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Anders Karlsson – CRO, Swedbank

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OPERATOR: Ladies and gentlemen, welcome to the Swedbank interim report, January - September 2014 conference call.

Today, I am pleased to present Mr Michael Wolf, President and CEO.

For the first part of this call, all participants will be in listen-only mode and afterwards there will be a question and answer session.

Mr Michael Wolf, please begin.

MICHAEL WOLF: Thank you, and good morning everyone and thanks for participating at this Q3 call.

Let me start reflecting on the macro environment as well as the political and regulatory landscape.

The global economy is out of step. The US and UK continue to grow whilst the Eurozone is struggling and we see declining growth in China. On top of that, we have an increasing geopolitical uncertainty during the quarter. Despite all of that, we have had a reasonably good development in our four home markets.

We have a minority government in Sweden, as in many other countries, affecting the chances of major reforms being executed negatively. At the same time, we see more and more frustrated voters due to perceived inequalities. The discussion around increasing household debt continued to collar the debate in Sweden and it's, therefore, promising to see a trend shift in the number of housing starts, although from a low level.

During the fourth quarter, we'll get the results from the AQR in Europe which, hopefully, will take us one step closer to cleaning out the balance sheets of the European banks, which is an important step in order to strengthen the sector. The question that I feel remains unanswered is, if we have the political leadership to implement the necessary reforms required in order to return to sustainable growth and, hence, close the perceived inequality gap.

To conclude, our outlook remains, i.e. lending demand will stay subdued and the low interest rate and low inflation environment will be here to stay for quite some time.

Let's then turn to the performance of Swedbank during the quarter. We have had a good client activity despite the macro picture, and we are growing in areas where the real economy has been growing. And hence, we have gained an improved market position, especially in the corporate lending area and around mortgages, and, as a result, we have a strong quarter financially.

In the Baltic banking operation, credit demand has been -- has remained low, as anticipated and we have not seen any direct effects of the geopolitical uncertainty in the neighbouring countries, i.e. credit quality remains robust. The activity level in the local economies remains on a good level and is reflected in our commission income. Our multi-channel approach seems well appreciated by our clients and enables us to be cost-efficient at the same time as providing competitive pricing towards customers.

In Swedish retail, we've benefitted from the increased lending activity, both in the corporate sector where we continue to increase our market share as in the mortgage lending where we now have a front-book market share in line with our back-book market share for the first time since 2009.

Also, in the savings area, we see good numbers. We continue to take market shares in the corporate sector on deposits, and, in the fund management area, we have seen better net inflows compared to the same period last year. The new sales numbers confirm also that our clients are selecting more conservative fund choices like index funds.

The uptake of new digital services remains very strong, thus enabling our clients to a more efficient and accessible day-to-day banking experience.

During the quarter, we introduced Swish payments for our corporate clients which, together with our Babs Micro card reader, allows smaller companies to digitalise their sales and, hence, grow their top line; at the same time, get customer data digitally. In the quarter, 3,600 corporate clients signed up for Swish.

Finally, the integration of Sparbanken Oresund is moving ahead according to plan.

In the LCI, credit demand continued to be okay and we saw many corporates utilising the falling interest rates to refinance themselves. We have seen a seasonally weaker quarter in the bond and corporate finance area but I'm very pleased to note that, during the first nine months during this year, we participated in five out of ten IPOs in the Swedish market.

Our focus, going forward, remains, clearly, to ensure that our positive trend of improving market position will continue. Hence, we are going to further invest in accessibility and services and improved offerings and, where so required, more competitive pricing. Hence, cost-efficiency remains core in our strategy and we aim to reduce our cost base towards SEK 16 billion by the end of 2016.

I will stop there and hand over to Göran who will go through the results in more detail. Göran, please.

GORAN BRONNER: Okay. So, before I then turn into the business areas, I just want to say that this quarter is a very strong financial quarter. It's primarily driven by lower interest rates, that helps our Treasury operation on money or ... on that event. But it's very stable income streams in the three business areas which I will go through very briefly and then open for questions more.

Starting with Swedish banking and the six regions, I think, overall, the strong message here is that we are taking market share. We are having strong volumes on the lending side. We have had SEK 17 billion of lending volumes whereof SEK 9 billion are in the mortgage market and the remaining in the corporate market, very much relating towards a very vibrant property market, of course, in Sweden, in general.

We are ... The financial impact of lower deposit margins is visible. That is deteriorating NII, and it is being compensated by higher mortgage margins relating to the repricing of the capital situation in the banks, but also the volume growth helps there. Otherwise, I think commission income and other types of incomes are following a very stable and good pattern. And we are continuing to work with integrating Sparbanken Oresund in the southern part of Sweden.

Turning to large corporates and institutions, we, in this business area, also had good volume growth in the quarter. The result was slightly weaker compared to the previous quarter but, seasonally, the third quarter is a bit less activity since it's ... part of it is summer activity. And we saw mixed corporate activity, you could say, in the trading side and on the corporate finance side, while lending commissions were quite strong, actually, in the quarter. We had, also, a one-off credit impairment in the quarter that I think Anders will touch a little bit further on.

