Event: Swedbank Interim Report January–September 2015

Date: 20.10.2015

Speakers: Michael Wolf, Göran Bronner, Anders Karlsson

Call Duration: 01:00:21

Operator: Hello and welcome to the Swedbank Interim Report for January–September 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 Q&A session. Mr. Wolf, please begin.

Michael Wolf: Good morning and thanks for participating at this Q3 Result Presentation. The quarter has seen volatile markets, with widening credit spreads and declining stock markets. This as growth prospects, especially in China, has been revised downwards, and the Fed result not to hike rates due to the uncertainty. However, this is nothing compared to the tragedies that we have been witnessing as people have tried to escape the war zones in the Middle East. We and other stakeholders have a huge responsibility to support people seeking asylum in Sweden, even if it short-term creates a lot of challenges. Long-term, this is actually a huge opportunity with the demographic challenges that Sweden are facing. Hence, focus needs to be on fast and efficient integration to the Swedish job market and affordable housing close to the urban areas.

Our four home markets' economy continue to perform well in an international comparison. The challenge in the Baltic is to curb wage inflation, and in Sweden the increased property prices continues to be a topic. I feel comfortable that we are supporting our clients to mitigate the risk in the Swedish mortgage market. We have tightened lending standards both on mortgaged and commercial properties; for example, the number of new mortgage loans that amortise with LTVs between 50% and 70% increased to 64% in the quarter, compared to 53% in the second quarter.

It's also positive that there seems to be a growing political support for gradual removal of the interest rate tax deductibility. I'm also very positive to the fact that we are seeing a significant uptick in the new housing starts, as it allows us to grow the lending book in a more sustainable way. However, with increased immigration and continued urbanisation, more political involvement is needed to bring the number of housing starts to a level that truly addresses the demand side.

I'm also very glad to be able to welcome over 200,000 new clients to the Bank, thanks to the acquisition of Sparbanken Öresund in Sweden and Danske Bank's private portfolio in Latvia and Lithuania. We had a successful integration of Sparbanken Öresund's client base to our IT environment during the first weekend in October, and in Latvia and Lithuania we're awaiting regulatory approval before being able to do the same conversion.

We delivered strong profitability in the quarter; at the same time, we continue to grow our capital base. The capital buffer is now 340 basis points over the regulatory minimum. In light of this, I'm also very pleased with the return on equity at 13.5 that the Bank produces in the quarter.

Our cost efficiency measures have been effective, and we have created room to increase investment in areas which allows us to further improve customer satisfaction, i.e. upgrade our service and accessibility in all our channels, as well as new digital services. We've got positive signals during the quarter in relation to customer satisfaction, as the SKI Swedish quality index was presented, but we still have plenty to do in this area. The transformation of customer behaviour is clearly seen in Swedish banking, the penetration of digital services continues to increase from high levels and at the same time the number of over-the-counter transactions at branch offices declines with 16% year over year.

Our challenge in the savings area continues. We're pleased to note that ARN (Allmänna reklamationsnämnden) has declined Aktiespararnas request for a retrial of their complaint. It's my firm belief that this process has created a loss of self-confidence among our advisors, and we can now hopefully get refocused on savings-related efforts. We have taken a lot of measures to increase our competitiveness in the savings area, such as a more adequate product range with the expansion of products in the passive and portfolio management area; a reduction of the range of active funds; and also lowering of fund fees. On the positive side, we've seen we are now once again market leader of structured products. We saw good fee income on stock market related transactions, and our funds Morningstar ratings is improving.

In the LCI, we continued to confirm our strong position on debt capital markets. We are ranked number one overall in Sweden and third place in Norway, we see a growing market share on Eurobonds and we have also made a number of large bond transactions with Finnish clients. However, overall client activity in the market area has been affected negatively by the increased market volatility.

Finally, I must once again lift my hat off for the Baltic banking performance. Very stable franchise, good client acquisition as I mentioned, and still a lot of upside potential for those markets over time.

With that, I hand over to Göran.

Göran Bronner: Thank you Michael. I will like usual try to go through the various business areas quickly in order to give you the highlights, and then we can quickly open up for questions.

Starting with Swedish banking, first of all I would like to mention the fact that – like Michael was saying, that we did migrate over 100,000 clients into the platform of Swedbank in the first weekend in October. We also migrated another 100,000 clients onto the Sparbanken Skåne platform, so it was one of the biggest IT conversions ever taking place in the banking environment, and we actually gathered data from over 200 different systems and migrated them into two different banks, and the complexity of that project cannot be underestimated or overestimated or whatever you say.

So we're very pleased with that, that that happened without any hiccup for clients, and that is the disturbance of the Bank was so small, and when we go back and look at the regional business case for Sparbanken, the acquisition of Sparbanken Öresund, we feel that we are well on track and meeting most of the parameters in there actually.

