

Transcription

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Presentation

Gregori Karamouzis

Good morning everyone. Thanks for joining the call for our full year results. With me in the room I have our CEO, Birgitte Bonnesen; our CFO, Anders Karlsson; and our CRO, Helo Meigas. They will each make an instruction, make a few comments on the results for the quarter and the full year and then we'll open up for questions.

Birgitte, please.

Birgitte Bonnesen

Thank you, Gregori. And warmly welcome to all of you to the presentation of another strong quarter for Swedbank. I will kick this call off by commenting on the fourth quarter and the full year of 2017. Then Anders will run you through the financials, Helo will talk about the asset quality, and after this Anders and I will wrap up things by presenting our priorities for the next couple of years.

First of all, I am very proud to present another strong quarter. And I am particularly pleased with the high activity level that continued to bring strong financial results. Swedbank, as you know, is the largest retail bank in four countries. We have the largest number of both private and corporate customers in Sweden, Estonia, Latvia, and Lithuania. And we do enjoy particularly large and profitable market shares in retail product areas of lending, payments, and savings.

In the fourth quarter we saw a continuous solid mortgage volume growth in Sweden and in the Baltics. The corporate lending demand was stable. We did have a very high activity but we also continued to prioritise profitability. And this is what you see in the result. The benign stock market development supported our asset management business; at the same time as PayEx contributed positively in payments. The asset quality remains solid.

And let me just highlight one area, the cards area. We don't talk about that very often but card transactions increased by 6% in the quarter and 10% the whole year. The acquiring volume for Swedbank increased by a bit over 10%. We have an average of almost 90,000 transactions per second and we peaked in December with 440,000 per second in a 30-second period. That tells you something about the size but also the resilience of our systems.

We continue to focus on digitalisation, automation. And in the quarter we did take another step to adapt the development organisation to be more flexible to reduce time to market and to ensure deliveries.

2017 has been a fantastic year. We reached our financial targets and we completed all important deliveries for the year. We know our strengths, and we have a clear direction and we delivered. We have strong income generation that allowed us to reach our ROE target of 15 and we also continued the strict cost regime and came out on target. Consequently, the board proposes to pay out 75% of the profit to our shareholders for the sixth year in a row.

In 2017 we've taken important steps to continue to meet our customers wherever they choose to meet us. And to work with automation of the many, many processes eligible for automation and robotisation in Swedbank. We've set up a structure for innovation that ensures value realisation when we engage with third parties. We've taken steps to analyse where we should continue to do ourselves and where we would actually be better off with a partner. A few examples. In the payments area the acquisition of PayEx will strengthen our e-commerce offering to merchants instead of Swedbank developing this ourselves. The partnership with Kepler Cheuvreux strengthens us in a way that we could never ever have done on our own. The investment in an integration of fintech companies "Mina Tjänster" into our mobile bank. This is a service that gives our private customers a tool to more cost efficiently manage their subscriptions and utility payments. This is a very important thing and it took only six months from first contact to delivery to customers in our app. This is important because all of this is about speed. Further to enhance the digital offering to customers, we continue to develop our virtual assistant, Nina. And lastly, another thing worth highlighting is that we've taken an important next step in partnering with fintechs and intensify innovation in setting up an accelerator programme in Riga. We also launched an open banking sandbox, which already in only two months have more than a 1,000 fintechs signed up and testing their ideas.

I would like to say something about sustainability because sustainability is the core of Swedbank. And 2017 has been a year where we have demonstrated our commitment to sustainable banking in all areas of the bank. This has earned us recognition in the Fair Finance Guide, among others. We have won prizes for gender and equality and sustainability in all four countries. We issued green bonds for ourselves and customers. I'm very proud of the work that all our employees have done in this area. This is part of our DNA. Our employees are also more engaged than ever and employee satisfaction improved significantly in 2017. This is extremely important as for a bank, employees are the most valuable asset.

I would like to say a few words about the Swedish mortgage market before I hand over to Anders. We welcome the normalisation that we're currently seeing primarily in the expensive apartments. I think that recent years' development are long term unsustainable. We see healthy activity in January and the strong Swedish economy with low unemployment and low interest rates, combined with household strong balance sheets, all support the adjustment that we are seeing. We are closely monitoring the development and remain very optimistic about the longer-term outlook.

And with this I will hand over to you, Anders. Please.

Anders Karlsson

Thank you, Birgitte. I will jump directly into the business segments and then run you through the rest of the financials.