But, in general, I think the trend and the development of the business area is following plan and very good.

Baltic banking, like Michael was saying, was not affected by any degree of the Ukrainian and Russian situation. Of course, there is no credit growth. We are now operating at a loan to deposit ratio of 97 per cent which is ... should have been unheard of six years ago. So, the Baltics are contributing with liquidity to Sweden, in a sense. And, of course, we still wait and see how the macro picture in Europe develops, and also how the Ukrainian situation develops, in order to see what we can expect in terms of growth. In the meantime, I think, the business area is operating very cost-efficient and adjusting to the sort of environment that prevails there.

Summarising, on Group, as I said, a large part of the NII strength in the quarter is relating to Treasury and the lowering of short-term interest rates. But also, the net gains and losses are helped by lowering of interest rates, so, that gives us good tailwind. Cost-wise, I think we, in the third quarter, are coming in as expected. We started to -- what do you call -- we started to slow down the cost accumulation in the first and the second quarter of the year. And the third quarter continues to show that the cost measures that we are doing in certain areas are biting, and we will continue to see that help us, going forward, actually.

Talking about the cost guidance then, I think we are set to meet the cost target of flat cost underlying, excluding the Oresund acquisition, for 2014. And then, like Michael was saying, we are guiding for a cost base in 2016 of around SEK 16 billion which will be a significant downsizing of the cost base. By the end of this year, the complete cost base for this year will be around SEK 17.6 billion, SEK 17.7 billion, of which SEK 600 million is relating to a one-off charge that we took in the second quarter in conjunction with the Oresund acquisition, I would say. So, the underlying cost base, with the run-up of the half year of Oresund, is around SEK 17.1 billion. And we will, over a 2 year period, manage that cost base down to a SEK 16 billion cost base for the financial year of 2016.

Lastly, before I hand over to Anders, just on the capital. It was a strong quarter on volumes all in all, and I think we were up SEK 21 billion in volumes. That required an increase of risk exposure amount of SEK 12 billion. We continued to see some PD migration, on the positive side, actually, in the books. And also, we can see that the business is ... the LGD is going down as a consequence of the IRB advance, and the steering of that as well, from here, that helps us a bit. Core Tier 1 is at 20.7 in the quarter.

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

ANDERS KARLSSON: Thank you, Göran. Q3 is the 17th consecutive quarter with low underlying credit impairments, ending at SEK 234 million. The increase in this quarter is explained by one old exposure within LC&I.

Baltic banking continues to deliver reversals of SEK 59 million at the expected lower pace. Total impaired loans increased in this quarter due to the single exposure in LC&I, but Baltic banking continues to decrease and Swedish banking is stable.

As Michael and Göran pointed out, we have not seen any negative impact on the credit portfolios in the Baltic countries due to the geopolitical situation in Russia and Ukraine. However, we continue to be in close contact with our customers in all three countries and we follow their development closely. The Swedish banking and LC&I portfolios continue to show good resilience in this ambiguous environment.

Then it's Ektornet. Sales continued in Q3, primarily in US and Latvia, and Ektornet has now exited the US market. During 2014, assets have decreased from SEK 1.8 billion to SEK 900 million at the quarter end, and no intakes in this quarter either.

Thank you.

MICHAEL WOLF: Okay, Anders, thanks. Then we open up for Q&A’s.

OPERATOR: Ladies and gentlemen, if you'd like to ask a question, please press 01 on your telephone keypads. Our first question comes from Mr Peter Kessiakoff from Carnegie. Please go ahead.

PETER KESSIAKOFF: Yes, hi. Thank you. Regarding the cost-savings plan, could you talk a bit about how you intend to implement this? Will it be evenly spread within 2015 and 2016? Or will it be more back-end loaded? If you can talk about that first, and then I have some follow-up questions.

GORAN BRONNER: Hi, it's Göran here. I think we have, broadly speaking, three areas that we operate. One is the integration of Sparbanken Oresund. That is fairly back-ended because we need to convert clients into the Bank. And that will materialise, sort of, during 2016, predominantly.

Then we have -- another area is -- you could say that the central functions, being Group products and the staff functions in general, have been working on cost measures for quite some time. The effect of that is rather frontloaded. You are starting to see that effect coming through already now. And that will be more evident going into 2015, actually.

And then, you have a third area in which we say that the effect of digitalisation and the less traffic that we see in the branch network will entail us digitalising processes in the branch network even further. And that will be work that commence ... has started but are in more early phase than in the central staff functions. So, if you summarise this, I think, we hope to have an evenly split development over the two-year period. But, some of the measures are more frontloaded while other types of measures are more back-loaded. But it's important for us to ... since -- it all comes down to managing staff and reducing number of staff. It's important for us to spread it over a couple of years so we don't end up with restructuring charges.

PETER KESSIAKOFF: Okay, and then ... just then going into 2017, I would assume that one should not expect costs to pick up significantly, given that they will be evenly spread during 2015 and 2016?

GORAN BRONNER: I mean, of course, it's very difficult in 2014 to talk about the investment needs that we might see during the period, and in 2017 as well. So, I would refrain from, really, drawing any conclusion that we operate on a ... even low cost base in 2017. I think, we have a plan now and we will try to implement that plan.