Then turning to the numbers, in this quarter we continued to see higher mortgage margins together with – you could see volumes that we have gathered in the prior quarters that drive the NII higher in the quarter. We have continued to have some negative effect on lower deposit margins in the opposite direction, but the overall number is positive, as you can see. The negative effect compared to the prior quarter is on the commission income and it relates towards sort of the declining stock markets to a very high degree, and not only have the assets under management in Robur declined, but also have we seen slightly less activity on the securities – in securities purchases and selling that was very active in the second quarter. Overall, that has made commission income drop somewhat. Asset quality continued to be solid, and Anders will come back to that. Key ratios very good, and a very hectic investment agenda going forward for this business area that we can come back to.

Turning to Baltic banking, I think the acquisition of the Danske Bank's retail portfolio in Lithuania primarily really solidifies our market leader position, we are very pleased with that. It's an add-on acquisition that will support profitability going forward, but also I would say that everything in the Baltic banking business area is moving with small improvements on all areas: good cost control, encouraging signs on the lending side – we've continued to see increased mortgage lending, which is good to see that the economies are getting more self-confidence even in the weak environment – and in general a very good operating performance, I must say, impairments being low as well and the very strong key ratios.

Turning then to large corporates and institutions, being the sort of weaker – part of the weaker result in this quarter, it's mostly relating to the more difficult trading environment, where we have seen widening of credit spreads in the quarter and also some lower activities in the – primarily the corporate finance area that has affected us negatively compared to other quarters. And the return number is one of the weakest quarters we've seen for quite some time, but I think that's part of the volatile environment that such a business area operates within.

On the lending portfolio, I think it's nothing new. We have small growth; towards the end of the quarter we did witness a tendency towards higher margins, relating mostly toward more risk awareness in the general business climate rather than anything else.

Summarising this on Group level, good NII, slightly weakened at commission income, slightly weakened at gains and losses, also affected by the widening credit spreads were the performance in the Group treasury area, which had a slightly weaker result, but if I summarise the income, good quality but slightly below prior quarters. Cost control being very good; not only on staff cost but in all items really we run below expectations, and that gives us good room to put forward investments that we see are necessary.

And here I would like to highlight two areas. One is sort of the necessity to invest in order to meet competition and the increased digitalised environment that we see for clients primarily that will be very good for us to speed up that investment programme, it will enable us to bring more client value quicker to clients really and meet competition. The other part is an ever-increasing burden in regards to regulatory environment. The latest areas are sort of the IFRS 9 and what that meant for banks in terms of building investments as well, and of course that is more problematic for us since it's not very value-enhancing, but it's something that we need to do anyhow.

From a guidance point of view, I think we remain with the guidance that costs will for 2016 be around 16 billion, so the very good operating efficiency you see will not materialise into lower cost base in 2016 because we will add on and speed up investments. Other than that, I can point to the cost to income being of course very strong in the quarter at 0.42.

Then moving on to capital, we did see an increase of the Q1 ratio partly as a result of building capital -result. We also had the positive effect of IAS19, so all in all we built 2 billion more in capital and we had a slight reduction in REA. We had growth in the quarter that consumed REA, so had an increase relating to increased lending, but we had a model change in the Baltics that reduced REA with 3 billion and we also had less market risk when we went out of the quarter, and that reduced REA as well. All in all, core tier one of 23%, very strong, and our best forward-looking estimate of the regulatory requirement is 19.6, and a very healthy 340 basis points of buffer. The SREP came in as expected. We continue overall to see regulatory uncertainty, so it's very difficult to have any real – more precise language on the needed buffer going forward. It's very nice to have these 340 basis points.

With that, I turn to the last reflection, and that is just to highlight that we have had a very – during 2015 a very much more extensive funding programme. We early in the year decided to be a bit more aggressive considering the QE that was in the first quarter and the availability of funds. We had a very hectic first and second quarter. It has slightly slowed down in the third quarter as a result of the weaker macro environment and the widening of spreads, but overall we feel good by extending the NSFR from 101 to 104.

With that, I hand over to Anders.

Anders Karlsson: Thank you Göran. Yes, yet another quarter – the 22nd – with very low loan losses, ending at four basis points or 130 million SEK. All business areas are stable and the loss you see in LC&I is related to one well-known expulsion. Impaired loans continue to be at a very low level, and being in this quarter 35 basis points. Thank you.

Michael Wolf: Okay. With that, I guess we open up for Q&As.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question and you haven't already, could you please press 0 and then 1 on your phone keypad now in order to enter the queue, and then after I announce you just ask your question. And please note, if you could make sure your line isn't muted, because the system does mute you automatically. And there'll be a brief pause while questions are being registered.

Our first question is from the line of Pawel Wyszynski of Danske Bank. Please go ahead with your question, your line is now open.

Pawel Wyszynski: Yes, hello. Pawel Wyszynski here from Danske Bank. Three questions from my side, and the first one: you have a 340 basis points buffer towards your capital requirement now; how much buffer do you need and are you at all worried about your 75% pay-out ratio policy?

Michael Wolf: We're clearly not worried about our pay-out ratio with this capital buffer. I think it's still, as Göran alluded to in – during his presentation, too early to talk about the level of capital needed. We have IFRS 9 coming, which will affect quite a bit, and as you know, we have these pending Basel 4 discussions that we need further clarity on. So, as always, we will revert to the issue at year end, but the pay-out ratio is stable in light of the buffer.