Starting off with Swedish banking, they delivered a strong result primarily supported by good mortgage loan volume growth in line with our market shares and the benign stock market. NII was positively impacted by increased mortgage loan volumes and margins were stable. Deposits grew by SEK6 billion and margins were stable. Net commission income was impacted by the benign stock market and the consolidation of PayEx. Asset management income increased as a result of positive asset performance, and brokerage income was up due to better sales in retail structured products. PayEx contributed with the full quarter result. Other income increased mainly as a result of a strong quarter for Entercard, as we sold off a portfolio, and lower provisioning in the insurance company. And asset quality continued to be solid.

Baltic banking delivered record high profitability. NII was positively impacted by loan volume growth in the private segment, while lending margins were stable. Deposits were up mainly due to seasonal effect in the private segment in Lithuania. Net commission income increased substantially on the back of annual asset management performance fees in Latvia. And net income from cards was higher due to lower expenses in the acquiring business. There is a structural change in the Latvian pension system that going forward limits the performance fee component in the market. As the Swedish krona weakened against euro, this quarter the net FX effect in the Baltic banking result was positive by SEK28 million. And asset quality continued to be stable.

Turning to large corporates and institutions, their result reflected the mixed market movements in the quarter. NII was stable, net commission income was positively affected by asset management performance fees and the benign stock market, as well as by the annual covered bond market maker fees. Net gains and losses were weaker compared to last quarter due to a continued slow trading activity and negative valuation effect quarter over quarter. Credit impairments in the quarter were lower than in Q3.

To summarise, at group level, overall a very robust performance in all key business areas, especially seen in the mortgage loan volume growth and asset management income. As Birgitte mentioned earlier, we decided during the quarter to reorganise our IT and business development units and therefore we are taking a restructuring charge of SEK300 million. Excluding the restructuring charge, total expenses came in as expected.

Turning to capital. Capitalisation remains strong with the CET1 ratio of 24.6%, implying a buffer to the Swedish FSA's minimum requirements of 270 basis points. Basel has now presented the final revision of the Basel III proposal, which was largely as expected. The long period of calibration at the EU level and implementation at the national level now await. We will therefore not set our capital management buffer until there is more clarity of the final rules to be implemented in Sweden. We are comfortable with our current capital buffer and find great comfort in our capital generation capacity. There is no need to review our dividend policy on the back of the proposal that has been presented. Also, while we are at future capital implications, the introduction of IFRS 9 in 2018 will only have a minor impact on our CET1 capital ratio, reducing it by six basis points as of 1st January 2018.

Now looking back at this quarter, the CET1 capital base was impacted by accrued earnings and negative IAS 19 effects. Risk exposure amount to decrease by SEK11 billion. As we finally receive the proceeds related to the sale of Visa Europe, risk exposure amount was reduced by SEK3.4 billion. In addition, yearend effects released related to season market movements and behaviour reduced credit market risk and CVA REA by around SEK5 billion.

So let me summarise the year from a financial point of view. We had another financially strong year. We reached our return equity target by delivering 15.1%. We had a strong organic income generation supporting profitability. Also in light of large positive one-off income effects in the comparable year of 2016 and 2017, we increased our revenues with 8% underlying. Underlying expenses were in line with our guidance of SEK16.1 billion.

And with that I hand over to you, Helo.

Helo Meigas

Thank you, Anders. I shall give now a short overview of credit in Q4. It was a strong quarter with stable credit quality. We recorded volume growth in all our home markets. Total lending growth in Q4 was SEK13 billion. Mortgage lending in Sweden, where we see continued high activity despite the decline of the housing crisis during the last couple of quarters, was the biggest contributor to the portfolio growth. We continue to have strong credit quality in all our home markets. Swedish Banking reports credit impairment of SEK264 million, related to a couple of exposures in the services sector. In Large Corporates & Institutions credit impairments were SEK59 million. And Baltic Banking once again had recoveries, this time in the amount of SEK12 million.

For the total year, we report credit impairments of SEK1.3 billion, which lands us at eight basis points to the total credit portfolio. This is slightly below the lower end of our guidance. I thought to do also a short deep-dive into our real estate related lending. Being one of the largest real estate lenders in Sweden, this is of course a market that we follow very closely. From the credit perspective, we continue to be positive to the business opportunities in the property management area as a result of a strong economy and a structured need for new housing in Sweden. Our focus is on projects with strong cash flows, sound balance between equity and bank financing, and conservative presale rates which show projects match the demand of the market.