PETER KESSIAKOFF: Okay. And more of a philosophical question, just ... in regards to the cost/income ratio. How far ... or how low can the cost/income ratio go? Just ... on my figures, pencilling in the new cost base for 2016, I would end at a cost/income ratio of around 38 ... 39 per cent. Is there any ...? I mean, is there -- how far down can it go?

MICHAEL WOLF: I mean, we're not steering the Bank on cost/income ratio, but there will be, as Göran already alluded to, some pressure on the revenue side. So, a parallel shift downwards, if you just do that mathematical calculation, will improve the cost/income ratio marginally. But, what we are doing here is looking at ways to improve and adapting to new customer behaviours, and they are choosing less expensive ways of doing banking. And that means that we can't charge in the same magnitude as we could in the old way of banking. So, don't look at this as a cost/income ratio type of issue. It's an issue to preserve our earnings capacity and our return on equity. That's what we're focusing on.

PETER KESSIAKOFF: Okay. And then, just one last question. The higher margins that we're seeing on mortgages in Sweden, would you say that that fully compensates for the increased risk rate floor to 25 per cent?

GORAN BRONNER: I think it's been -- it's a gradual process. And the repricing that we have seen during the third quarter, the rates in the market, I think, has been fairly stable. And then, gradually, the Bank's different portfolios are being repriced as they mature. Of course, there is a fixed portion of that and there is also part of the variable component that hasn't repriced yet. So, there are more repricing to come. On the other hand, you could say there is more pressure on deposit margins in general, as well, with ... or uncertainty. So, it's difficult to give a clear guidance there.

PETER KESSIAKOFF: And how much of the back-book has been repriced, would you say?

GORAN BRONNER: You could say, of the variable component, two-thirds has been repriced.

PETER KESSIAKOFF: Okay. Thank you.

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

RICKARD HENZE: Hi. Good morning, guys. Just a couple of questions on the costs here again, and the potential headwind from the income.

If you can start off with discussing the investment needs a bit, maybe you can give us some gross numbers in terms of how much are you really expecting to increase your investments going forward, or how much would you, in gross numbers, take down the cost base? Given that there seems to be some investment needs in the banking industry generally, it's quite surprising that it can reduce the net costs so significantly. So, if you can start with that, please?

GORAN BRONNER: Of course. I mean, the major component of investments in banks are, of course, IT-related. And I -- we don't -- we haven't disclosed what we've spend in IT development, but I can say it's well over SEK 1 billion each year that you sort of put on new things. I think, in general our expectation is that the total IT spend bill will be static because we want to develop more but we also want to simplify our product offerings. So, we need to be better at taking and ripping out old infrastructure and legacy system and reducing maintenance in IT. So, the general savings will not be on IT. The IT part, as a percentage point of the overall spend, will go up and it will be more hands and humans sort of being replaced by automated processes.

RICKARD HENZE: But you don't feel like you are pushing investments, you know, kicking the can down the road and are forced to take huge investments after 2016?

MICHAEL WOLF: No, I think, if you look at what we have been able to put to the market, we have a good level of new offerings out there. We have “utgiftskollen”, Swish for corporate, Swish for private, etc. So, as Göran is alluding to, it's more about benefitting from that our client base, both on the corporate and the private side, absolutely appreciate these services, enabling us to close down legacy type of services and processes. But it's a major undertaking. So, I think IT spend -- development spend, it's on a good level, and we need to replace maintenance costs with further development costs. So, that's how we look at it.

On staff, I just want to very clearly clarify that, if you look at our age structure in the Swedish operation, we now benefit from the fact that we will have natural attrition due to pension and normal staff turnover to facilitate the staff reductions. So, in essence, the door for new recruits will be very much closed. We will, of course, make an exception here and there. And this will force us to improve internal mobility, but it will also be a fantastic career opportunity for younger employees going forward. So, that's how we need to look at the staff issue. and that's why we don't need to have any reserves for this change in staffing.

RICKARD HENZE: All right. Thank you very much. And -- yeah, sorry.

GORAN BRONNER: If I just add a point on the IT investment side of things as well. I think one of the challenges for big banks is perhaps not the spend side, it's the taking care of the legacy portfolio. So, even if you threw a lot of money on the legacy portfolio, it's not necessarily fix the problem. It's about understanding how it all fits together and doing it in an order that improves the efficiency. And also, you could say that banks are very burdened by regulatory investments on the IT side, as well, that we hope now, will come into, in 2016 -- in a much calmer phase so we can increase the customer content of our development.

RICKARD HENZE: All right. Moving over to the income side, can you give us an indication on how much do you think the NII contribution from the Treasury Department will impact 2015 results compared to 2014?

GORAN BRONNER: As you see, the Treasury result in 2014 is significantly better than the Treasury result in 2013. And then, we started to talk, a year ago, about a headwind because we felt interest rates were not -- would probably not go down further. And then, we've seen a development where interest rates have continued to go down and we've continued to make money. We are approaching zero, so we are -- and we don't expect very negative interest rates. So, I think, going into 2015, you can't expect the kind of development that you have seen in the Treasury result NII and the net gains and losses combined that you see in 2014. That will be a year when we have a huge transition in the interest rates that benefits us. So, more of a guidance for 2015 would be to look at 2013's income in Treasury.

