just to cater for yields that can continue to go up. That will, in effect, require borrowers to have slightly more own capital when they go into property management transactions.

ANDREAS HÅKANSSON: Okay, good. Then one more just on NII. In your Treasury division, where you had a very strong NII, you talk about an improved funding cost and so on. Could you just say? Is there any of the funding cost that improved in the quarter that has not yet been allocated out to the divisions? So somewhat expanded mortgage margins are of course coming from lower funding costs and I would assume that's the same on the corporate side or is that all out in a division and it's a separate thing in Treasury?

GÖRAN BRONNER: I would say that most of it is out in a division. If you look at credit spreads, they've been fairly stable in the quarter, actually, so it's not a big movement coming in there.

ANDREAS HÅKANSSON: Okay. Thank you.

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

MASIH YAZDI: Hi. This is Masih Yazdi from SEB. One follow-up and I think it's very similar to a question you had previously. You have a table showing your sensitivity to lower rates in your fact book. There's one with a zero floor on all deposits and one with a zero floor on deposits from private individuals. I know that Göran said that you were cutting deposit rates to negative territory for some corporate exposure, but could you just explain which table we should be looking at or where you're going to end up closest to from a 25-basis-point rate cut? There's one table showing a negative impact of SEK 1.1 billion and another one of SEK 600 million on an annual basis. Which one do you think we're closest to, assuming a 25-basis-point lower rate, given the measures you've taken so far? That's the first question.

GÖRAN BRONNER: That's very difficult for us to answer because we don't know. That's something that the competitive environment will also dictate and various client reactions and what the Central Bank actually does at the end of the day. That's very much events happening and so it's very difficult for you to guide on that more specifically.

MASIH YAZDI: A second one on your asset management business: as you said, you're cutting fees there. I can see in the first two months of the year, you only took 4 per cent of net inflows. Do you think the fact that you've cut fees has had an impact on your competitiveness in that market or do you think you need to take other measures to improve the net inflows you have? What's your full analysis of why you're not taking the share of your back book when it comes to net inflows?

MICHAEL WOLF: Seasonally, we had some withdrawals in PPM and we are one of the largest there and we also had some institutional money pulled out during the quarter, so I wouldn't say that you can draw any conclusions yet on the price decreases. What is more important is that we're placing our distribution channels towards more passive products and you see that rotation in the numbers. Of course, over time in this low interest rate environment, lower fund fees will have an impact on fund performance and that should increase competitiveness going forward.

MASIH YAZDI: Okay. Thank you very much.

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

JAN WOLTER: Yes, morning. Jan Wolter here, Credit Suisse. Around the Treasury operation, currently it looks to be around SEK 12 billion or so in capital allocated into that operation. In the last quarter it was around 20 per cent of Group capital. Could you just tell us what capital allocation is reasonable to Treasury over time?

The second question is just related to that. Where can capital be best put to use? The current lending growth of around SEK 120 billion or so in the past year, SEK 100 billion of that is in commercial real estate or residential mortgages. Can the bank see acquisition opportunities or growth prospects in other areas where the significant capital resources can be put to use? Thank you.

GÖRAN BRONNER: The Treasury has been very much the residual for capital and especially so in the situation where you have an evolving regulatory framework and it's continued to be that. We haven't really put down a number for ourselves even yet for what kind of capital we need in order to sustain an ongoing operation there, but the ambition is all the time to allocate as much capital out of the business area in order to get the product calculation and also the client calculation correct so we have a correct steering out there. I can't really elaborate further on that one.

The other question was really: do you see any major acquisitions that can eat capital for us? We are always reviewing all potential things, but also there are not big things that jumps around in a well-established market like we are. We have selectively bought portfolios in the Baltics because we can put that on the existing infrastructure. It's highly lucrative. We did buy Sparbanken Öresund, which is also where you're extending your critical sight, but it's difficult to find really big ones for product investment.

JAN WOLTER: Okay, thanks for that. Just a quick follow-up on the cost side: is the relocation and the saving or the relocation of Öresund AB now in full on the P&L? And if you could comment on the plans for moving the markets division back to Stockholm City and the cost in relation to that, it would be helpful. Thank you.

GÖRAN BRONNER: The cost of the new head office is fully incorporated in the numbers now, so you should start to see the benefits of that coming through.