Now a few numbers. Our total real estate lending portfolio in Sweden is close to SEK1.1 trillion, of which around 80% is in mortgages and tenant owner associations. Of the total portfolio, only SEK21 billion is financing for residential property developers, more than half of which is to large holistic construction firms with diversified portfolios where we have long relationships. Our exposure to the construction projects of tenant owner rights where we have seen the biggest uncertainty over the last quarter, is around SEK14 billion. We have been conservative in this segment over the last couple of years, with limited growth. And this results in our portfolio having very high presale rates of around 90% and most of the projects being finalised in 2018 and 2019. This means we are very comfortable with the credit quality also in this part of the portfolio but, of course, we maintain a close dialogue with our clients.

With that I hand back to Birgitte.

Birgitte Bonnesen

Thank you, Helo. And now looking ahead to strengthen our competitiveness even more and to increase the customer value. Through the next few years we will increase and raise the investment pace and put more resources into digitalisation and automation of the daily banking services.

If you look at our investment agenda you can put it into four buckets. One, we will further strengthen our digital channels, the mobile bank and internet bank, and increase the use of automated self-service solutions. We will improve the productivity in providing tailored offers based on customer data; here I'm talking about data analytics investment. With PayEx we now have an excellent platform to develop our digital payments and e-commerce solutions. The product offering of PayEx has started to be rolled out to all Swedbank customers in Sweden and will eventually be rolled out in the Baltics too. The automation, the fourth bucket, of our internal and external processes will be speeded up. Robotics and use of our virtual assistant Nina will also be in focus. So to maintain our market leading cost efficiency is still one of our top priorities. The mention investment and the ongoing efficiency efforts, we reassure that we can keep this competitive advantage. We know where we're going and we are agile enough to adapt to changing conditions and still deliver at a high level. And, Anders, please say something about cost guidance for the next two years.

Anders Karlsson

Yeah, absolutely. As you all know, we have, during the past number of years, established a strong cost culture in Swedbank that has contributed significantly to reach our return equity target of 15%. For the full year of 2017, as I said earlier, we met our cost target, again excluding the one-off restructuring charge. As we look ahead, cost efficiency remains a top priority. But as Birgitte said, we will speed up the investment agenda. And the important factor that will improve our speed and ability to deliver the value of our investment to our customers, is the reorganisation that Birgitte mentioned earlier.

Just to remind you, our daily work with cost efficiencies continues. This means, in essence, that we will absorb the mandatory investments such as regulatory requirements and inflation-related cost pressure, such as salary increases. With this in mind, total expenses for 2018 and 2019 respectively will be below SEK17 billion for each year.

Volatile and unpredictable expenses such as pension costs and FX movements are included in that cost frame. Beyond the cost guidance of 2018 and 2019 we do foresee the higher investment level to broadly be maintained. And investments into the areas mentioned by Birgitte will allow us to offset underlying cost inflation and, overtime, lead to net cost reductions.

Our market leading cost efficiency will continue to be a key competitive factor for the foreseeable future and be a core component supporting us in our 15% return on equity target.

Thank you.

Birgitte Bonnesen

Let me just say a few words to conclude and then ask Gregori to open up for questions. I think we've delivered an amazing year and we stand really strong to meet the challenges of 2018 and 2019. We see that customer trends and needs are changing faster than ever. New regulations are a challenge but we also see a lot of opportunities in this. And we are confident in our strength and strategy and optimistic about the future.

All our home markets show strong economic activity. Export is picking up on the back of European economies regaining strength. This leads to strong labour markets and high corporate activity. In Sweden we still see a solid underlying demand and supply for housing and a continued, natural organic turnover. This supports continued mortgage loan growth. Interest rates are low and fiscal stimulus in Sweden, through tax cuts, will improve the disposable income in Sweden during the next year. And finally, household savings are expected to remain at high levels in Sweden. And remember, Swedbank is a large retail bank with activity in all segments and in all areas of our geographies.

And with this, I will hand over to Gregori to open up for questions.

Q&A

Gregori Karamouzis

Thank you, Birgitte. Operator, we're happy to take any questions from the people on the line. Thank you.

Operator

Thank you. Ladies and gentlemen, if you haven't already and you wish to ask a question, please press 0 and then 1 on your phone keypad now to enter the queue. And then after I announce you, just ask that question. And if you find that question has been answered before it's your turn to speak, simply press 0 and then 2 to cancel.