RICKARD HENZE: All right, then. And finally, you've mentioned some -- about positioning yourself for lower prices, especially within the savings area. Can you talk a bit about this; how fast this can come and what specific products you're expecting this?

MICHAEL WOLF: I mean, the savings pattern will be very dependent on where macro is heading or if people see a risk reward in the future. But what we have seen in the recent past is, of course, that people have moved towards index type of funds, etc, and they have a lower margin and, hence, you have an implicit price pressure. So, for the foreseeable future, we do believe that that trend is here to stay. And you have similar changes like Swish payments being almost free of charge for, at least, private individuals. That is an implicit price changer for us, and a revenue changer. So, there is a lot of that happening that we are trying to take height for when we do this cost programme for the next two years.

RICKARD HENZE: All right. Thank you very much.

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

OMAR KEENAN: Hi, good morning. I'm Omar Keenan from Deutsche Bank. Thanks very much for taking the questions. Just a follow-up question on costs. It seems like the real reduction that you're talking about is something like SEK 1 billion, and you've already talked about the impact of the reduction in staff costs. I'm just wondering, the building the rest of the bridge to the SEK 1 billion reduction, does this involve more closure of marginal branches? Or is this more changes within branches that you've talked about before?

And then, just on the Treasury question, you talked about 2015 being more in line with 2013 Treasury revenues. In the past, you've talked about NII and trading together. So, if I just think about what 2014 is, relative to 2013, given the -- if current levels of interest rates stay the same, are you thinking of this being a, kind of, NII and trading headwind of something like SEK 1.5 billion in 2015?

Thanks very much.

MICHAEL WOLF: If I start with the branch question, I think the main change there will be number of staff at each branch and, thereby, the number of square metres needed.

GORAN BRONNER: In the Treasury, there -- I mean, to start with, we haven't finished. We have a quarter left to do in 2014. So, it's difficult to talk about how much 2015 will go down from 2014 since we don't have the last quarter there. I would say that you are on the high side with SEK 1.5 billion -- I would say, in your assumption there.

OMAR KEENAN: Okay. I just -- my thought process -- in 2013, NII and trading together was, roughly, about SEK 1 billion. And, if I extrapolate the Q3 to Q4, then 2014 NII and trading together, in Treasury, looks to be something like SEK 2.3 billion to SEK 2.4 billion. So, that was where I was getting the 1.5 billion number from. Perhaps, where I've been a bit too conservative is continued repricing of covered bond funding. Is that an ongoing tailwind that you expect at Treasury, that will mitigate that number down? Is that how you're thinking about it?

GORAN BRONNER: Now, you're trying to implicitly give me -- give you a guidance on the Treasury results in Q4, so, I'm not going to comment on that. I think I just give you the broad magnitude of things. Then, of course, everything depends on volatility in the market, the steepness of the curve. And so, it's the same language that, I think, we have had previously. It will be difficult in a flat, non -- not very steep curve environment to generate the kind of income we'd done, previously, in Treasury.

OMAR KEENAN: Okay. And perhaps just one more follow-up, kind of, related, question. I guess, some expectations are that, given the latest inflation print, the Riksbank might cut the policy rate by perhaps another 10 bps further. So, it looks like Treasury revenues might actually get better before they get worse, if that's what follows through. Is that how we should think about it?

And then, just secondly, if that does happen, do you think that more mortgage margin repricing could take place? Or will you have to pass the impact of that cost onto customers at this stage?

GORAN BRONNER: On the deposit margin, it becomes increasingly difficult to pass it on as more and more customer accounts actually end up being zero. So, there will be some -- as I said earlier, there will be some margin erosion on deposit margins in Sweden, if they continue to cut. On the other hand, we have some more repricing to do on the mortgage side. So, it's difficult to say how that will net out at the moment. I really don't want to speculate too much about what the short-term interest rates will be in general. And, of course, on the margin, if you -- if they cut another 10 basis points, it will help Treasury on the margin as well, or -- it's the same pattern as previously.

OMAR KEENAN: Okay. Thanks very much.

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

PETER WALLIN: Thank you, and good morning. I would like to ask a question on ... if you have any idea about -- you've previously talked about ... or said that you think an underlying, like, normalised volume growth for household lending or mortgage lending would be 3 to 4 per cent in a more functional market. And then, now, we have a proposal for stricter amortisations. What kind of impact do you think that proposal, if implemented, would have on the volume growth for household lending in Sweden?

MICHAEL WOLF: My best guess is that it will have a dampening effect but how big remains to be seen. It's a combination of housing starts and, of course, the introduction of a more ... or higher level of amortisation in society. But, if you look at price levels in Stockholm, they are very much dependent on people's cash flow. And amortisation will reduce cash flow, everything else equal, and that should have an effect on the price levels, but, how big, let's -- it remains to be seen.