The financial effects of moving markets is actually positive because, in essence, we are leaving an expensive rental agreement in Essingen, where we have 850 people approximately working in IT and that will give us -- but it will come in 2018. You will see the benefit of that. It will be slightly shy of SEK 100 million, actually, in cost improvement at that point in time. So, from that perspective, it's good and positive on the cost base.

Then, of course, we are continuously looking to nearshore people to wherever there is cheap. Stockholm is becoming very expensive, salary-wise, location-wise, and therefore we try to find whether we can do nearshore activities to the Baltics at an increasing speed than what we currently are doing and we can also think about the nearshoring in Sweden. It's cheaper to do some of the things out in the countryside, where we have telephone banks, etc, and so forth, so this is an ongoing game of always trying to be as efficient as possible. You could say that the Stockholm area is becoming expensive, so it will of course drive resources away from Stockholm in Swedbank.

JAN WOLTER: Okay, very clear. Many thanks.

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

ANTON KRYACHOK: Thank you very much. Just a couple of follow-ups, please, on capital. Firstly, can you give us any indication if there is anything you can do to mitigate the SEK 4 billion increase in your risk-weighted assets which came from the operational risk this quarter?

Secondly, given that the Swedish FSA was unable to implement the mandatory amortisation requirements, do you think there is a risk that they might come back to mortgage risk weights as a tool too cool down the housing market? Thank you.

MICHAEL WOLF: On the latter question, it's more likely that they will come through countercyclical buffers and hence the importance that banks are prudent in this area going forward, so that's where we perceive the next action to be. Anders, could you answer on the operational risk question?

ANDERS KARLSSON: Yes. We are using the standardised model, so it's purely a function of gross income increasing over the last three years. The only way of managing that is to have an advanced measurement approach allowance from the Swedish FSA. We are intending to send in such an application, but that's further out in the future, so there's basically nothing you can do there, as far as I know.

ANTON KRYACHOK: Thank you. That's very clear.

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

RICCARDO ROVERE: Yes, good morning to everybody. I just have a couple of questions. On loan losses, if what we have seen in this quarter can be seen as sustainable or applicable, especially in the Baltics and in the Corporate division and on the margin side, is there a point at which further rate cuts would make the pricing of the front book and the back book impossible because -- maybe I'm wrong but I think at a certain point all the rate cuts that we have seen over the past few months should be transferred to the customer base. Thanks.

ANDERS KARLSSON: First of all, if we talk about the loan loss levels, we are not guiding there but I've said in the previous quarters - and that is relevant going forward - that it is extremely low levels. If the economies continue to weaken or if they get worse, this is not a sustainable level. You should not use that as guidance. It is a pure and simple reflection of us having a strong asset quality.

MICHAEL WOLF: Could you reiterate the second question, please?

RICCARDO ROVERE: Yes. I was just wondering. You say you keep pricing the loan book, but rates have gone down significantly over the past three or four months, so I was wondering whether at a certain point you should transfer to your customers the benefit of the rate cuts that we have seen over the past few months. I was just wondering, let's say, when eventually these two different phenomena will come in an algebraic way, let's say, start becoming negative for you?

GÖRAN BRONNER: If I just try to answer your question then, so far we are swallowing the negative interest rate and what Michael said earlier was we intend to do so even if we have a rate cut tomorrow, I believe. It's impossible, really, to say what we will do over a longer period of time. If rates go substantially lower negative and stay there for a longer period of time, we can't really judge today completely what we will do. The only thing you can say is of course that the whole transformation mechanism of the market economy in the bank, if you fix and rig the prices of money, you won't be able to steer adequately either, so it is a problem for all banks and for society in general. It will become increasingly difficult going forward.

That is not any guidance or anything that we will do. We are just trying to adapt to the very special situation that we have today.

RICCARDO ROVERE: Okay, thanks.

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

CHRISTOFFER ROSQUIST: Yes, this is Christoffer. Thanks for taking the questions. Just a first one on competition and a second one on the countercyclical buffer.

On the competition, I was just wondering if you could give us a little bit of colour on what you're seeing and who is more or less hungry. I think we know that in the fourth quarter we saw SBAB launching its campaign and also we know that, for example, Danske Bank is targeting Sweden and that they in their business essentially need more volume in Sweden, so if you've seen any more competition? Also, what is your main concern whether competition would increase? Are you willing to give up some relationships that are not as attractive to you or do you see that you have a competitive advantage by offering a broader range of products beyond just mortgages? That was the first question and I want to come back to capital.