And the first line we go to is Peter Kessiakoff of SEB]. Please go ahead, Peter, your line is now open.

Peter Kessiakoff

Yes, hi, good morning. Peter Kessiakoff from SAB here. First of all, just double checking here whether I heard you correctly. When you discussed the cost guidance for the coming two years I think you mentioned, Anders, that you expect net cost reductions beyond 2019. Did I hear you correctly there?

Anders Karlsson

Yes, you did.

Peter Kessiakoff

And how should we look at that? Is it an increase in investment that we're seeing now over two years' time and then that would be reversed fully? Or do you think that there's more to do than solely that?

Anders Karlsson

What I said is that the investment levels will broadly be maintained; that is our best estimate at this point in time. But as you understand when you listen to Birgitte, some of the investments comes with both bringing value to the customer but also bringing efficiencies into the processes that the banks are running.

Peter Kessiakoff

And in terms of automation, which you're mentioning, what kind of potential cost savings do you see from increasing investments in that? I mean, how much of your number of employees could you potentially remove from automating more processes?

Anders Karlsson

It's a very interesting question, Peter. We gave you guidance from 2019 and 2020 and then we gave you an indication beyond 2019. And that is all I can give you at this point.

Peter Kessiakoff

Okay. Then just a question on the corporate side, you're not seeing – well, you're seeing corporate loan volumes being flat year on year. And that goes back to your comments roughly a year ago, I think, of not growing within the real estate area. First of all if you could just comment on what your expectations are among corporate loan growth for, say, the coming year but then also what you see in terms of the margins. Because when I look at LC&I it looks like volumes are largely unchanged in the quarter but you're seeing an increase in NII, so if you could just comment on that please.

Birgitte Bonnesen

Yes, it's right. When you look at the volumes for this year it's flat but we've had a lot of activity. We've had a lot of new lending coming in. But as you know, and we've said in each quarter and we really succeeded in working through, now, is the focus on profitability. Anders, do you want to say something?

Anders Karlsson

Yeah, the LC&I and the NII it is rightly, as you say, it's up to date and there are mainly two explanatory factors for it. One is that the average utilisation during the quarter is slightly higher than you see at the end of the quarter. And the second one is a, I would say, a small improvement in margins.

Peter Kessiakoff

And the margin improvement there, should we read anything into it? Is it solely mix related or have you been working with margins on existing customers, so to mitigate higher fees and capital requirements?

Anders Karlsson

As you know, in the steering we are working with return on risk-adjusted capital requirements for the business areas and we are constantly working with improving these numbers. So, that will continue. That we'll never end with.

Peter Kessiakoff

Okay. Then just one final question, just a small number one, you mentioned that there's a change in regulation in Latvia relating to performance fees, where you've had significant performance fees in the last two years. What impact would that have for 2018? Or if you say – let's assume that it was implemented in 2017, what would have the performance fees in Latvia been under the new regulation?

Anders Karlsson

The change in Latvia is that the fee component is being capped and new benchmarks have been put in place. If I want to be on the conservative side, I would say that you will not expect to see performance fees in this year going forward. But that's my best guess, Peter.

Peter Kasikoff

Okay, I think I'll stop there. Thank you very much.

Operator

We are now over to the line of Jan Wolter at Credit Suisse. Please go ahead, your line is open.

Jan Wolter

Yes, morning, Jan Wolter, Credit Suisse. So, just around the cost target that you disclosed today, what level of incremental IT investments and other investments have you put into the budget for 2018 and 2019, just roughly? And what is the underlying assumption around inflation in those two years as well? So that's the first question.

The second one is we didn't see much back book re-pricing, I think in Q3 and Q4 in Swedish mortgage books. How should we think about that re-pricing going forward? Is it still roughly a SEK100 billion to be re-priced, and what's the difference there between the front and the back? Thank you.

Anders Karlsson

To answer your last question first, Jan, I think it is extremely difficult for you to have a clear view on what exactly will happen when the back book gets in for re-pricing. But with the current market rate, there is still an uptick to be expected from it during 2018. But if market rates moves, then I might change that communication.

As far as the cost target comes, I would rather describe it as a cost cap. We will be below SEK17bn is the thing that we have been communicating net. There are so many moving parts in this so it's really difficult to extract exactly what you're looking for. So I remain with the below SEK17bn cost guidance. And then you had a third question, Jan, that I missed.