PETER WALLIN: Okay, thank you. And then, going into the corporate lending area, where you're doing really well, could you give a comment on -- so, like, the pricing environment in the corporate lending; if it's, like -- has been stable throughout this year, or if --

what ... the reasons your gaining market share is that you're offering very competitive prices?

GORAN BRONNER: I think, in general, margins in the quarter has been stable to actually increasing somewhat small due to the increased capital charge in general. So ... But my ... So, we don't think -- in this quarter, we don't feel that there is any new margin pressure coming on there. I think, for the Bank, we'd ... I think we are increasingly becoming relevant due to a very strong balance sheet, and also benefitting from passing on cheap funding to clients as we are rated well in the financial market.

MICHAEL WOLF: And secondly, of course, the economy is growing in sectors where we have a traditional strong position, i.e. in the real estate sector. Had we seen a broader demand, also, from industrial companies, the market position might not have moved as much as it has.

PETER WALLIN: Okay. And then ... And a question on your thoughts about ... You started off by saying that it's ... I mean, the macro clouds have, if anything, maybe become thicker in the most recent months. Is it reasonable to assume this is, like -- the corporate activity levels, both in terms of commission generation as well as lending or create demand, will prevail at the levels we have seen so far this year? Or should one assume that those will slow down starting from now?

MICHAEL WOLF: Extremely difficult to have a macro view right now. We might get a green light after November's stress test. But, as I said, extremely difficult to judge right now.

PETER WALLIN: Okay, then, thank you. And then, a final question of mine regarding mortgage margins where, so far, the repricing has been done really successfully. However, the most recent days, you and some other place have been lowering the official list prices. Should -- does that mean that the margin improvement seen so far is being capped at the current level? Or does these list price cuts still imply that margins might improve further?

MICHAEL WOLF: I mean, the latest cuts are just a reflection of falling market rates.

PETER WALLIN: Okay. Thank you very much.

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

MAGNUS ANDERSSON: Yes, good morning. Two questions; one on capital, and then on profitability. First of all, on capital, the Swedish FSA seemed to imply that you would need around 19 per cent in common equity tier 1 ratio here in September. You're now at 20.7. So, my question is what kind of margin do you think you will need to have relative to the minimum requirement from the FSA? And secondly, when do you think you will be able to come back and talk more about a capital target? That's the first question.

And then, secondly, on profitability and your 15 per cent ROE target. It doesn't really seem like a stretch particularly, and not with the new cost-cutting ambitions for 2016, even if you just pay out your 75 per cent in dividends. So, that's my second question; what kind of profitability are you targeting? And when will you come out with an update on that? Thank you.

MICHAEL WOLF: I mean, we'll come back in Q4 with a capital target. But the regulator has told us 20 and that's how we read it. And we are 20.7, and we want to have a small buffer. So, we can, definitely, once again, conclude no excess capital. And then, we'll fine-tune and get back to you in conjunction with Q4.

For me, I was alluding to the 15 per cent earlier during the Q&A session. And we're doing the cost-cuts to ensure that we are going to be capable of delivering 15 per cent. And I think Göran has been quite clear that the positive Treasury result will not be there going forward. We're seeing transformation of customer behaviour. So, I do believe that it's going to be possible to reach 15 per cent but it will be a lot of hard work as well.

MAGNUS ANDERSSON: Okay. So, just on the capital, you think you're all right now, in terms of common equity tier 1 ratio, where you will have to be, really, until 2016?

MICHAEL WOLF: What I said is, we're going to fine-tune it during Q4, and we need a margin north of the 20. But it's not -- we're not far off.

MAGNUS ANDERSSON: Yeah, okay. Thank you.

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

ALVARO SERRANO: Hi. Thank you for taking my questions. Just one follow-up in terms of some -- a lot of the comments you've made around the retail margin outlook. I think you've mentioned that two-thirds of the variable mortgage book is now repriced. Should we expect margins to improve after -- now the rate cut is fully factored in over the next few quarters?

And more ... The second question would be more on the ... Conceptually, now that it seems that amortisation is going to be introduced and, clearly, you're going to be charging clients more for what is a less risky mortgage given it is amortising, what do you think -- can you share your thoughts on the ... how sustainable you think the repricing is into next year, if you're going to start asking clients to amortise more?

And the third point, you've mentioned that a lot of the cost-cutting is, I think your words were, "to preserve earnings' capacity", which sounded a bit a bearish to me, or cautious, not ... maybe bearish is a strong word, but cautious at least. Would you expect consensus to go up today after your cost-cutting announcement?
Thank you.

MICHAEL WOLF: On that last one, I don't think we will comment. But, if we look at amortisation, assume possibly 2 per cent amortisation per year. So, it's going to take a while before any client's risk profile significantly changes. Hopefully, we'll get more housing starts, which will give us more volumes. So, there are many factors here that you need to bear in mind when you do your modelling, but those are a few, at least.

GORAN BRONNER: On the margins, I think it's very difficult to say what will happen from here, if margins will continue to go up or not, and how the competitive environment will -- it's been fairly stable in the past quarter, actually. I would also point -- don't forget the fact that Sweden is growing very much in population size, and that is, really -- the, really, growth factor beneath everything; that we need to build more houses in order to cater for more -- a larger population. And, eventually, that will turn into credit growth because we can't build more houses without extending credit. So, it's more -- also very much a question of when will the supply of housing starts increase and put a dampening effect on the real estate prices, which would be good for the society.