Pawel Wyszynski: Okay, perfect. The second question, if you could talk something about your outsourcing potential to the Baltic countries, and also how shall we view the costs for 2017 given that you're already now front-loading a lot of some investments?

Göran Bronner: I think we have an ongoing programme on what we call near-shoring, which is moving positions from Sweden to the Baltics. It started really in this year. It's a gradual programme where you near-shore people over a large number of years. The investment of that, you could say, sort of is normally that it entails a cost for the first 18 months and then you have a value realisation in the back end, so you gradually build efficiencies through that. So I don't think you should expect sort of big jumps between years in terms of efficiency gains. It will be very hard for you to see it in the numbers, but it will help us to mitigate price increases and other investment need increases going forward.

And with regards to, sort of, the guidance for 2017, I don't think we have given any guidance really. I think what we're trying to say here today is that we see a potential of actually – and a need to bring forward some of the investments and actually build our investment programmes to a higher degree, and that will actually mitigate sort of the declining run rate and actually build costs during part of 2017. So on one hand, we will transform the business and the old way of doing business, and then in other parts where we change the business we will actually add costs, and we remain sort of on the run rate around 16 billion for 2016. It's really too early to say where 2017 are going, but I doubt it will be lower than 16 billion. So I don't think you should see us, sort of – because the complexity and the cost build that you will see in some of the investment programmes will mitigate most of the efficiency gains that we take out, not only in near-shoring but also in a change procurement process that we will work with in order to streamline the procurement in the Bank.

Pawel Wyszynski: So it sounds like flat for longer.

Göran Bronner: We will come back – I think we will come back in a couple of quarters with a better understanding of 2017, when we are more precise there, but if we can keep flat in this environment, I think that would be good.

Pawel Wyszynski: All right, perfect. And the last questions, regarding the upcoming higher risk rates on corporate in Sweden that the Swedish FSA is talking about, should we expect that – like for mortgages, that the higher capital requirements will be passed on to customers in terms of higher margins?

Göran Bronner: I think if we see a broad regulatory change that pushes capital demand on corporate lending significantly higher, I would presume that will be passed on like it was back in 2010 and 2011 to clients, yes, but in a more gradual way.

Pawel Wyszynski: All right, perfect. Thanks.

Operator: Okay, we now go over to the line of Peter Wallin at Handelsbanken. Please go ahead, your line is open.

Peter Wallin: Thank you and good morning. I would like to ask a question about the margin outlook for mortgages, also in this quarter the front book margins continue up. Should we still expect this trend to continue?

Göran Bronner: I think we've been positively surprised, sort of, of the re-pricing. In the past couple of quarters, we talked about the difficulty of continuing. I don't think the mortgage borrowers can sort of subsidise the depositors in the Bank in general, so I think we have been surprised by the extent of the re-pricing. So I don't think we have in our plans anything to push that on clients or that you drive profitability; we are rather calculating on other things in order to improve our own position.

Peter Wallin: Okay, thank you. And then coming back to the margin outlook for corporates, you were giving an indication that you saw some re-pricing at the end of the quarter due to more correctly pricing risk, or I don't know if I understood that correctly. But still, do you see potential for continued repricing of that kind also going forward?

Göran Bronner: I think what we witnessed was that the risk awareness in the market increased in the quarter. We have had a long positive equity market for a long period of time, and you had seen more aggressive lending in certain segments of the market and with looser covenants, and the new attitude with more risk awareness is of course reversing that trend, and I think that's actually a positive trend that you have some more risk awareness. And that will also be visible on the margins, but it's too early to see that in numbers.

Peter Wallin: Okay. Thank you. And then staying at the corporate lending area, so like volume growth has been kind of muted now in the last quarter, and continuing with what you see in the market today. So should we expect volumes to stay on a more or less flattish level, so do you see any potential in the market?

Michael Wolf: I mean, long-term there is a significant need in terms of housing starts and commercial properties, and that should hopefully lead to a sustainable lending situation also for us. So that's where we believe the market will grow and should grow, bearing in mind the organisation and on top of that the immigration wave that we're witnessing. So we have the balance sheet to participate there, but as you also know, the number of housing starts, even if they're reaching record levels this year, is far below the demand side, so there needs more political involvement in order to really step up on that side. So hopefully it happens, and if it does, we think it's a good story for Sweden and a good story for ourselves.

Peter Wallin: Okay, great. Thank you. And then if I just could have more of a hypothetical question, last one of mine, regarding that the Swedish Banks Association were out a few days ago saying that they are in strong support of doing something about interest cost deductibility, although it's not in their hands. Would – hypothetically, if you would, some other suggestions in – is for example that we would implement some kind of debt to income quota, do you think that if that discussion would come to the Swedish Bank Association, would you be in support of such a regulation?