Jan Wolter

Yeah, I think it's also around the cost cap there, the underlying assumption on inflation for 2018 and 2019. Just try to gauge the external driver of the cost line as well as the bank's own budget in terms of investments that you plan. So the underlying inflation, what you're working with.

Anders Karlsson

I think we have managed the underlying inflation over the years. We haven't done any specific calculation or forecasting on that. We will absorb it in our daily cost efficiency work. But I think you have a broad – you can do your own calculation based on what you see in Sweden and in the Baltic countries in this year that has passed.

Jan Wolter

Thanks. And the final question is on the market share in the Swedish mortgage market there, where you've been at 24%, 25%. Is that still the ambition going forward to try to maintain that? So capture around that level of new production and then maintain that market share? Or could you see the bank coming down a few percentage points from where we are today? Thank you.

Birgitte Bonnesen

No, ambition is definitely to keep our market shares. However, I'm just repeating what I said on the corporate side, we still don't compromise profitability or risk.

Jan Wolter

Okay, that's very clear. Many thanks.

Operator

We are now over to the line of Willis Palermo of Goldman Sachs. Please go ahead, your line is now open.

Willis Palermo

Hi, good morning and thank you for taking my questions. The first one is on the Swedish rates landscape. Competitors pointed to signs of stabilisation year to date. And I was wondering is that a pattern you recognise and if you have some anecdotal evidence showing this. And what are your expectations for 2018 and 2019 in terms of house price development, and how would that translate into your mortgage growth expectations?

Gregori Karamouzis

Willis, hi, it's Gregori here. The line was a little bit bad so we didn't hear the first part of your questions. So could I please ask you to repeat and see if you can be a little bit more clear?

Willis Palermo

Yeah, sure. It was on the Swedish retail estate landscape, as a competitor pointed to signs of stabilisation year to date. And I was wondering if this was a pattern you recognised. And then how does that translate into mortgage growth expectation based on your expectation for 2018 and 2019?

Birgitte Bonnesen

We see this normalisation of prices that have increased exceptionally over the past couple of years. And this is something that we welcome. We are still optimistic for 2018 and going forward. And here you need to remember that Swedbank lends to in all segments all over Sweden. Lots of houses, small houses, flats outside of Stockholm and Gothenburg where you have these pockets of exceptional price increases.

The second thing that sort of makes us confident is the fact that the underlying – as I talked about the underlying macro in Sweden is very strong. And even though there's still a demand that exceeds supply in Sweden for housing, especially in – we see demographic trends, more people moving to – it is not only Stockholm and Gothenburg, but also other bigger cities.

So there is a lack of housing and especially affordable housing. So we will be there to lend to all our customers to the next couple of years, and hopefully for a long time after that too.

Willis Palermo

Okay, thank you. Thank you very much. And has the recent slowdown impacted at all your mortgage growth expectations? And if you have a number but you could put around it?

Anders Karlsson

That I wish I had. I think it is a very good question. If you look at January, it's been very high activity in January, but it usually is so. And then as you know, we are awaiting the new amortisation requirements from the Swedish FSA in March. So I really think it is too early to give you any sense of what growth rate is to be expected in the year.

Willis Palermo

Okay, thank you very much for this one. And the second question I have is on the fee income side, if you could say a word on Robur and the outflow we're still seeing and what would you expect for to 2018. And secondly still on the fee income, what would be the outlook in term of revenue growth that you expect for PayEx, please?

Birgitte Bonnesen

Robur, as we see, the 2017 has been a year where Robur has actually taking themselves to the next level, I would say. We see a really strong performance in the majority of the funds. We also launched a sustainability profile for everything that Robur does in terms of a policy for responsible investment. And we have a very competitive offering price-wise too. So next year – or this year, 2018 should be a year of a lot of investment and a lot of activity.

As you also see the savings that of Swedes is really high, so we think we have a lot of opportunity there. We see a second thing, if I can just mention that on the pension side, that more and more Swedes are becoming aware of the need to save for their pensions. And this is something that is helping us as this goes for a lot of our customers. So we've seen positive inflow on that side by the fourth quarter.

Anders Karlsson

And to add that, I think exactly what Birgitte said, economic activity is the underlying driving force for this line than adding – which you all know, asset management income is a function of how the stock markets are developing as well. And that I don't want to forecast, especially not today. Secondly, PayEx will be included during the year. There are two, three things in PayEx. One is the products and services we have that Birgitte mentioned that we are providing to our customer, which is a broader customer base than PayEx had on their own.

