Transcription

Title: Swedbank Third Quarter Report 2017

Date: 24.10.2017

Speakers: Gregori Karamouzis, Birgitte Bonnesen, Anders Karlsson and Helo Meigas

Conference Ref. No: EV00062584

Duration: 1:01:10

Presentation

Operator

Ladies and gentlemen, welcome to Swedbank Third Quarter Report for 2017. Today I am pleased to present Gregori Karamouzis, Head of Investor Relations. For the first part of this call, all participants will be in a listen-only mode, and afterwards there will be a question-and-answer session. Gregori, please begin your meeting.

Gregori Karamouzis

Thank you. Good morning everyone and thanks for joining us on the Third Quarter Results Presentation. With me in the room I have Birgitte Bonnesen, our CEO; Anders Karlsson, our CFO; and Helo Meigas, our Chief Risk Officer. I hand over to Birgitte first to run through some highlights for the quarter. Birgitte?

Birgitte Bonnesen

Good morning and welcome. We're very proud to deliver yet another quarter of stable results for Swedbank, an ROE of 15, costs in line with expectations, a cost income of .37, solid asset quality, and strong capitalisation. We follow the plan that we have for the year, and continue to deliver according to the wanted position, and our goal to remain the leading bank for the many households and businesses in our home markets.

We've seen lending growth in all markets and products: mortgages, consumer loans as well as corporate banking. Payments performed as expected. In this quarter we finalised the acquisition of PayEx which complement our strong acquiring business. In savings, we have a plan that we follow. However, it takes time. It does. Despite negative fund flows, the market share stayed unchanged at 20.7 which means that Robur's assets under management has grown more than the Swedish fund market as a whole.

This is related both to the solid performance in the funds and a higher share of equity funds than the market. Among the many activities to drive traffic to our Swedbank app and increase customer satisfaction, we have integrated a subscription service. This is the first time that any bank in Sweden integrate a fintech directly into its app, and we have done it in six months. It only took six months from idea to implementation which is a proof that our new delivery model works. Activity is high, and despite more deliveries than ever the internal employee satisfaction has more than doubled since last year.

This is a prerequisite for success and an important tool in increasing customer satisfaction. This quarter we also got proof that our sustainability efforts have been successful, with five of Robur's sustainability fund were among the first funds to get a Nordic Ecolabel. We also came out as best in the industry chosen by more than 600 businesses in Sweden's Sustainability Brand Index. So the focus stays on the plan and high degree of delivery, on profitability and cost which remains a priority. And with this, I'll have hand over to Anders.

Anders Karlsson

Thank you, Birgitte. I will as usual first go through the three business segments and thereafter sum it all up on the group level before I say a few words about our capitalisation. Swedish banking delivers a stable result primarily supported by good loan volume growth. NII was positively impacted both by increased mortgage loan volumes and corporate loan growth. We captured around 20% market share of new mortgage lending in the quarter, while we saw somewhat broad-based loan growth across sectors in the corporate space.

Mortgage margins were stable in the back book while front book margins follow the market rate movements as STIBOR increased by around five basis points in the quarter and were five to ten basis points lower. After the quarter end we have seen a fall in STIBOR reversing the negative impact we saw on book margins in the quarter. Overall we see small differences between front and back book margins. Deposit grew by 9 billion almost exclusively in the private segments and margins were somewhat higher on the back of higher STIBOR rates.

One extra day in the quarter and a positive one-off effect of 30 million from previous quarter related to the resolution fund fee impacted the quarter-over-quarter NII comparison. Net commission income was impacted by the usual seasonal effects and the consolidation of PayEx. Income from cards were stronger while brokerage and lending guarantees were weaker. Asset management income was slightly up as a result of positive asset performance.

PayEx contributed with one month's results 36 million in income and 34 million of expenses. Asset quality continued to be solid. Turning to Baltic Banking that continued to deliver a solid performance. NII was positively impacted by loan volume growth in all three countries, both in the private and corporate segments and by one more day in the quarter. As the Swedish krona strengthened against the euro this quarter, the FX effects on NII were negative by 12 million.

Lending margins were stable. Net commission income was stable. Higher income from cards was offset by lower income from lending and guarantees and asset management, and FX effects that negatively impacted by six million. Asset quality continued to be solid. On the back of our strong capital position in Estonia with a common equity Tier 1 capital ratio above 40%, we decided to increase the dividend policy from 60% to 100%. The current capital buffer exceeding 25 percentage units allows ample room for growth in our loan book.

As dividends are taxed in Estonia, this change leads to a higher tax expense of SEK115 million of which around 80 million refers to this year's first two quarters.

Let's look at LC&I which delivered a resilient result. NII was stable as a result of flat loan volumes and lending margins. Net commission income was seasonally weaker due to lower activity in brokerage and corporate finance. Net gains and losses were slightly stronger compared to last quarter due to positive FX effects despite slower trading activity.

Credit impairments in the quarter were lower than in Q2 as provisions in the oil-related segments were down. Helo will talk more about our asset quality in a short while. So to summarise the group level, overall a very stable result with positive loan volume growth. Our mortgage loan book continues to grow steadily at an annualised growth rate of around 5% while the margins in the back book were stable, and in the front book follow the market rate movements.