MICHAEL WOLF: We feel competitive on the back of being very cost-efficient and having the highest profitability in the market. We don't need to react to short-term behaviours in the market and, as you alluded to, SBAB did a campaign, which we didn't respond to. We try to be long-term and we try to solidify our relationships based on digitalisation in the mass market and relationships in the upper segments. We can be patient with the position we have.

CHRISTOFFER ROSQUIST: Okay, thank you. The question I had on the countercyclical buffer is really if I can just get your perspective on the justification for implementing it from a credit growth perspective.

If I understand the Swedish FSA model, it has for some time suggested from a purely quantitative perspective that the buffer should have been 1.5 per cent but it's been held lower in order to not starve off the corporate credit demand. But in the qualitative assessment, the Swedish FSA is now saying that they're seeing more corporate credit demand and hence there's the room to go up above 1 per cent. But if I listen to some of your peers who reported last week, they said that there's absolutely no corporate demand for investments but the growth that we see is for other purposes.

So I was just wondering - and you commented previously that you're very comfortable with the demand that you see from your corporate clients - if that means that you indeed see some quite solid demand and that it might be justified or that there's less of a risk now than previously maybe three, six or nine months ago of a higher countercyclical buffer.

MICHAEL WOLF: Corporate credit demand is not there. There is some demand in the property sector, as we have alluded to earlier, both on the private and on the commercial side, and we are tightening lending standards. If we look at the implementation of the risk-weighted asset floor and if we look at countercyclical buffers, it has so far not had any impact on lending demand in the mortgage area. Price increases just continue to be there in the market and it's all on the back of huge demand and limited supply. If you want to really change the situation, you either start more housing projects or you do something from the political side of the equation to dampen the price increases. But regulation through the regulator has had limited effect.

CHRISTOFFER ROSQUIST: So, even if the FSA would proceed with a higher buffer, it wouldn't have the intended effect because the absolutes are of interest cost to a corporate's project is still so low because of the lower rates, even if you would reprice following higher capital requirements.

MICHAEL WOLF: Correct. The structural dilemmas cannot be solved by regulation. They need to be solved by political reforms.

CHRISTOFFER ROSQUIST: That's very clear. Thanks so much.

OPERATOR: Our next question comes from Mr Heiner Luz from Goldman Sachs. Please go ahead.

HEINER LUZ: Hello. I've got two questions and I'm going to start with the first one, Michael. If I look at your presentation and I go to your liquidity and funding slide, you issued more in the first quarter than you have in any quarter in the last three years. Even if I compare the next quarters, they are also substantially higher than what you issued in the past. My question generally would be, firstly, are those issuing targets set in stone?

Secondly on this one, are you planning to term out more funding? So will we also see you buying back more cover bonds, so keeping pressure on the trading line high but supporting NII, or in general, even if you're not planning to do that, if you generally have the sense of using the currently very flat rate curve to term out those funding things a bit more? I've got one more question but let's go with that one first.

GÖRAN BRONNER: Göran here. In general, we are updating our funding plan currently and you could say that the growth of the balance sheet has been somewhat stronger than it was for a number of years prior, so that in itself will require us to be more active in the funding market. Then I could say opportunistically, yes, of course, that's the price of prolonging your debts and going in longer out and the difference between senior and covered has diminished to the extent we are now at. You could say your incentive for being more conservative and actually taking advantage of cheaper money is of course good.

HEINER LUZ: Okay. The other question is on capital. I know there's been a lot of them asked. My question is from a bit of a different angle. In the last quarter, you said, "Okay, we feel like on capital we need a bit more of a buffer given certain things that are moving and there is still no certainty now". This quarter, you had two - or, if you take the risk-weighted asset inflation, three - of these moving parts that go against you. If we still look at that buffer, so in hindsight it then looks clear why you picked this buffer. But I just wanted to check if you have any elements you would be seeing as moving around as the magnitude as you've seen moving around this quarter or do you currently think what happened this quarter has already taken away a large part of the south-side buffer.

GÖRAN BRONNER: The effect we saw on the pension side on eating capital was of a low probability and of assimilations earlier on and we don't really see any big item eating that capital. But having said that, we don't know what's in store for us in terms of what the Central Bank does and so forth, so it's very much uncharted territory and the historic data doesn't really give you any guidance about negative rates. So you need to be a little bit humble in there, but it's on the low probability end of it.