The second, more important part with PayEx is, as also Birgitte said, the fact that this is the platform on which we will develop our future an e-commerce and payment solutions to our merchants. All in all, economic activity will be the answer to your question.

Willis Palermo

Thank you very much for everything.

Operator

We're now over to the line of Andreas Håkansson of Exane BNP Paribas. Please go ahead. Your line is open.

Andreas Håkansson

Good morning everyone. We've gone through most of my questions. Just a little bit to follow-up on the NII side. Could you tell us – you don't want to give an outlook on volumes yet, but could you tell us overall margins on that? And then also when I saw some comments about treasury and it sounded like you expect a stable treasury result. Historically, you used to say that you could see trading go up and NII go down, but it now feels more like NII could be flat in treasury. Could you just tell us about that? And then next follow-up question on asset quality. There was a pickup in Swedish provisions in the quarter. Could you tell us if any of that was that all housing related? Thanks.

Anders Karlsson

Thank you, Andreas. To start off with your question on margin development going forward, I think the only answer I can give you is that, as you know, we prioritise profitability, which means that we do not compromise on price if we don't have to. As you also know, Stibor has been moving all the time during the past quarter and also this quarter and into this year, we have not changed the prices towards the customers because we are not pricing our loans on a daily basis.

So my best answer to you is that we will keep on to the margins and the pricing, going forward. As far as group treasury comes, at this point, our estimate is that 2018 will roughly be at the same level of 2017, NII and NGL combined.

And on your last question, the answer is no. There is no real estate related provisions in Swedish banking.

Andreas Håkansson

Okay, very clear, thank you.

Operator

We're now over to the line of Namita Samtani of Macquarie. Please go ahead. Your line is open.

Namita Samtani

Good morning. I've got a question on the new amortisation requirement in Sweden. What percentage of your customers does that impact? And secondly, when stress testing your mortgages what interest rate scenario do you use? Thank you.

Birgitte Bonnesen

To start with the latter part of your question, the interest rate we use for our mortgage customer is 7%. And when we talk about the new amortisation requirements, we don't expect the impact on our client base to be very high – or rather it's quite low because of the DTI cap of 500%, what we have had on our new lending for now the last couple of years.

Namita Samtani

Okay thank you very much.

Operator

We're now over to the line of Johan Ekblom at UBS. Please go ahead.

Johan Ekblom

Thank you very much. Just a few quick follow-up. On the cost side, have you said or can you provide us any colour if you think that there are revenue opportunities on the back of these incremental investments? And is this a very long term game, or something we can see also over the next two years as these investments come through? Secondly, just on IFRS 9, can you give us any colour how we should think about provisioning for 2018, if you continue to grow your loan book at around the same level? And then finally just a clarification on the Latvian fees. Is this a performance fee throughout the year or if it's only a Q4 impact? Thank you.

Birgitte Bonnesen

I can answer your first question. We don't do anything that doesn't have a strong value realisation in it, be it revenue generation or cost efficiency. And I think that if you look at some of the initiatives that we've taken this year, some of it is strongly revenue generating. Others are focused on cost. So I think this is difficult to give you more clarity on that. And Helo?

Helo Meigas

Yes, on your question regarding the provisioning for next year, we don't guide on the impairment anymore. And we don't see that IFRS 9 would in anyway change the way we do provisioning. We have a new starting point, as you see in the numbers, and that's the only thing that you should be kind of looking at.

Anders Karlsson

And as far as the Latvian case, it's a Q4.

Johan Ekblom

Thank you.

Operator

We're now over to the line of Kim Bergoe at Deutsche Bank. Please go ahead.

Kim Bergoe

Good morning. My detailed questions have been answered, I think. But just more sort of high level, you're saying you'd a fantastic 2017, and it looks like all the stars have been aligned. And you make the best of it as well. But how should we think about – particularly on the revenue side, how should we think about it going forward? I guess volumes have been very high. It looks to me like they can pretty much only go one way and margins have been stable. How should we be thinking about your earnings capacity going forward? Where do you see the opportunities to grow earnings in 2018 from a strong 2017 base?

And then just one question on your IT and investments and all. It sounds to me like these investments are on a good platform, but does it go deeper? Is your platform sort of strong enough for these IT investments, or do you think you need to make the bigger investments going forward? Obviously, one of your peers, which I guess is specific to them, but there are other banks talking about having to make larger investments. Thanks.