As we don't price mortgages on the back of daily market rate movements, margins on new lending near term are expected to follow the market rate movements up and down. We have for example since quarter end seen that STIBOR rates have moved down again, which consequently should increase front book margins if the rate levels prevail. Corporate loans grew selectively in the quarter across sectors, but stay subdued overall year to date.

Deposit margins benefited slightly from higher STIBOR rates. NII was also supported by positive contribution from covered bond buybacks and favourable conditions in the short interest rate market. Commission income was slightly down on the back of the usual seasonal effects in the capital markets-related products primarily. Net gains and losses were weaker mainly due to lower market volatility and lower covered bond buybacks. Total expenses came in as expected.

Following the strategic acquisition of PayEx as Birgitte mentioned earlier which is now being consolidated into the bank, we expect total expenses for the full year of 2017 to be around 16.1 billion. The new target thus in addition to PayEx-related expenses also take into account slightly higher expenses due to FX effects and pensions. In conjunction with the publication of our Q4 results, we will guide you on expense development going forward. The acquisition of PayEx also leads to an impairment charge related to development project costs in the payments area.

Looking into next year's taxes, we will see a slight increase in our effective tax rate from 20% to 22%, to 21% to 23% on the back of tax regime changes in Estonia and Latvia to be effective as of 1st January 2018. Turning to capital, capitalisation remained strong with a Common Equity Tier 1 capital ratio of 23.9% implying a buffer to the Swedish FSA's minimum requirements of 230 basis points. We continue to wait for clarity on primarily the expected Basel proposals and the subsequent implementation by the EU, and the Swedish FSA before we will set our management buffer level.

This quarter CET 1 capital base was impacted by the consolation of PayEx as it resulted in intangible assets of around 1.1 billion. Risk exposure amount increased by SEK12.8 billion mainly due to loan volume growth and additional model adjustments relating to the large corporates portfolio. The model adjustments relate to the same corporate portfolio that we talked about in Q1 earlier this year when we decided to hold more capital for expected PD increases. PayEx increased REA with approximately SEK1.7 billion. Let me now hand over to Helo to walk you through the asset quality.

Helo Meigas

Thank you, Anders. I shall give now a short overview of credit quality in Q3. Strong economic growth contributed to volume growth in all our home markets primarily as a result of demand for private lending. Total lending growth in Q3 was SEK18 billion of which lending in Swedish banking contributed 13 billion. The biggest loan growth SEK10 billion was in mortgage lending in Sweden whereas total corporate lending growth was 6 billion of which SEK4 billion came from our Swedish business. We continue to have a strong credit quality in our home markets. Swedish banking reports credit impairments of 66 million.

Baltic Banking has recovered in the amount of SEK26 million. In large corporates and institutions, we increased credit impairment by 195 million which was primarily from two exposures, one from services sector, and another in shipping and offshore. As to the guidance for the total 2017 which was ten to 15 basis points credit impairments to the total credit portfolio, we expect to end the year in the lower end of the range. As to our oil and off-shore exposure, we see signs of stabilisation due to new capital and ongoing consolidation, but the investments stay lower, and there is the lower capacity in the market. So we maintain our cautious stance for the sector. So I stay here.

Gregori Karamouzis
Thanks Helo. Operator, I'll come back to you to allow questions from the audience.

Q&A

Operator
Thank you. Ladies and gentlemen if you have a question for the speakers, please press "01" on your telephone keypad and you'll enter a queue. Our first question comes from the line of Magnus Andersson from ABG. Please go ahead. Your line is open.

Magnus Andersson
Yes, good morning. First of all Birgitte in your CEO comment in the last paragraph you write that the current high level of activity means we can aim even higher etc, and that you talk about next year's priorities. Does this mean that you will come out in Q4 with any revised financial targets? Anything in addition to the cost targets for 2018? Or does it really mean that you can aim higher?

Birgitte Bonnesen
What it means is that we now see proof that the transformation of the bank into primarily working in value streams. Well the proof is that we can actually deliver more. And in my book that means that we can – I don't know we can set up higher delivery targets internally next year. It doesn't mean that we will come out with a different guidance for next year except for the cost target that you know we'll publish in the first quarter. So it more means that we need to come up with more deliveries. And this of course will contribute to an underlying profitability.

Magnus Andersson
Okay, but no change in financial targets?

Birgitte Bonnesen
No.

Magnus Andersson
No, okay. And secondly just on capital Anders your comment there, does it mean that you will await Basel IV EU implementation, and the Swedish interpretation before you make up your mind about what kind of management buffer you need? And therefore you will not change your 75% dividend payout ratio regardless of the buffer to the minimum capital requirement right now?

Anders Karlsson
Yeah, I think it would be unwise when we have such an unknown situation in front of us. And even if Basel comes out we really need to see what the EU is doing with it and maybe more important what FSA will do with the minimum requirements, so yes.

Magnus Andersson
Okay, that might take a while then?

Anders Karlsson
Yes.