Michael Wolf: I mean, we – I don't really follow the question, but I guess that we are in support of – that the political system is looking at the interest rate deductibility issue overall. Secondly, we have a debt to income sort of ratio when we look at providing mortgage loans, so that's already implemented in this Bank, and we see – which I think is positive – a huge change in the degree of amortisation on new loans; as you see in the report, 64% of loans taken up in this quarter amortised between 50–70% LTV compared to 53% in the last quarter. So there is a shift in behaviour among our customer base which is good in light of the house price inflation.

Peter Wallin: Okay, thank you. What I was referring to was if, like, the Swedish Banks Association would implement some kind of further regulation which would be binding for a very large share of the transactions? I mean, probably then a strictening compared to the internal rules you have today.

Göran Bronner: It's nothing that has been discussed around the Banks Association, and I think it's very difficult to detail, regulate all aspects of mortgage lending, to be quite… and I think more and more people are also coming to the realisation that this is a supply side problem that needs to be addressed.

Peter Wallin: Okay. Great, thank you very much.

Operator: We're now over to the line of Magnus Andersson at ABG. Please go ahead sir, your line is open.

Magnus Andersson: Thank you and good morning. First, a follow-up question on costs. Göran, you mentioned near-shoring and procurement as the two most important areas going forward for cost reductions. My question is just about the timing there. Are those two things primarily expected to have an impact on the cost level for 2017, and also how far have you come when it comes to this near-shoring process? Have you already started on moving employees to the Baltics?

And finally, just to add – sorry, if you can quantify are they of equal size, the impacts of the more efficient procurement processes and the near-shoring? Thanks.

Göran Bronner: Okay. Yes, they are more – the value realisation starts more in 2017, because there are longer period – lead and lags to implement. On the procurement side, you could say that we are still more in the investigative phase and implementation phase of that one, so you won't see real value realisation starting in 2017. I think near-shoring we have already started. We will move more than 100 people this year, and that will increase in 2016 and it will continue in 2017, 2018 and I think most probably 2019. It's sort of a gradual programme. So the effects on near-shoring will be spread over a longer period of time, while procurement you could say have potential to be more effective for us in 2017 and 2018, sort of, while if you think about the near-shoring effects, they are very back-loaded, so the best effect will come in 2018, 2019.

Magnus Andersson: Okay. And I also note your headcount reduction since you launched the 16 billion target a year ago has been 5%, roughly, and a lot in Sweden. Will that continue?

Michael Wolf: I think that we over time will try to become an even more efficient Bank. As we said, some of the headcount came about because we had a recruitment stop, and in turn mobility proved to be far more successful than anticipated, which means that we are in certain areas short of capacity which we need to mitigate. But overall I think that we are in a very good spot in terms of being able now to use the headroom on the cost side to invest in both capacity, but also IT solutions. So overall, bearing in mind where we are in the cycle, a strong position to act and be forward-leaning towards customers.

Magnus Andersson: Okay, thank you. And then turning to asset management fees, I mean, you've been quite aggressive in lowering your fees since December last year and you continued in – now from July, and competitors have started to follow to some extent. My question is do you think that the fee reductions you've done so far are enough to attract more inflows, and are you surprised about the way competition has reacted so far?

Michael Wolf: I mean, the fee reduction must be seen in a long-term perspective, and therefore, I mean, we want to position ourselves in the savings area, we want to be competitive. This is one of many measures, and over time I do believe that there will be further margin pressure on the fund fees, and we are, with our profitability, able to work with that as one hypothesis, but short-term limited effect. What is important is that we see an uptick in the Morningstar rating of our funds, and that should hopefully spill over in more sales.

Magnus Andersson: Okay. Thank you.

Operator: Next question is from the line of Peter Kessiakoff of Carnegie. Please go ahead with your question, your line is open.

Peter Kessiakoff: Yes, hi, thank you. Three questions from my side. Just first of all you mentioned that you've – well, you could say front-end loaded a lot of funding for this year following the QE programme, and you mentioned that your NSFR is currently at 104%. What does that mean for – going forward from here? Does that mean that you should have some more flexibility on your funding and perhaps do some less of that into 2016 as you have front-end loaded it? That's my first question.

Göran Bronner: No, that's a good reflection. I mean, regulatory-wise, we don't know when NSFR will be a binding regulation, so it's difficult to assess what the regulatory demands will be on your position there. But of course being at 104 is very comfortable, and as credit spread has widened it gives us flexibility to sort of manoeuvre in our funding profile in the sort of judgement between volume and price.

Peter Kessiakoff: Okay, but you don't have any plan so far in regards to reducing or having less wholesale funding for next year?

Göran Bronner: No, I think we will end up above 200 billion for the year in the funding plan – current funding plan, and during the fourth quarter we normally review things in light of what the business planning process gives us, and then we have to – Helo has to measure that against the price picture and we take it from there.

Peter Kessiakoff: Okay. Then my second question is just regarding the treasury NII which declined again this quarter, and I think Q2 was the first quarter where we actually started seeing the trend of declining rates also implied lower NII within treasury. Do you expect that trend to continue also if we see another rate cut in Sweden?