ALVARO SERRANO: Does that – would, should I interpret that you are more confident on NII being driven by volume growth than margins going forward?

GORAN BRONNER: I think volume, eventually, will become more important as capital has been repriced by banks, in general, yes.

ALVARO SERRANO: Okay. Thank you very much.

OPERATOR: Our next question comes from Mr Daniel Do-Thoi from JP Morgan. Please go ahead.

DANIEL DO-THOI: Hi, good morning. Just one question remaining for me. On your Baltic business, I know you stated that you haven't seen any real impact to date, but your overall macro commentary does seem to have turned slightly more cautious, if I'm reading that correctly. You flag, for example, a few sanction-affected industries. So, just looking at 2015, if we don't get a material improvement in the geopolitical situation, how would you expect this to weigh down on your top line and, or asset quality in the Baltics?

Thank you.

MICHAEL WOLF: We will be flattish on the revenues, I would argue. But we have had a very bearish outlook for a prolonged period of time, and you could say some of the volume growth that we have seen in Q2 and Q3 has been on the positive side for us as we have guided for very subdued credit demand the last two years. So, at the end of the day, we are steering the company, based on a subdued environment. And, if there is growth, yes, it's important to participate and, so far, we have. So, that's how I look at it. We're not gearing up for a positive environment.

But I would also say that the stress test could be a signal that certain issues are dealt with in Europe. So, there are positives. But, I agree with you, the macro has become weaker after the summer and everyone that was close to the IMF meeting(?) got that very clearly articulated throughout all meetings there. And especially the Eurozone seems to struggle more than anticipated.

DANIEL DO-THOI: Okay, great. Thank you very much.

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

MASIH YAZDI: Hi. Most of my questions have been answered. Just the one on the AQR. What kind of ...? What's your expectations on your result there? Is there any chance, do you think, that Swedbank will be asked to take additional reserves for any your portfolios, please? Thanks.

MICHAEL WOLF: We can't formally comment on that because we are under a confidentiality agreement, but I would take confidence in the stress test that you have seen from the Swedish central bank and the FSA to guide you in the right direction.

MASIH YAZDI: Okay. Thank you.

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

NICK DAVEY: Yes, good morning, everyone. Two questions, please. The first one on ... back to the amortisation theme. Thanks for the new disclosure on the proportion of your book which is amortising above 70 or 75 per cent loan to value. I just wondered if you had some equivalent numbers of how much of your mortgage book is amortising above a 50 per cent loan to value. And, if the current proposal does come into play, I just wondered if you can make some more broad comments, let's say, on the implications of that. I know you've mentioned dampening credit demand. I just wondered how widespread an impact you think that might have in 2015, either -- be it house prices or consumption; just any more broad commentary there would be welcome.

Second question would be on capital. And you've talked about not having any regulatory excess. I just wondered if you could make some observations about capital generation from here? Clearly, capital is down on the quarter, and I know there are some IAS 19 impacts in there. But, just thinking, out into 2015 and 2016, if your REAs start to grow, as they did this quarter, in line with volumes and you stick to 25 per cent retained earnings per year, I'm just wondering ... I guess, a basic outlook would be for not much capital generation. Just wondering if there's anything that changes that picture from a PD perspective or a REA efficiency-measure perspective; or if you're quite happy to be not very capital-generative from here?

Thanks.

MICHAEL WOLF: Nick, I'll take the first question and then Göran will help you through the capital issue.

As we get new regulation around amortisation, we will also be disclosing numbers. But we haven't seen the need for that, year to date. And we'll definitely do it as soon as we have some affirmation of new regulation around that.

GÖRAN BRONNER On capital, I think ... the changed picture a little bit is, of course, that the growth of the business is eating capital so the accumulation of capital is slowing down. I think, in general, that it's a very positive event. So, it doesn't ... It will translate into EPS growth for the shareholders as well. So, I think it's good.

Of course, with such a high capital position, it's important that the Bank is efficient in utilising its capital base. And I think we always work on that and we will continue to work on that.

NICK DAVEY: Okay, thank you. And so, on the amortisation side, thanks for the "more disclosure in time". Just, broadening out the thoughts of the implications for Sweden in 2015, any thoughts on house prices, or any shifts in customer behaviour in recent weeks, based on the proposals, that you've seen?

MICHAEL WOLF: Nick, I think it's still too early to say that. I do believe that people look at their cash flow here and now and take a decision based on that.

NICK DAVEY: Okay, thank you.