Magnus Andersson
Yeah, okay. And more specifically then on NII, you mentioned that you have the similar front book and back book margins now. I think in connection with Q2 you talked about the potential back book repricing of five to ten basis points over 15 months over back book of SEK150 billion, does that still stand or…

Anders Karlsson
Yeah Magnus, I think that guidance is – but you understand that - It's around 100 or roughly a bit higher than 100. I mean there are so many assumptions in that guidance but that's true, it's still a more than a hundred billion coming in for repricing.

Magnus Andersson
Okay, good. And then on treasury related NII is also a bit stronger at this quarter again up Q-on-Q. Is this kind of level – can tell us something about what you did there and how you view the sustainability of that level?

Anders Karlsson
The first part of it was that we actually, as you saw, we bought back larger volumes in this quarter compared to previous quarter which is impacting NGL negatively immediately, but NII positively sort of for a couple of months. That was one part of it. The second part of it is related to our management of the liquidity buffer where we have benefited from moves in the shorter end of the yield curves including basis swap spreads. So whether that is sustainable or not, Magnus, is extremely difficult to say, but that's part of the day-to-day activities of treasury.

Magnus Andersson
Okay, so probably quite volatile then. And then finally on PayEx your guidance of 16.1 billion, does that include integration costs? Because I guess it's of course something to implement it in the bank, and also if you can tell us something about what you expect in terms of net earnings contribution next year from that acquisitions and potential synergies?

Anders Karlsson
That was a lot of questions. But if you look at the – if you try to decompose PayEx during this year Magnus, you have PayEx running costs coming in obviously. Then you have depreciations on some of the intangible assets. And then you have expenses related to the acquisition. It's no major system integration included in that. It's more related to the acquisition itself, and the fact that we have intangibles that we need to start to depreciate. And as far as synergies comes it's not a synergy case.

There are very small synergies that we can see. One is obviously treasury and some other central functions. But the case is not about synergies, the case is of building a competitive payment solution for the merchants and their customers. And I wouldn't really like to get into any income projections from PayEx next year. I must say we need to wait for that.

Magnus Andersson
Okay, but of course for integrating PayEx might come then on top in 2018, so the 16.1 is just acquisition related cost et cetera, and transaction related costs?

Anders Karlsson
Yes. And then you have what I also added to it was the things that you can foresee in the beginning of the year like FX is moving against us and pension liabilities have increased slightly. But you might view it as expenses, I view it as investments. But we'll come back to that Magnus in conjunction with the Q4 results.

Magnus Andersson
Okay, just one more if I may push my luck on asset quality to just, you're now at six basis points. You had nine in Q1 and 11 in Q3 and you stick to your ten to 15 basis points guidance saying lower range. That would imply twice the level of loan losses in Q4, almost definitely more than 500 million. What should drive that quarter on quarter if you start to see the restructurings now fading in the Norwegian offshore book?

Helo Meigas
I think you are kind of taking it a bit too literally what I have been saying. I'm just – I was just trying to give an indication that we don't think we will reach the high end of the range. Where we actually end in Q4 time will tell. But as you were saying I think that the first phase of restructuring is over for now. And we're starting the second phase, but it's a bit too early to say today what it would translate into in terms of credit impairment.

Magnus Andersson
Okay, thank you very much.

Operator
Our next question comes from the line of Peter Wallin from Handelsbanken. Please go ahead.

Peter Wallin
Yes, thank you and good morning. I would like to come back to the Swedish mortgage margins. And what would you kind of expect there going forward if we indeed would see a slowdown of volume growth, what would your preference be then in terms of your market share currently? Would your preferential order be to maintain around 20% of new volumes or would it more to look out for profitability in your mortgage books?

Anders Karlsson

Yeah, thank you Peter. So I think that what we have clearly stated is that over the longer term our ambition is clearly to keep our market share. Having said that profitability and price is always in the short term more important for us.

Peter Wallin

Okay, thank you. And then to Swedish Banking you saw slightly improving margins on our corporate lending? Would you please elaborate that? I mean is there specific sectors or is this – I mean where does that come from?

Anders Karlsson

I think it comes from basically I mean first of all it's not something you would write on the first page of a newspaper in terms of size when it comes to the margins. But what we have been doing diligently for quite some time is working with the part of the portfolio that is what we deem as sub-hurdle to our requirements. In some cases we have managed to increase prices. In some cases they have left the bank. It's the first of the two alternatives that have been driving margins slightly up, but it's not the big thing really.

Peter Wallin

Okay, but would you expect the kind of this small progress would continue very gradually for the coming quarters as well or was this some specific clients of which you're successful in this way?

Anders Karlsson

No. This is something that I expect Swedish Banking to work with on a daily basis. So if you have sub-hurdle returns, you should work with them. The exact outcome of the work is difficult for me to say anything about, but it's definitely expected.

Peter Wallin

Okay, and then to capital and this portfolio where you again then adjust PD functions. Would you say that you think that for the foreseeable future there are no more adjustments here to come? And is there anything with these adjustments that has to do with the underlying asset quality trend?

Helo Meigas

The adjustments we made now was related to the problem we also talked about after Q1 in our leasing operations which is purely operational, but unfortunately is contaminating our numbers. So we went we basically kind of – we made the first estimate based on the 2016 figures which is where we identified the error. And then now we went through the earlier years and realised that unfortunately the default frequency was a bit higher than it was in '16. So we had to make a further adjustment there.