Göran Bronner: I think the treasury P&L, we try to sort of give the guidance on the totality of the P&L, so I don't want to be holding myself too hard to a specific line in that P&L. But of course there has been historically now – in the past years there's been a transformation from net gains and losses into NII as the buybacks are sort of transforming that. I think that will – that effect will diminish over time, since front book prices and back book prices are merging, but I can't give you any more precise guidance than that, really.

With regards to treasury P&L, I think we are on track towards sort of the guidance we previously have given you on that.

Peter Kessiakoff: Okay. Then just one last question regarding the card commissions, which were up 7% year on year in Q3, and we're expecting changes of interchange fees and so on. I mean, the rise that we're seeing now, is that on the back of some mitigating factors being done on different card fees, and – well, the different expenses there? Or should we expect that to come as we see implementation of interchange, and what do you expect to be the net effect of the implemented regulation?

Göran Bronner: I think the overall effect, we have guided the market for being sort of neutral, with some negative effects in the Baltics, while some positive effects in Sweden. So it's nothing that we really will see disturb the picture. We have as you know a very strong footprint in this part of the business, so we are very keen on that one.

Peter Kessiakoff: And do you expect to do mitigating factors in the Baltics as we see this regulation being implemented? I mean, do you expect it to be neutral, even though the regulation itself would be a net negative to the Baltics, for instance?

Michael Wolf: I think the big issue here is that we need to continue to grow, and as you know, the card penetration in the Baltics is not where we see the penetration in Sweden, but you have a very adaptive client base in the Baltics, so they really want to go to digital and also sees the benefits of card transactions. Estonia is the most developed and Lithuania is the least developed, and then of course you will probably see more card transactions as we see more e-commerce business growing. So growth is the main answer.

Peter Kessiakoff: Okay, thank you.

Operator: We're now over to the line of Masih Yazdi of SEB. Please go ahead, your line is open.

Masih Yazdi: Good morning. I think most of my questions have been answered, but just one question on – would you comment on, Michael – on the need of housing in commercial property investments, not least based on the high level of immigration? If you would say that in the near-term and if that would be sort of – the investments needed would be in conflict with your pay-out ratio of 75%, what would be your preference there? Would you rather sort of be part of that lending that is required for the Swedish commercial real estate market and housing market, or would you rather keep your pay-out ratio at 75%?

Göran Bronner: Well, I think the pay-out ratio reflects sort of the operating environment that we are in, and I don't think we are seeing any change to that, so that effect will neither be in growth or being regulatory requirements. In a highly hypothetical situation, I think in the end what you strive for is earnings per share growth, or sort of to give your shareholders more money in their pockets, and that is more important by the end of the day than giving sort of the exact dividend – or the pay-out ratio, and I think we stated that all along.

Michael Wolf: Is that okay as an answer?

Speaker: Yes, that's good. Thank you.

Michael Wolf: Thanks.

Operator: We're now over to the line of Omar Keenan at Deutsche Bank. Please go ahead sir, your line is open.

Omar Keenan: Good morning. Thank you very much for taking the questions. My first question is on mortgage margins. Could you give us an update of what the jaws between the front book and the back book looks like in the Swedish retail division?

And then secondly, I've got a question on capital and pay-outs. It's possible that we see reported EPS lower year on year because of the covered bond buybacks and lower trading result which is positive for revenues in the future. But how much flexibility around the 75% pay-out policy is there, perhaps to maintain a flatter, even progressive dividend policy? So could you perhaps maybe just give us a little hint of how you're thinking there? Thank you.

Göran Bronner: So what – your last question, was that whether or not is it the pay-out ratio or the actual dividend per share that matters for us, or...?

Omar Keenan: My question was – it's clear that the guidance is for a 75% pay-out ratio, but because this year the revenues will be affected by the trading result, the covered bond buybacks, if EPS is a little bit lower this year than last year, how much emphasis do you think or flexibility is there to maintain a flat or even progressive dividend?

Göran Bronner: I think we stated all along that the pay-out ratio is the deciding parameter. We're not targeting sort of dividends or sort of constructing a dividend pre-action that is ever increasing, so the result will give whatever dividend that the pay-out ratio gives you, sort of. So that's the way you should look at it.

On your front book versus back book, I think the front book margins continue to be slightly higher than the back book margins on the mortgages.

Omar Keenan: Great, thanks, that's very clear. And maybe just one follow-up question on capital and regulation. You discussed that in the first half of 2016 you're looking for approval for the AMA model on operational risk. Is it worth pursuing this anymore, given that Ingves said in their speech the other week that they were looking to end the AMA approach to operational risk?

Then secondly, just on corporate risk weights: have you had any discussion with the regulator as to, kind of – what kind of changes in the models they could potentially push through? I think something that they flagged specifically was the maturity factor, and how do you think Swedbank is positioned relative to the peer group on that? Thank you.

Göran Bronner: On the last one, it's very difficult to have any view where we are on the peer group, on the M factor, the maturity factor. I think we highlighted 18 months back that the maturity factor sort of the current regulation was sort of driving towards shorter maturity, which was making sort of funding problematic over time. So we have adjusted that internally in order to steer business towards longer maturities really, because from a funding perspective of the Bank it's a much more secure position to be in.