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

RICCARDO ROVERE: Good morning to everybody. Thanks for taking my question. So, I've just a couple of follow-ups, on the cost side and, again, on Treasury. If I understand correctly, most of the, roughly, SEK 1 billion cost savings -- because, if I understand correctly, you said 17.1 excluding one-off related to Sparbanken Oresund at the end of this year, and then becoming something more similar to SEK 16 billion. So, let's say SEK 1 billion less, including the inflation effect. And, as far as I understand, you expect to reduce staff by roughly 600 - 800, let's say 700. 700 is more or less 5 per cent of the workforce. Looking at what you reported in Q4 -- Q3, sorry ... staff cost this year should be -- could be in the region of, let's say, SEK 10 billion, annualising what you have reported so far. So, SEK 1 billion cannot be just staff cost; it must be something else. Can you provide, please, a breakdown of how much you think this lower -- billion-lower cost should be broken down between staff and other costs?

And the second question I have is, again, on Treasury NII. If rates remain as they are today, with minor changes, why should the contribution from Treasury all of a sudden change and worsen so much to get back to the same levels of 2013 where rates were completely different? And also, looking at the contribution from derivatives, it doesn't seem to have ballooned any time soon over the past few quarters, so I really don't understand why should all of a sudden worsen the NII component of the trading.

Thank you.

GORAN BRONNER: Thanks. If I start with the cost, you're absolutely correct that, of course, it's not a pure staff cost. I would say it's a fair bit of premises; it's consultants; it's also with regard to dismantling Oresund. It's also IT costs; taking away IT infrastructure in Oresund. That will lead to cost saving. So, it's a multitude of different cost items. If I simplify things, I would say, roughly, 50 per cent being staff costs, over(?) that billion, and 50 per cent being the remainder of the various sources of costs, so to say.

On your NII ... I disagree a little bit with you. I must say that, if rates go down so much and if you have interest rates risk on the books, and if part of that interest rate risk is in the banking book as well, it will definitely deteriorate your NII, and also your net gains and losses that you have in your liquidity portfolio where you get, sort of ... We have also seen, sort of, a credit compression on that side as well. So, we're ... I think it has quite easily contributed towards the changed market environment.

RICCARDO ROVERE: Okay, thanks. If I may follow-up just one second. Getting back to the staff -- one second. If you say 50-50, it means the SEK 500 million from staff -- the SEK 500 million would mean, let's say, 5 per cent of the staff cost. And 5 per cent is the amount of people that you are reducing through natural attrition over the next couple of years. So, it looks like you have no impact on, let's say, a wage inflation, which doesn't seem to be reasonable to me. Are you also expecting anything else that could explain why such a big chunk of staff cost when you're reducing the workforce by just, let's say, 5 per cent? Is it you ... Are you expecting to reduce the most expensive employees or whatever?

GORAN BRONNER: There are different kind of components in staff cost as well. So, it's not only the number of persons. But I think the ballpark figure hangs together.

Then, I just want to highlight as well that the actual savings are actually bigger than SEK 1 billion because we have a run-up of the cost for running Oresund that we are taking care of in this picture, since we incorporated in the second half of the year; it runs up in 2014 and then we dismantle it.

RICCARDO ROVERE: Okay. And did they -- let's say, the staff cost included in the first SEK 16 billion includes variable compensation too; that's correct?

MICHAEL WOLF: Correct.

RICCARDO ROVERE: Okay, thanks.

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

JAN WOLTER: Yes, good morning. And apologies if the questions have been asked previously but ... The first one on the cost side; do you include the cost savings from the savings bank's acquisition when you talk about the 600 - 800 staff cut?

Thank you.

GÖRAN BRONNER: The number of people that is coming out in the future year is included in that number; that is correct.

JAN WOLTER: Thank you. And the second question is on the Treasury here; the interest rate levels for yield curve, if they stay unchanged would then the Treasury result still come down? I guess what I'm asking is if it's just the effect of positions rolling off that you see the lower Treasury result going forward in 2015?

Thank you.

GORAN BRONNER: No, it's the effect of positions rolling off on the higher rate, so to say. And then, of course, the unknown factor for us is to know how steep will the curve be? Will we be given opportunity to add risk with steep curves at some point in time? And what kind of volatility will there be in the market that we can utilise for managing the short-term end of the balance sheet?

JAN WOLTER: Okay, many thanks for that.

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

JACOB KRUSE: Hi. Thank you. I guess, just a quick question on the cost. Could you talk at all about how the savings break down between the divisions? Is this mostly a retail impact on your divisional bases? And, on that topic, I think you used to talk about the Baltics as being oversized for its current business model. Is that an area where you would downsize as well, if that region is now looking a bit more challenged?

Thank you.

MICHAEL WOLF: The Baltic -- I think the Baltics are trimming their business model very nicely and I think they manage their cost base very good. So, I don't think that what we're talking about here -- it's not relating, really, to the Baltics. It doesn't really relate to LC&I either. It relates to the Swedish regions. And I think there, it's part of the acquisition with Oresund and then it's a part of ... The new technology enables you to distribute your retail household products, primarily, in a different way, and it also enables you to streamline your internal processes in a different way. And that is, sort of, the efficiency and productivity that we are to take out. So, it's in the back-end, that, you could say, belongs to all of us a little bit. And then, it's predominantly in the six regions.

JACOB KRUSE: Okay. Thank you very much.

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

JOHN BACKMAN: Yes, good morning. I'm just wondering if you are anticipating to take any extraordinary charges on costs in order to reach the new cost guidance?
Thanks.