This has nothing to do with the credit quality because that all the customers eventually had paid their bills. It just that according to the regulation over 90 days overdues have to be counted as defaults. And this is where the numbers kind of get distorted. The eventual impact to the PD levels, we will of course only find out after we've submitted the model to the SFSA and got their approval. So that will happen only in 2018.

Peter Wallin

Okay, thank you. And then with respect to the subject of asset quality and loan losses you're saying then that it will be in the low end and not taking it too literal for this year, and during the very early phase of phase two restructuring efforts. But what you're seeing right now in terms of all trends and your exposures, would you say that it's reasonable to assume all that levels for next year will be at the same level as this year or as a best guess would it maybe be something else?

Helo Meigas

We want to move away from guiding on the credit impairments. We started the guidance because we had this specific issue related to our oil and offshore portfolio. Now we feel that we have entered the phase where the credit impairments will reflect our overall portfolio structure. And that means that there is no need for special guidance anymore.

Peter Wallin

Okay, thank you. Thank you very much.

Operator

Our next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead.

Matti Ahokas
Yes, good morning. You write in your report that you've seen further signs of slowdown in the Swedish housing market. How should we expect this to play out in terms of margins and volumes in 2018 and 2019 or other kind of P&L items? How should we view this slowdown is impacting Swedbank in 2018?

Anders Karlsson
Thank you, Matti. It's a very good question. First of all if volumes go down and coming back to my previous answer to the question is that we stick to pricing being the most important one short-term, market share being important long term. How margins will develop is extremely difficult to say. I think it is very much up to competition. So I would refrain from giving you any forecast on exactly that. We will do what we have said all the time. We will do our utmost to keep up the margins. But we are not alone in that market as you know.

Matti Ahokas
If you look at the volume side then, when you speak about this slowdown if it's now being like 7% year-on-year volume growth, is it kind of the rate at the moment, do you expect that to be half of that or more or less or any kind of view on the volume growth?

Anders Karlsson
It should come down. How much is very difficult to say. And as you know what we've said in the beginning of this year is that we aim to grow around 5% projecting the market to grow around 7. We have been growing with 5%. And we'll see what the take will be going forward.

Matti Ahokas
All right, and then we've seen quite a lot of negative news flow on the real estate developers in Sweden. Have you seen any negative credit migration in that portfolio?

Helo Meigas
No.

Matti Ahokas
And you don't expect that to come through either or…

Helo Meigas
The real estate-related lending is the most important part of our portfolio. So we of course follow what is happening on the market very closely. It is just too early to say how the kind of the recent news will really affect the underlying credit quality. But we feel very comfortable with our exposures and the credit quality right now.

Matti Ahokas
All right, great, thanks.

Operator
Our next question comes from the line of Andreas Hakansson from Exane BNP Paribas. Please go ahead.

Andreas Hakansson
Yes, hi. Good morning everyone. And I think we've gone through many of the questions. But just coming back to the net interest income margin, Anders if you remember at the launch of the Q2 we talked about what overall margins would do if we forget about floating, fixed, and front and back. And you said that over next fifteen months you expected mortgage margins to go up somewhat. Is that still your view?

Anders Karlsson
Andreas, you have a better memory than I have or you – I assume that you relate to the part of the portfolio that is fixed rate, that is coming in gradually for the next coming let's say 15 to 18 months for a possible repricing.

Andreas Hakansson
Well I tried to step away from that because in order – because there's so many moving parts. If I forget about that which then has an impact on the overall margin, I was just asking what will the overall margin do, then of course supported by those various items.

Anders Karlsson
It will probably be flat.

Andreas Hakansson
Okay thanks. And the next question also related to the NII. And you get this question every quarter. But if we look at the net stable funding rate, it continues to go up and it's now six percentage points higher in Q3 this year compared to Q3 last year. And I think where you've been guiding for or hinting that it might come down and each percentage point could be as much as a hundred million of NII. So what's your plan here? Do you see any reduction in the near term or what's your current view?

Anders Karlsson
Yeah, thank you for that question, Andreas. First of all we have – when I started to talk about the effect of the NSFR on a per percentage unit, it was around a hundred. Then it has come down because spreads have come down. It's much, much lower right now, but leaving that aside, as I've said earlier the ambition is not to run NSFR as high as it is. What we have done in the quarter is that we have and we did that both in the first and second and actually in the third we're front loading our funding a bit because the markets are extremely benign. So you will see the NSFR being on a high level for a while. And the NII impact is less than you think. But that has been a conscious decision taken in terms of our funding strategy.

Andreas Hakansson
Thanks, and then finally maybe to Birgitte – or maybe we all have a view. But we read in the Swedish papers about the housing market and Swedish papers, yeah they have all kinds of views on it. But what's your view given that you are very close to the housing market, how do you see that the housing market is going to develop going forward?

Birgitte Bonnesen
Our view is and what we see also in the market is that there will be an adjustment. And I would just say that the adjustment is ongoing. We see that it takes longer to sell very expensive apartments and new houses. But basically I think that this is a good – this is the correct thing that's happening at the moment. And I think it's a result too of all of the amortisation rules. However when I look at our own business, we continue to lend at the level that we think is prudent. So I don't see that we have – I don't see lending going down as a result of risks increasing in exactly the mortgage areas.