HEINER LUZ: Okay. Thank you very much.

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

JOHAN EKBLOM: Thank you. I think we've covered most things, but I just wanted to come back to a comment that Michael made in an interview this morning about your intention, despite the failure of the FSA to push through the mortgage amortisation, to move ahead and implement at least something similar to that.

Is that something that's being co-ordinated in any way between the banks? I guess probably not, given the Competition Authority's views. If not, do you see that putting you at a competitive disadvantage now that you're back to writing business more in line with your back book?

MICHAEL WOLF: You've answered the question yourself. Will it put us at a disadvantage? I hope that all banks have done the same reading like we have. Mind you, the Banking Association tried to co-ordinate a recommendation, which was pushed back, so that gives us some comfort that most banks are in the same corner as we are. But more importantly, I want to safeguard my clients and I will advise them in accordance with best practice on any given mortgage loan that we meet.

JOHAN EKBLOM: Thank you.

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

JACOB KRUSE: Hi. Thank you. Just one question. You are capping fees and you're implementing digitalisation, which again brings down certain margins. You are not, as far as I can tell, expanding outside of Sweden. So, in terms of your long-term or medium-term strategy, what is it you are hoping to achieve and where are you heading in terms of driving growth?

In the corporate space, just related to that, you took I think 68 per cent front book market share last year. Is that an area where you think you can also gain fee revenues and deepen your relationship with those clients? Thank you.

MICHAEL WOLF: If I start and then I guess Göran has something on costs as well that he wants to relay.

But if you look at the customer base in Sweden and the Baltics, we have two sets of customers, broadly speaking. We have the mass-market clients, which are the vast majority in the Baltics. If you have a Swedish definition of mass market, you will basically encompass 95 per cent of all Baltic customers.

What has the Baltic operation done? Well, they have excelled in utilising customer data to build relevant client offerings through digital channels and in the quarter they sold 48 per cent of all products through that type of means. This enables us to be very cost-efficient and very relevant to customers. We have great brand recognition in these countries and very high customer satisfaction, so this faceless interaction does not mean that we are not close to the customers.

In Sweden, we expect to have one billion connections digitally with our customers in 2015, so here the same overall story is worked on. One is to be relevant in the mass market on digital platforms to enable them to transact but also get access to relevant data for decision-making and therefore limit their presence in the branch offices. This should then give us more time to move our advisors to the SME and the affluent segments. There we want to create competence centres like we have done with the mid-corporate client segment throughout Sweden. Mind you, if you are in the 25 or 28 largest cities in Sweden, you cover 85 per cent of the Swedish population, so having competence would be the way we become more relevant.

Why do we want to have competence? We want these people of ours to do these types of transactions often and to be in the deal-flow to build their own competence and knowledge, so that is the strategy of ours.

GÖRAN BRONNER: If I just can complement that, we operate in four markets. We have a return on tangible equity of 16.7 per cent, which is fantastically good.

In Sweden the population is growing at a very rapid speed. That will create growth opportunities for our domestically orientated business in all fronts, really. The important thing for that is not to grow risks as property prices in general go up in Sweden and we have well control over that. If you look at our asset quality, you can see that we are almost best-in-class on that side.

The strategy is really to do this at a low risk and at a low cost. If you look at the cost efficiency, we are in this quarter operating at 0.43. It is very nice to see that we continue to become more efficient because there will be a changing banking environment where margins will be under pressure. You could really ask yourself questions. Will you be able to have 15 per cent ROE without operating at 40 or below in cost-income in years to come?

I'm not talking about next year now; I'm talking about looking out a little bit because that is the new operating model when the digitalisation and the new regulation have really transformed the banking industry. Swedbank is extremely well placed in its geographies to capitalise on that.

JACOB KRUSE: Okay. Thank you. Just on this, does this mean that you have some sort of market share ambition for the corporate market when you make the shift from the mass market to the mid-corporate and SMEs?