MICHAEL WOLF: No, we will not. And that's why we are trying to be clear with the age pyramid that we have in the Bank; this is natural attrition, i.e. the age pyramid, together with the fact that we have normal staff turnover. Hence, it also means that we will be very restrictive with taking in people externally, and focus more on internal mobility. And it will, of course, be great career opportunities for young people in this Bank.

JOHN BACKMAN: Okay, thanks. And just a quick follow-up. You were saying in the report that you're seeing margin pressure on new sales in the savings area, and you said that, previously -- that you're taking costs out of this area as well. Can you give us a feel for the magnitude of those savings?
Thanks.

MICHAEL WOLF: No, we will not guide that specifically. What we're seeing is that clients are turning their flows towards index funds, which is, of course, price-wise -- or margin-wise, a lower margin product. And you have data on the net inflow in the report under the product description

JOHN BACKMAN: Okay, thank you.

OPERATOR: A reminder that, if you'd like to ask a question, please press 01 on your telephone keypad. And our next question comes from Mr Adrian Cighi from RBC. Please go ahead.

ADRIAN CIGHI: Good morning. This is Adrian Cighi from RBC. Thank you for taking my question. I have one follow-up question on capital, please. Rate-grade migration contributed around 30 basis points to the core tier 1 in this quarter. Could you give us more colour as to what's driving this? Is this additional collateral from corporates, or a further increase in house prices? Swedbank's average risk weight is currently 32.7 for the corporate IRB; one of the lowest among its peers. How much lower can this, realistically, go?
Thank you.

GORAN BRONNER: I think it's a combination, mostly, of increased collateral. So, I think the business, as we have implemented IRB advanced, are seeing the benefits of doing collateralised business, and that drives behaviour in a way. But also, we have a slight PD ... positive PD migration also in the Swedish book, which is -- these migrations are late cyclical. So, even if you feel that the macro has deteriorated, it won't show up in the model until a later stage, if it were to impact the credit quality.

ADRIAN CIGHI: Okay, thank you.

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

ANDREAS HAKANSSON: Yes, hi. One final question from my side. Just on that larger provision charge of SEK 355 million, could you tell us, did that come from Sweden? And could you also tell us, have you provided for the entire exposure? Or could it be more in coming quarters depending on how that company develops?
Thanks.

ANDERS KARLSSON: Hi. This is Anders. No, it's a Norwegian exposure and we made -- it's -- the entire amount is larger than the provisions.

ANDREAS HAKANSSON: Okay, thanks.

OPERATOR: Our next question comes from Mr Matthew Clark from Nomura. Please go ahead.

MATTHEW CLARK: Good morning. Just a follow-up question on the Treasury net interest income. Presumably, the benefit you're seeing this quarter is because you're funding longer term assets with floating rate liabilities and, as floating rate liabilities reprice downwards for you, you see a wider spread. What kind of duration are you investing those Treasury assets at? So, how long should we expect that wider spread to last before the asset side reprices downwards?
Thanks.

GORAN BRONNER: I think we have guided that the average duration is around the two year node.

MATTHEW CLARK: Great. Thank you.

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

RICCARDO ROVERE: Yeah, thanks. Just for a quick follow-up. You stated that there is -- you think there is very little surplus capital on top of what the FSA is asking you. Are you happy with the current 4.4 leverage ratio? Do you think this is going to ... will have to go up further, and, eventually, till what level?

Thank you.

MICHAEL WOLF: I think, bearing in mind the structure of the Swedish savings market with a lot of savings in the pension area, that we have a robust system. Although it stands out in the European context and needs to be explained, anyone that has been looking more closely to it would say that the investments from pension companies into covered bonds could be regarded as a quasi-deposit type of investment. So, we'll see what the regulators end up doing. If they push it ... leverage ratios up, we will, of course, have to respond with securitisation measures and other things. But that is for tomorrow to ... tomorrow's discussion. We don't have anything pending that we can relate to. But, of course, higher leverage ratios would change some of the way Swedish -- the Swedish structure works.

RICCARDO ROVERE: And -- okay, thanks. And, if I may, just a quick follow-up. The EBA has stated that, after completing this exercise next week ... 2015, they will start looking again at RWA harmonisation; something that they started and then they stopped. On the back of this, have you started any kind of discussions with your regulator, maybe with regard to corporate risk weights or something like that?

MICHAEL WOLF: I think the Swedish regulator appreciated the ranking of risk in Basel II. And I think it's important that ranking of risk continues to be prevalent in the models, otherwise we'll get new anomalies. The question then is how do you defend yourself from structure risks? And I think macro prudential boards is one answer. The other would be that every European bank could do what we do, i.e. publicise their stress scenario, including collateral levels, etc. And I think you guys would very quickly make up your mind where the risk actually fits. Flat floors is not going to be helpful to create a dynamic growth environment going forward.

RICCARDO ROVERE: Okay, thank you very much.

OPERATOR: There are no further questions.

MICHAEL WOLF: Then I thank you very much for being so active this time around. It's always a pleasure to get your questions. And you keep us on our toes, so thanks for that. See you next quarter.