Apart from what we have talked about in earlier quarters, we talked about this in the second quarter too, tenant-owned associations where you know that we have introduced other regulation standards for the property management companies. And also we very much take the view of the consumer here. So in the discussion with customers of – I see that more cautiousness in very expensive part. We talk more about what does it mean to go into a newly built association? What does it mean if there's a negative cash flow?

What does it mean, what is your part of the debt of the association etc? And it's – we meet with a surprisingly low degree of competence and understanding about what this means. And I think that, that also contributes to this adjustment in the market, that when people start to understand maybe they are not as eager to throw themselves into very expensive. I know this was a long – but I just want to say one other thing.

And that is that one thing we're very observant of and we work with it in the country too is that, so what does it mean that there's still so many people out there. Many of them are customers that can't afford, there's no really affordable housing options in Sweden today. It's – so just that fact forces the market down a bit because the pressure and the disruption in the market so to speak is becoming wider and wider.

Andreas Hakansson
Okay, thank you.

Operator
Our next question comes from the line of Vivek Gautam from JPMorgan. Please go ahead.

Vivek Gautam
Hi, morning. My first question is just a bit of – I have – if you don't mind explaining that to me. Where does the benefit from wholesale funding repricing slow within the divisions? Does it go to the treasury for the interim and then transfer to the business division once you are sure about the sustainability? Or it is directly attributed to the various divisions? And the second one a follow-up on that is, you have had some – you've had a large senior unsecured bond maturing in late September which was issued in 2012. So that benefit, the repricing benefit is expected to come in Q4. But where will we see that? Will we see that in the treasury line or will we see that directly in the divisions? Thank you.

Anders Karlsson
Yeah, thank you for the question. I am not sure I fully understood your question, but I will try to answer. And then you have to revert to me if it's –

Vivek Gautam
Sure.

Anders Karlsson
I mean, the way treasury works is that as you know, there's the fund transfer pricing. So that treasury takes up the funding and they price it internally towards the business areas on both sides of the balance sheet. So if the bank benefits from lower funding costs, the business areas is benefiting from lower funding costs through the FTP.

Vivek Gautam
So that, is there a delay between that? So when the treasury sees the benefit and then it's passed on, so is there a delay a quarter or maybe?

Anders Karlsson
No, I don't see where the delay should come from.

Vivek Gautam
Right, and do you expect to see further benefit from wholesale funding repricing because you have unsecured bonds which were issued in 2012-2013 which are maturing now. So that should have a benefit or not really?

Anders Karlsson
It's extremely difficult to predict that. It depends on how market rates are moving. As we speak the answer is yes, but that could change in the next quarter.

Vivek Gautam
Okay, thank you.

Operator
Our next question comes from the line of Bruce Hamilton from Morgan Stanley. Please go ahead.

Bruce Hamilton
Hi, morning. Most of my questions have been asked actually. But just returning to the PayEx deal if I may, can you give us any sort of update in terms of the topline growth dynamics in that business versus some of the financials that were given around the time of the deal being announced? And as we look to sort of cost impacts next year, I realise we'll get a fuller update from you. But the PayEx business is the sort of cost base again that was disclosed at the time of the deal, is that a sensible guide for the sort of impact for 2018? Or will that be – should we expect a lot of additional investments to drive future growth in that business? Thanks.

Anders Karlsson
Thank you for the question. First of all, let's make it very clear that we did not buy PayEx because we wanted to generate enormous amounts of income from that. If you look at that business on its own, it's not adding to our profitability or for that matter cost income. It is a strategic investment that we did because we need to follow the customers into the next generation of payments. If you look at PayEx standalone the cost levels you see is what you can expect. Then on top of that you have the depreciations on the intangibles that I mentioned earlier in the call. As far as going forward in terms of investments that will be part of our disclosure in conjunction with Q4 next year. Thank you.

Bruce Hamilton
Thanks.

Operator
Our next question comes from the line of Willis Palermo from Goldman Sachs. Please go ahead.

Willis Palermo
Hi, good morning. And thanks for the presentation. So I have a quick follow-up on the volume questions that were asked before. If you could just maybe give us a normalised run rate that you think would be acceptable for next year and going forward? And also if you could add a view maybe on the incremental news of the last government, of the FSA proposals to

the government on cap – on the debt to income ratio, potentially some lower adaptability? How would you factor in those into your volume growth assumption?

Birgitte Bonnesen
Birgitte here, thank you for that. We don't – we won't guide you on volume for next year. And on the proposal that has come from the Swedish FSA and now goes to the government, I basically believe that amortisation is a good thing. I also think that the debt to income and the affordability rules that we follow in Swedbank are sound. And that is sort of very important to follow in order to make sure that the quality of our credit portfolio stays at a very good level.

But whether this will actually pass through government, I don't know. It's going to be a huge discussion in Sweden. It already is. But apart from that, I think that we already have so many different parameters in place that we operate by that I don't think it will basically add so much to the Swedbank lending and credit quality.

Willis Palermo
Okay. And among the new customers that you lend to, you would say that the amount of – with the debt to income above this 450% is quite limited?