On the AMA, I mean, we have been in or are in the position of applying for AMA, but as you have seen, the Basel committee has come out saying that they might abolish AMA completely, so that we need – we are – Anders is currently reviewing that in discussion with the regulator.

Omar Keenan: Okay, thank you. That's very clear.

Operator: We're now over to the line of Heiner Luz of Goldman Sachs. Please go ahead, your line is open.

Heiner Luz: Hello Michael, I've got two questions. The first question would be on – generally sort of on mortgages. Sort of, with your regulator pushing not about, sort of, the risk assessment, but more about the systemic issue of saying, 'Okay, people are borrowing a lot at the moment, so when the rates spike there's going to be hit on consumption.' To what extent, so, are you looking sort of to mitigate these concerns of the Central Bank by extending longer durations, particularly given the yield curve is so flat and it should be – sort of one of the first times there should be an interesting product to market to clients, are you more worried that if you go long or interest rate fixed periods that you would not be able to re-price any more if rates – like, if regulation changes?

And the second question would be on Robur and asset management in general. You flagged that you're sort of back into offering some other products, like structured products, and you're now – and you hope there for sort of things to improve. Do you expect them to improve more from margin side or do you also expect to regain some of the sort of market shares you had lost, and if you could give any idea on sort of your business plan, how much longer you would expect market shares to lose before the whole thing turns? I mean, we understand there's a bit of a sort of change in strategy in there, but if you can more like – maybe give a bit more outlook on that?

Michael Wolf: I guess the attention in the Swedish banking organisation on savings is very, very high, and we will really be pushing the front line on that topic. And at the same time, as I tried to argue, we have repositioned our entire savings offering and made it much more competitive. So the question which we can't answer is how quickly will that materialise in better market shares. I mean, we hope for the best, but we don't – we can't look into the future. So we have all the prerequisites to do a good job on that side, and we feel that we have a competitive offering, so it's basically up to our own ability from here on.

Göran, should you answer the first question on the mortgages?

Göran Bronner: On mortgages, I don't really – the systemic risk has gone up, it's been mitigated by introduction of amortisation rules, so you could say in essence the requirement is going up for own equity sort of as a mitigating factor for rising properties. I think in terms of extending the maturity profile with the consumer, I think it's an area where we try to advise clients to go longer when it's now cheaper to go longer in a relative way, but it's been difficult to persuade them to do so, because they have had a – those who have had short rates or short maturities for the last 15 years have gained, always gained on having that. So I think – it will be difficult to get a big shift before we start to see the first hikes, then we could see actually a big movement in towards that. But it's definitely an advice we try to give clients.

Heiner Luz: Regulators, sort of – any sort of push back on them saying, okay, that they would be willing to treat the different fixed rate periods differently? Because it's more like long fixed rate periods would, like, solve one of their biggest concerns as to how – like, how disposable income would change if rates rise, more like you basically give them some hedge to that?

Michael Wolf: I mean, we haven't seen any language around that from the regulator, and I think one of the challenges for the regulator is that they are on one side regulators, and on the other side they are there for consumer protection, and there they are articulating issues around pricing, etc., etc. So it's a little bit of a dual role that they have which might cause a conflict. And as Göran alluded to, the culture in Sweden is very much based on many years of short – using short fixings, so either the regulator needs to be much more forceful in their regulation or, as Göran said, people need to understand that it's a benefit to go long. But it will take time.

Heiner Luz: Thank you very much. Very clear.

Operator: We're now over to the line of Anton Kryachok of UBS. Please go ahead, your line is open. Anton, you might want to take your phone off mute.

Anton Kryachok: Thank you and good morning. I have two questions on net interest income, please. Firstly, if I can come back to the question that was asked by Omar with regards to Swedish mortgage rate, is it fair to assume that front book mortgage spread widening that we have seen in the quarter has exceeded the back book mortgage margin widening in Swedish retail? And the second question please, with regards to treasury, NII and revenue outlook a little bit more broadly, if I look at the first three months of this year on total income, we could see a fall of about one billion versus the first nine months of last year, so is it fair to assume that most of the pressure on treasury income that we have talked about over the last few quarters has now actually played out? Thank you.

Göran Bronner: To your first question, yes, front book margins are higher than back book margins.

To your second question, if you compare the year to date number on treasury, I think we are at a billion in difference. We've guided for 500 million to 1 billion in difference, and if I look at the fourth quarter comparison numbers I think we had a quite weak treasury number in the fourth quarter last year, so that's the status. Then I – it's very difficult to guide for a particular quarter, so it of course depends what happens in, sort of, the Q4 this year as well.

Anton Kryachok: Thank you, that's very clear.

Operator: We now go to the line of Chris Rosquist of Barclays. Please go ahead with your question, your line is now open.