MICHAEL WOLF: We don't have an explicit number, but what we want to do is to ensure that we prove that we are relevant. The segment where we are under-participating generally is in the SME and affluent segments. That's where we are relatively the weakest. But we have proved to ourselves in the mid-corporate and LC&I sectors that we have the capabilities to compete not through price but through competence;

hence the effort to create competence centres to mirror the operating models of mid-corporate and LC&I, in the SME and affluent segments. These are, of course, segments where everyone wants to compete. They're very interesting segments to be successful in, so time will tell how we do. But so far, if you look at market shares in the last couple of years in the corporate area, we have step-by-step improved our position.

This is also on the back of a transformational business society in Sweden. Sweden used to be very industrial-dependent. Today, the service sector, the property sector and the retail sector are growing, sectors where we are much stronger than many of our peers thanks to our DNA and our client base. I'm quite positive on our relative position and then, as Göran says, we don't try to lure ourselves that this will be a top-line game only. It will mainly be a game of being so cost-efficient that you become competitive and also a game of being the best on digital services.

So we are very well positioned to benefit from this. It will not be an easy journey, but we have one of the best starting points in the game, actually.

JACOB KRUSE: Okay. Thank you very much.

OPERATOR: Our next question comes from Mr Ronit Ghose from Citi. Please go ahead.

RONIT GHOSE: Great. Thank you. It's Ronit from Citi. Just a couple of quick questions in follow-up. First of all, on fee income. Have you given any guidance on the impact to your cards fee income from the change in cap in interchange fees that is coming in later this year? If I look at your fact-book breakout, it looks like you've had something like just over SEK 500 million of fee income this quarter from cards. I'm just wondering how much of that could be at risk.

Secondly, when I look at your balance sheet, just a couple of quick questions on the balance sheet. Quarter-on-quarter, there's a doubling in cash balances at the

Central Bank. I'm assuming that all of this is the deposit of the Fed, if you could just confirm that?

Lastly, it's a small number but your derivative assets have doubled year-on-year. Again, it is a small number, but I'm just wondering what's going on there. Thank you.

MICHAEL WOLF: On the first question, the answer is a neutral effect and we had spent time when the regulation was announced to give more details of that, so the data is out there.

Yes, it's Fed.

GÖRAN BRONNER: On the derivatives, the increase in derivatives is a reflection of a lower interest rate and a strong dollar, actually. It's not a higher business volume.

RONIT GHOSE: It's an FX impact?

MICHAEL WOLF: Yes.

RONIT GHOSE: Okay. Great. Just on the Fed, if I have to do the maths, is it that about 1 per cent of your NII is from that Fed deposit trade?

GÖRAN BRONNER: We haven't given any guidance on that number and I don't think we intend to do it, so you have to do your own maths there.

RONIT GHOSE: Okay, but the 1 per cent doesn't sound wrong?

GÖRAN BRONNER: That's your comment.

RONIT GHOSE: Okay. Thank you.

MICHAEL WOLF: Sorry for that, but we don't guide.

RONIT GHOSE: That's okay. I think the maths works out something like that. Thank you.

OPERATOR: We have a follow-up question from Mr Andreas Håkansson from Exane. Please go ahead.

ANDREAS HÅKANSSON: Yes, hi. Coming back a little bit to new regulations and the property market, if we look at, as you said, the record high population growth and, as you also said, the record low available for sale properties, do you see any type of regulation that would actually cause a slow-down on house prices or is it only new construction that will do it? Thanks.

MICHAEL WOLF: My view is that people are very close to their purses, so, of course, if there was some change in the tax deductibility, there will be an impact on pricing. The market is very sensitive to people's cash flow, so anything that changes the perception of cash flow or actually changes the cash flow will have a price effect on the housing market.

ANDREAS HÅKANSSON: But do you think that would have an impact already now when rates are as low as they are because the saving or the actual increase in the cost would be so small? Would that have an impact a couple of years out when rates are going up, which would then double the risk that we'll see house-price correction?

MICHAEL WOLF: I don't think there is ever a market that is linearly perfect and does not get corrections, so sooner or later there will be some sort of correction on the house prices. You cannot time a perfect market with regulation and then come with the infrastructure and housing starts that meet perfectly whatever sort of situation you have, so we will have some sort of correction sooner or later. Mind you, the price increases have been enormously strong over the last couple of years.

ANDREAS HÅKANSSON: Okay, fair enough. Thanks.

OPERATOR: We have no further questions on the telephone.

MICHAEL WOLF: Thank you for your active participation. We really enjoy that you are so active on these calls. We look forward to meeting you out on the road or at the next Q2 results presentation. Thanks.