Birgitte Bonnesen
No, I wouldn't necessarily say that. What I say is that we already look at this. And it will affect a proportion, almost a fifth of the new lending that we do should this come into force.

Willis Palermo
Okay, thank you for that. Then remaining on the volume side, you mentioned some pickup in corporate lending. I can see there is part of it which is to property management. Despite it was going down in the first half of the year, now it's coming up slightly. Do you see this trend continuing at this pace? And also could you maybe give some colour on the high-end property developers, what is your exposure to those? Thanks.

Anders Karlsson
Okay, we will probably share the answer, me and Helo. But first off, we are a big bank in property management. We have always been in property management. And we will continue to be in property management. What we have said in the earlier quarters is that we are focusing on our current customer base, where we know our customers. In some cases if a good deal is coming up, then we are participating in that. We are not chasing new clients necessarily. We'll continue to see this. And since it's a capital-intensive business, there are large volumes from time to time.

Helo Meigas
Maybe to add to that, that you have been seeing on a year-to-date, that we have not been growing. So we have the origination standards that we stick to as Anders was saying. And our total property management portfolio is 220 billion of which 66 billion is residential properties. So what is more, something more granular you wanted to know in terms of volumes?

Anders Karlsson
And yeah, I think you asked about the developers. And if you look at the line on construction and tenant owner associations, we've been flat through the year. Already in the previous year, we started to talk about the fact that some of these developers are building their business case on a non – not sound cash flow forecast. And we were very clear that we will not participate in those deals. And we have been developing in accordance with those standards that we set up. And that's why you will see flat development in those portfolios.

Willis Palermo
Okay, that's very clear. Thank you very much. And then my second question was around the Baltic business because we didn't talk about it yet. Could you talk maybe a bit about the Baltic market environment? How is the competition? And especially in light of the competitors merging, what is the effect on Swedbank? And any other thing pointing to the outlook going forward? Thanks.

Birgitte Bonnesen
I think that when you look at this quarter in the Baltics, it's a very strong quarter, and they continue to perform. What we see is we see a pick-up in lending growth that we've actually been waiting for. It's not – I wouldn't say significant, but still it's a trend. All three countries' macro are strong and moving in the right direction. And we follow the market as we've always done. The competition of the Nordea and DNB operations merging, yes I think there are two sides to it. One side is I think it's good.

It's good because it shows trust in the market. And it also shows a trust in the development of the markets that we've seen always. And that's a good thing. It also means that there will be a competitor now that is actually at par with us. And that will just mean that we will have to step up even more, and this is what we're doing. So we have intensified our own activities and also the plans we have for the development of new products and services.

Willis Palermo
Thank you very much.

Operator
Our next question comes from the line of Amal Shah from Redburn. Please go ahead.

Amal Shah
Oh hi there. I have two questions. So the first one is you mentioned you're seeing broad-based corporate loan growth. Can you say what sectors this is in? And how sustainable you think this is? And also are you growing quicker than the market on these segments? And after I'll follow up with a second question.

Anders Karlsson
To answer your last question first. No, we are not outpacing the market. It's selective growth in numerous sectors. Property management is one. Healthcare is another one. Renewable energy, but it's – I mean it's selective. So it's not something you should view as a trend.

Amal Shah
Okay. And then the second question is, so you previously mentioned that the large IT budget right now relates to the digitalisation of the mortgage process. Can you give an update on the progress of this? And also I know you can't give any kind of exact cost numbers. But directionally, is there an expectation that would lead to a net cost reduction?

Birgitte Bonnesen
Yes, we're following our plan. The next release will be in the first quarter of 2018. And then we'll continue to have releases over 2018 and into the beginning of 2019. So we follow the plan and it still works really well with the new sort of value stream way of working with the digitalisation. I actually, I won't give any numbers as to the cost reduction. This is just one part. We have other initiatives; robotics, machine learning etc in the lending area. So – but then yeah, as you know we don't give guidance on this.

Amal Shah
Okay, thank you.

Operator
Our next question comes from the line of Jan Wolter from Credit Suisse. Please go ahead.

Jan Wolter
Yes. Hello all. Thank you for taking my questions, Jan Wolter from Credit Suisse. And just go back to the housing market and – or rather Swedbank's standards there. Could you just remind us what debt to disposable income cap Swedbank is working with in the Swedish market? And how that relates to the proposed 4.5 times debt to pre-tax income the Swedish FSA has proposed? And then second question is flows into Robur, the asset management business, we've seen in the past. And I think Birgitte you mentioned that in your introduction quite a few quarters now on and off with negative flows. What do you see are the main driver of those outflows, please? Thank you.

Helo Meigas
If we start with the mortgage question, we work with a 500% cap to gross income. And that includes all lending the customer has, not just mortgages. Whereas the FSA is talking about 450% and only for mortgages. So that's the difference. So, but what we see is it's kind of in terms of the impact on comparing to where our limits are and where FSA is planning to put them. We actually kind of are more or less at the same level already now. So it's not that much more conservative, but of course new lending will have an impact there and on the Robur, so –

Birgitte Bonnesen
Yeah, I can answer that. On the Robur what we see and you don't see that in the figures is that it's more institutional. You see where the – and that is also why you don't see a big impact on the profitability because the retail flows in all countries continue to come in. And as I was saying, we have a plan but it takes longer. There are some funds that we don't have in our product portfolio that we're developing at the moment. And at the same time, we've also seen the improvement of the performance of the funds in Robur. A lot of work is being done there, but it takes time. It takes time.