Birgitte Bonnesen

We have an IT investment plan that we're very comfortable with and for those of you who, I think, including you, that's followed us you know that we're not a big-bang-bank. We do everything in increments and now we have a very strong value-realisation structure that helps us to focus resources into the right development.

It's not like – we don't have in our plan that sort of a complete overhaul of our system, if that is what you are after. We build on the platform that we have and it's sustainable over time, as you also heard from the number of some factions as we process. Anders, maybe you want to?

Anders Karlsson

Thank you. I think I will not go into the trap of giving you the answer on how exactly 2018-2019 will pan out in terms of macro. But if I look at where we stand today, as we said, there is high economic activity in all the four home markets. Sweden's economy is strong. The decrease in investments within the real estate sector is picked up by fiscal and other investments, as we speak. Export is picking up. The same goes for the Baltic countries.

As far as volume growth, we can't say exactly how the mortgage market will develop over the year, but there are fundamentals that is very strongly supporting a continued growth in the market. And when it comes to corporates, what you see is a net number. What Birgitte said and what I reiterated is that actually the activity is very high. But we are constantly, diligently working with the profitability in the portfolio, rather than going for volume.

Kim Bergoe

Okay, thanks. If I can just sort of follow-up to – particularly on the mortgage side. So if we see the activity, as you're saying, it's continued high in January as well. And lending growth is still outpacing growth in the household income and therefore leverage continues to go up. What's your impression? How does the authorities in Sweden think about that? Do you think, could there be additional measures taken to try to curb that?

Anders Karlsson

Sorry, I missed the last part of your question. It's also a bit of a noise here. Can you repeat?

Kim Bergoe

Yes. So Swedish mortgage lending growth continues to outpace household income growth and therefore leverage continues to go up. Could you give us your flavour for how do you think the Swedish authorities are thinking about this? And they are pointing out that leverage is a risk to financial stability. Would you expect – should we expect more measures to be taken on top of the amortisation requirements?

Helo Meigas

There is quite a bit of discussion now about the new amortisation requirements coming in place in March and the effect it will have on the market in general. So, of course, we are not close to all the discussions what the financial supervisory is having internally. But my best guess would be they would first want to see what's going to be the impact before they go after additional measures.

Kim Bergoe

Okay, thank you.

Operator

We're now over to the line of Riccardo Rovere at Mediobanca. Please go ahead. Your line is open.

Riccardo Rovere

Good morning to everybody. Just one question from my side. If I understood correctly some of your previous comments, you're basically stating that your kind of DPS policy seems to be correct in light of, you mentioned if I remember correctly, changing rules. What kind of changing rule are you referring to now that Basel IV has more or less been addressed, if I understood it correctly some of your previous comments?

Anders Karlsson

Thank you, Riccardo. You know Basel IV as much as I do. And you know that the output flows, in whatever shape and form they come, will have an impact on all the Scandinavian banks in one way or another. What I said is that what we need – what is now happening out there is that EU will take this under consideration. I expect a number of quantitative impact studies to come out in the market. And then it has to go through the legal processes in EU before it becomes relevant for the Swedish implementation nationally.

And before that, it is very difficult to foresee anything. That is what I was referring to. Thank you, Riccardo.

Riccardo Rovere

Okay, thanks.

Operator

Okay. We're now over to the line of Natacha Blackman at Société Générale. Please go ahead. Your line is open.

Natacha Blackman

Hello. Thank you, management for taking my questions. I've got two questions please. The first is on your funding plan for the year. So across senior subordinated debt, would you be able to provide a bit of an update on what you're expecting to do there? And also on the senior non-preferred side, would you be able to comment on when you might access that market?

Gregori Karamouzis

Hi there. I'll take the question. It's Gregori here. In terms of funding plan for 2018 we have quite a bit of less maturities throughout the year and in 2017 we issued around SEK200 billion in total of long-term funding. So we have a SEK115 billion of maturities in 2018. We're aiming to issue SEK100-145 billion in total. In terms of the senior non-preferred issuance, we have received the final requirements now from the Swedish National Debt office. And there is, as you know, a transition period up until 1st January 2022 by when we need to have issued these type of instruments.

We are currently in compliance with our existing senior unsecured debt outstanding, but we're not either in a hurry to start issuing these instruments until the Insolvency law has been adopted, and allowing us to issue these instruments by default. So 2018 will most like not be the year when we do our first issuance. We will be pushing that into 2019.