Chris Rosquist: Thank you. Good morning everyone and thanks for taking the time. Just three follow-up questions, the first one on capital. You mentioned that, you know, in relation to the buffer of the quarter, that's on top of the 19.6 regulatory requirement, you have a buffer and some of the justification that you mentioned for that was IFRS and Basel 4, but would it also be fair and prudent to consider that the low interest rate environment is significantly helpful with regards to your pension liabilities, and that's been a – sort of a driver of what's been building up to buffer, and that might be reversing above and beyond what the flexibility and the Pillar 2 requirement might compensate for, and that's also one reason for the buffer?

Then another question was a follow-up on asset management. We heard the Swedish government recently been speaking about the need for – potential need for regulation of fees in asset management, and that seems to be on a very similar topic to what you've been engaged in when – with the Swedish Savers Association. So I guess my question is have you already positioned Swedbank for what the Swedish government is speaking about in terms of putting in constraints to what banks can charge for, so that you are now pricing appropriately?

Thirdly, just if I could follow up on the Swedish mortgage margins. We've seen something that seems relatively unique in that one player in the market has changed their pricing, at least their list pricing. Now, they speak about the duration of their funding, of the reason for this, and you mentioned something on this call earlier. Have you already taken – sort of, have you already turned out in, sort of – needed due to a change in regulatory requirement and change your pricing, or – because I can see in your growth that it's about 5.5% in the Swedish retail bank, and that's a little bit less than the market, which surprises me in a commoditised market when one player is increasing price, although that was late in the quarter? Thank you.

Michael Wolf: If I start with the last question, I don't see that being an issue for Swedbank, so we can't really relate to that.

On asset management, yes; I mean, first and foremost you have a low interest rate environment affecting your ability to charge fees. Secondly, you have a transformation of the savings market, with the materialisation of index funds and index environment, more keen interest for asset allocation over single product funds. So we're adapting to prevailing market conditions and changed market, and we need to – we think we need to be competitive in this area; it's one of our strong suits historically, and we have a client base of four million customers that we want to do more business with. So it's a combination of all those matters.

Göran Bronner: You had a question on the pension there, and you – I think in general, if you look at it from a longer-term perspective, interest rates are very low and that – it sort of makes your pension liability bigger. Now it so happens that we have seen rising rates in a couple of quarters that has helped our, sort of, requirement that we have on the IAS19. Now it's actually so that the asset on the balance sheet is actually worth more than the liability, so if rates were to continue to go up, we would not be able to put that surplus towards capital according to the regulatory – sort of, the accounting rules. So don't expect any further sort of help if you see rising rates, or so – but if you would see lower long-term rates there, it would be a drag, sort of, because the liability would increase. So you have a little bit of a skewed position on that one, but bearing in mind that rates are in a historical perspective very low.

Chris Rosquist: Thank you very much.

Operator: We're now over to the line of Jacob Kruse at Autonomous. Please go ahead, your line is open.

Jacob Kruse: Hi, thank you. I guess just two quick questions. Firstly, on the near-shoring, could you say anything about how many of the staff in the Group Product and Group Function divisions that are currently not in the Baltic that you could see moving over that 2019 time period?

And just secondly on the corporate AIRB discussions, so the FSA mentioned this maturity issue; are there other parameters that they are asking you to supply data on or discussing with you that could potentially be reversed? Yeah, those are the questions. Thank you.

Michael Wolf: If we start with the last question, we got back the SREP and it was according to expectations. So I think as Göran alluded to we were early onto the M factor, they have not had any major issues with our models, but it's constant work with models to keep them updated and there is a constant dialogue with the regulator. So I do believe that our attitude to capital, which has been what it has been for many years, has also helped us come in line with the regulatory sort of environment and the expectations of the regulator, and I think the SREP confirms that once again.

On near-shoring, I mean, we are not inclined to give out numbers, because it just leads to the wrong discussion. I think what we're doing is that we see that we get more and more traction on near-shoring, which in itself is a transformation that is difficult, as you are near-shoring competence and near-shoring functions relating to staff near to you. So, so far so good on that part. And then we announced recently that we're going to move 51 people in the Robur back office area, and you will see more of that type of transformation. But bear in mind you can't transfer too many functions at the same time, because you need also to address the quality in the transformation, so it's a gradual process and as we gain knowledge, as we gain experience, we might also revise what is potentially possible to near-shore.

Jacob Kruse: Okay, thank you very much.

Operator: Okay, we now go over to the line of Riccardo Rovere of Mediobanca. Please go ahead, your line is open.

Riccardo Rovere: Yes, good morning to everybody. Just one question from my side. Before you mentioned that the construction is improving in Italy – sorry, in Sweden, but the supply is still well below the demand. Now, given that to build a house or whatever takes time, is it fair to assume that real estate prices will continue to rise even if the supply side improves? And if you agree with this, would you – what could they invent, what could they try to try to cool down real estate prices, given that, correct me if I'm wrong, so far increasing the risk weight from five to 15 and then 25, increasing the countercyclical buffers here and there, so far have proved not to be that effective, let's put it this way. Thank you.