We have a new sales force, we have a new head of institutional sales that came in this quarter. So we're stepping up on the sales side too, and that's important. We haven't done that for a number of years. So we are still seeing in the transfer business and the pension business we're doing really well. And there we continue to take in new volumes. So I think that's all I will say. I feel confident about this plan that we have. And I also think that keeping the market share with the performance of the Robur funds adding to that is really important.

Jan Wolter

Okay, very clear. Many thanks for that.

Operator

Our next question comes from the line of Peter Kessiakoff from SEB. Please go ahead.

Peter Kessiakoff

Yes, all my questions have been asked. Thank you very much.

Operator

Our next question comes from the line of Johan Ekblom from UBS.

Johan Ekblom

Thank you. If we can just come back to the property management side? Can you just talk a little bit about what kind of covenants or lending practices you have there in terms of what levels of loan to values? Or what level of pre-sales do you usually demand before providing financing? And maybe just a comment as to how these have changed over the last 12 to 24 months?

Helo Meigas

We actually made the changes into how we're looking to the kind of the property management lending already more than 12 months ago. So where we basically made more conservative the cash flow estimates that we expect the clients to show to us in their forecasts. We have a kind of overall kind of general principal and LTV of 75% for residential, and about 60% for commercial.

We stress test the cash flows at 5% interest rates, and the kind of equity financing. It also depends a little bit on the business model. It's 20% to 40%. So the pre-sold apartments again depends a little bit on the project, but we would usually not accept anything below 70% of pre-sale. So that's – but there has not been that much change recently because what we have been doing is very much kind of preparing ourselves to the market change what we are seeing right now.

Johan Ekblom

Yes. So when we read in the press about the difficulty of selling properties and big write-downs and things being converted into rental properties. Those would not be on your books? Those types of projects, because you would have very high pre-sale levels, and a high degree of equity financing in there already. Is that a correct assessment?

Birgitte Bonnesen

We have a very large property management book so we do lending to different clients. To say that, we have none of the issues that you're describing on our portfolio I think would be a little bit unfair to expect. But that's – but what we have been doing is we've been trying to avoid as much as possible this type of lending. And as we have been talking already today really trying to shy away from the financing-expensive flats to the housing associations which don't have a sound business plan.

Johan Ekblom

Thank you.

Operator

Our next question comes from the line of Jacob Kruse from Autonomous. Please go ahead.

Jacob Kruse

Hi, thank you. I guess just two questions. Firstly on the cost, I think you upped the guidance to 16.1 which seems to be a little bit more than just the PayEx integration. So is that temporary effect for this year, which you don't expect it to come down again next year with respect to integration costs or investments? And my other question was just, are you currently using qualified signatures for your retail business? And if so, what portion of your retail clients have access to these qualified signatures under the new EU rules? Thank you.

Anders Karlsson
Thank you. I'll start off with the PayEx question. You're right that when we guide on 16.1 for this year, it's not only PayEx and PayEx-related expenses. PayEx and the related expenses for that is roughly 200 in this year. The rest of it is as I said in the beginning unexpected or very difficult-to-forecast movements in foreign exchange, and increased cost for pensions. So all-in-all you could say it's a combination of a couple of things, but PayEx is the largest contributor to it.

Jacob Kruse
And in the PayEx portion, is there a part of which is integration costs that falls away next year?

Anders Karlsson
There's no integration costs in there. It is –

Jacob Kruse
That's just a consolidation expense?

Anders Karlsson
Yes, including the intangibles and the expenses that are related to an acquisition. So no integration costs.

Jacob Kruse
Right, okay.

Birgitte Bonnesen
On the qualified signatures, I'll have to come back to you on that.

Jacob Kruse
Okay. Thank you very much.

Operator
Our next question comes from the line of Riccardo Rovere from Mediobanca. Please go ahead.

Riccardo Rovere
Good morning to everybody. Thanks for taking my questions. Just two from my side. The first one is I noticed a drop in cash in central bank accounts by roughly SEK95 billion this quarter. And I also notice an increase in treasury and other bills by roughly SEK85 billion. So I was wondering whether there was a switch between the two categories? What was eventually the reason for doing that? And if you think this will continue if you are kind of building up a carry trade portfolio support in NII? This is my first question.

The second question I have is on – in general credit losses. For a couple of quarters or maybe more, your credit losses were burdened by oil-related exposures. All of sudden these credit losses have basically disappeared or reduced significantly. I notice no increase in collective provisions at all in this quarter. So I would imagine that your models are not suggesting any further deterioration in the portfolio?

Is it possible to see obviously at a much smaller scale to see something similar to what has been happening in the Baltic area with regard to possible reversals if the oil price keeps remaining at these levels or eventually getting closer and closer to $60 per barrel?

Anders Karlsson
Thank you. To start off with your first question, I think this is something you – it's not abnormal in any way. It's normal part of treasury operations that they switch between assets depending a little bit on the market conditions. The second question I think you asked was about whether it is a large portion of carry trade in there. And what I said to you is that the contribution in this quarter is coming from changes that went our way in the shorter end of the yield curve. We are not carrying large carry trades on our book.

Helo Meigas
And now on your question related to impairments and our oil and offshore portfolio, yes you are very right. Most of the credit impairments in 2017 and 2016 have been about this particular portfolio. And we are kind of as I mentioned earlier, we are done with the first phase of restructuring. But we are already starting with the second phase of restructuring, how much that would impact our credit impairment line is a bit too early to say for now. But this is the portfolio which we are not running based on models.

This is a portfolio which is individual-exposure driven. And as a result, the credit impairments will very much depend on what will be the outcome of individual restructuring discussions. But when you talk about reversals, I think it is way too early to start to indicate reversals in this sector because we still as I said are very cautious about the whole overall industry. Even though the oil price has stabilised, it is still very low compared to where it has been for many years before that.

Riccardo Rovere
Okay, very clear. Thank you very much.

Operator
Our next question comes from the line of Kim Bergoe from Deutsche Bank. Please go ahead. Your line is open.

Kim Bergoe
Hi. I think most of my questions have been answered. But just one question, Birgitte you mentioned and you used the words adjustment in the housing market in Sweden. I was just wondering, do you think is there a risk of a spillover sort of into the rest of the economy? I'm thinking back to sort of what happened in Denmark in 2006 and 2007. As the housing market slowed down, it impacted consumer spending and sort of spread to the rest of the economy.

So that's sort of one question. Also another question about what you're doing in increasing the dividends from Estonia to 100% into the group? What is sort of the background behind that? Why do you need to sort of repatriate that capital? Is there something I've misunderstood in what you're doing there? So that's the two questions. Thanks.

Birgitte Bonnesen
Thank you. With the adjustment that we see now is not in my opinion significant enough to have a sort of an impact on the sort of consumption patterns. There need to be more than what we're seeing at the moment.

Kim Bergoe
Okay, thanks.

Anders Karlsson
And on your second question. I mean if you look at the Baltic operation, we are running that on a loan to deposit ratio below 1. It's 0.85. We are running the Estonian operation with a Common Equity Tier 1 ratio of 40%. And it's increasing. And we have said that it's something that is good enough. We will not build more capital in Estonia. So we changed the dividend policy from 60% to 100%.

Kim Bergoe
Okay. But I guess you could have left it there if you didn't need it elsewhere or what's the thinking there?

Anders Karlsson
We have left a lot of money there.

Kim Bergoe
Okay, thanks.

Operator
I remind you that if you want to ask a question, you'll have to press "01" on your telephone keypad now. We have a question from Paulina Sokolova from Barclays. Please go ahead. Your line is open.

Paulina Sokolova
Hi, thank you for taking my question. I actually just have one small follow-up on the Swedish mortgage market. So just in terms of timing, are you already seeing a slowdown in underlying demand in your business going into Q4? And related to this, you touched on this a bit earlier. It sounds like the housing types coming onto the market now do not exactly match the areas where there is demand. Is that a fair assessment? And do you still see a structural shortage of supply? Thank you.

Helo Meigas
I will take that question then. No, we don't see yet the decrease in demand on the housing market. But if you look at the transaction statistics, actually the volume of transaction is staying very high. But yes, there is also the supply is quite high. And as you pointed out, there is a risk of a mismatch between what there is in certain parts of the market in terms of what's being supplied and what people can afford to buy.

So we are following that very closely. And as we've been saying now many times during the call, we have been trying to shy away from very expensive housing associations where we believe the demand is starting to –

Paulina Sokolova
Okay, thank you.

Operator
Our next question comes from the line of Adrian Cighi from RBC. Please go ahead. Your line is open.

Adrian Cighi
Hi, there. This is Adrian Cighi. I have one clarification question please on the proposed amortisation requirements. Did I understand you correctly when you said that Swedbank already broadly applies the standard equivalent to the new debt-to-income cap being proposed by the Swedish FSA? Alternatively, do you quantify how much of this new lending this quarter would fall under the new FSA criteria if the proposal would be active at the beginning of the quarter? Thank you.

Helo Meigas
No. It's not exactly the same as the FSA is proposing. So that's Birgitte that was explaining previously, if we look at the new lending it's about 20% of the new lending will be hit by this new limit.

Adrian Cighi
Okay. Thank you.

Operator
Our next question is a follow-up question from Riccardo Rovere from Mediobanca. Please go ahead.

Riccardo Rovere
Yeah, thanks again. Just a follow-up. Did I get it right that you expect the tax rate to go up by a couple of percentage points to something like 23% because of the changes in the Baltics, in some of the Baltics countries? Did I get it right?

Anders Karlsson
It's roughly one percentage unit, I said from 20% to 22%, to 21% to 23%.

Riccardo Rovere
Okay, all right. Okay, thank you very much.

Operator
There are no further questions. I return the conference back to the speakers for any closing comments.

Gregori Karamouzis
Thanks everyone for joining us. We'll see you on the road over the next few days. Thanks.