Michael Wolf: Yeah, I mean, the regulator can only mitigate some of the structure risk, but you don't solve the structural situation with regulation on banks; you need to work with deregulation in the housing market, infrastructure investments, and also the State owns a structure called Allmännyttan which is a housing company, and Allmännyttan can borrow money at State levels with State support, which means that they have the cheapest funding of all builders in Sweden, but they are actually not producing any new housing right now, they are actually outsourcing to commercial players. So they have a number of tools in the toolbox that they could activate. So we'll see how much more of house price inflation we need to get before we get actions from the political system.

Riccardo Rovere: Okay, so you're basically saying we're not still there, if I understand correctly your wording?

Michael Wolf: No. No.

Riccardo Rovere: Okay. And if I may, a second question: if I get back one second on corporate risk weights, sooner or later, you know, Sweden will let us know what they want to do. Let's assume that Sweden goes for a solution that is a milder from whatever solution, whatever number is going to come out from Brussels; correct me if I'm wrong, you should take whatever comes out of Brussels or Frankfurt or Strasbourg, and this should be put into your legislation, regardless of what the Swedish FSA is going to tell you in, I don't know, the next few weeks, few months, correct?

Göran Bronner: Absolutely. As you know, the Swedish regulator is a very firm believer in the risk-based system for regulating banks, so they are opposing, sort of, a leverage ratio system, and now we have to wait and see what the consultations that has been given to the Basel committee, what that will end up. Hopefully we have some more clarification around the Basel committee; we hear they have received a lot of criticism on that, so we will have to really see what comes of that, but that is of course the more – I think, the more – I call it dangerous part of the regulation coming, the one that will come from the European side, rather than from the Swedish regulator itself, since the Swedish regulator is in the corner of believing in a risk-based system.

Riccardo Rovere: Okay, very clear, thank you very much.

Operator: Okay, we're now over to the line of Samir Adatia of Morgan Stanley. Please go ahead, your line is open.

Samir Adatia: Good morning, thanks for taking the call today. I noticed that you've stated your minimum CET1 requirements as 19.6%. Can you confirm that this is the new minimum SREP requirement given to you, please?

Göran Bronner: It's a forward-looking measure, so it has an element of judgement from ourselves, but it's based on the SREP that we have seen from the regulator, and then we take into consideration all known facts that they have going forward.

Samir Adatia: So it's not the SREP number given to you, it's a forward-looking in addition to the SREP requirement?

Göran Bronner: Yes.

Samir Adatia: Could you provide what the SREP requirement was?

Göran Bronner: I think that will be public, coming from the regulator later on in a couple of – in a month's time or so, so I let them publish that and then you will get it there, instead of us saying the numbers, because we don't know exactly what they will publish. So let them do that and it will be equal between banks.

Samir Adatia: Okay. Thank you very much.

Operator: We're now over to the line of Adrian Cighi of RBC. Please go ahead Adrian, your line is open.

Adrian Cighi: Hi there, thank you for taking my question. One follow-up question on capital please. You mentioned that the IFRS 9 impact could be meaningful, is I believe the word you used. Could you give us any more colour on this potential impact, please? Thank you.

Göran Bronner: I think I'll do like this: I refer – I read a few papers on it and they're – from analysts, and I think they vary between 40 basis points up to 80 basis point impact on core tier one, and I think, from my assessment of it, it's within that range.

Adrian Cighi: Okay. Thank you very much.

Operator: We're now over to the line of Adonis Catic of DNB. Please go ahead sir, your line is open.

Adonis Catic: Yes, good morning everyone. I just had a quick question on your asset management business, because during the third quarter, we saw quite – many fund mergers, and I just want to ask, what's the impact of that and what's the strategy here, and have we seen the mergers we should see or will there be more in the coming months or year? Thank you.

Michael Wolf: I mean, we very much want to simplify the fund range. Things that was interesting or edgy in the past are now common practice, so we need to simplify and make the fund range much more efficient. There are more to be done, so it's a constant process to improve our offering and also create more efficiency in the back end of things.

Adonis Catic: But does this impact your margins? Are you lowering the prices when you do this, or is the – are the prices unchanged?

Michael Wolf: I mean, we did, as has been discussed, a huge price adjustment in the last 12 months, so that phase is completed, then we'll see what the future holds in its hand. But no more price adjustments in the near future that are planned, at least.

Adonis Catic: Okay. Thank you very much.

Operator: Okay, our – we now go back to the line of Pawel Wyszynski. Please go ahead, your line is open, of Danske Bank.

Pawel Wyszynski: Yes, hi, Pawel here again. Just one follow up on the SREP: could you just say if the SREP number is higher or lower than the 19.6 that you're giving us today?

Göran Bronner: Oh, it's definitely lower.

Pawel Wyszynski: All right. Perfect, thank you.

Operator: Okay, and that was the final question on this morning's call. So Mr Wolf, may I please pass the call back to you to sum up and close?

Michael Wolf: So once again, thanks for joining, and we really, really appreciate the extensive question session that we had with you guys. I hope we have been able to answer your questions in a good way. Look forward to meeting you on the road during the third and fourth quarter here. Thanks. Bye.

Operator: This now concludes today's call. Thank you all very much for attending. You may now disconnect your lines.