Natacha Blackman

Okay great, thank you very much. I just have another question as well on margin. So lending, deposit and margins are all up. Has there been a change in the competitive environment now that Luminor has been listed? Would you be able to comment on that?

Gregori Karamouzis

Can you please repeat the question again, sorry? We didn't catch the last part of the question.

Natacha Blackman

Sure, okay. So lending, deposits and margins have all increased. Has there been a change in the competitive environment now that Luminor has been listed? This is all in the Baltics that I'm talking about.

Anders Karlsson

Not really. The margins in the Baltics were stable and so were the margins in Swedish banking and LC&I broadly. So the competitive landscape has not changed.

Natacha Blackman

Okay, that's fine, thank you. Thank you very much.

Operator

We're now over to the line of Jacob Kruse at Autonomous. Please go ahead.

Jacob Kruse

Hi, just two questions. Firstly, I thought going into this quarter that you would have a benefit from the fall in three months' Stibor and the increase in one week's Stibor in Q4. I just wanted to check if that's how it panned out. And if so, do you expect to see any reversal of that in Q1, given that we haven't really seen the same kind of movements, I guess, the opposite on an average basis?

And my second question was just with regards to some of the new entrants in the Swedish mortgage market, I guess, Avanza, Hypoteket. I know they're very small at the moment, but do you sense any competition from those guys? And secondly, do you feel that you need to provide the same kind of capital market or distribution of loans to investor-type product to compete both on institutional/retail side? Thank you.

Anders Karlsson

Thank you. I would start off the first question. And you're right that Stibor has been moving. As I alluded to, it has been moving in Q3, and it has been moving in Q4. Quarter over quarter it has been more or less stable. I would urge you to use

Stibor as, at best, an indicator of NII development. We have not changed our pricing on deposits or for that matter on mortgages. So the outlook is taking Q3, Q4 and what we've seen in this year into account stable.

Birgitte Bonnesen

On the new entrants' side, even though they're small, this is the exciting thing about running a bank in Sweden. You see this all the time, new entrants coming in with new ideas and we follow this very closely. We do our own development internally. We talk to new entrants. We see whether these ideas that we should take into Swedbank or whether some of the ideas that we have we should share with them, the new entrants that have come in.

So it's an ongoing process. I think that's very dynamic. Have we considered the setup that you see, like in Hypoteket? We go through this constantly, and of course we also look at this and see whether it's relevant for us.

Jacob Kruse

And is it relevant?

Birgitte Bonnesen

We'll see. We don't see a huge increasing competition from these new entrants yet. And we follow the demand of both the investor side and also our customers for lending. So we'll see. You'll see too.

Jacob Kruse

Okay, thank you.

Operator

We're now over to the line of Magnus Andersson at ABG. Please go ahead. Your line is open.

Magnus Andersson

Yes, hi. Just on cost first of all, is anything of the restructuring charge of SEK300 million related to integrating PayEx in anyway? And secondly on costs and your cost guidance, can you say anything about the trajectory over 2018 and 2019, i.e. coming from an underlying level of 16.1, how that would develop? And then I have a final question on asset quality now. As Andreas alluded to, you had higher losses in Sweden, but you also had very low losses compared to where you've been for a while in your large corporate operations. Are we done and dusted with your provisions in Norway now for a while? Thanks.

Anders Karlsson

Thank you, Magnus. The SEK300 million in restructuring charge is not related to PayEx. It's related to the reorganisation that I mentioned. As far as the cost trajectory comes, what we have said is that we, as you know, we have in the past been guiding on the nationals. And, as I also alluded to in some call, that 1% movement in euro Swedish krona FX is changing our cost at around SEK50 million so. We don't want to be bound by that. We want to have that within the cost frame, and have the freedom to develop our business the way we would like to do.

Under the cap of SEK17bn, I can't give you. You know that PayEx is coming in with the full-year effect. The delta between the years are roughly – between 2017 and 2018 is around SEK 350 million. And well, that is as good as it gets.

Helo Meigas

Regarding your question on our oil and offshore portfolio, as you know we have been very early in taking a conservative look on the possible provisioning need in this portfolio. So as we look at the portfolio and the market in general today, there certainly is a significant stabilisation due to a higher oil price and some pickup in the investment.

The restructuring for certain parts of the – or the market has been ongoing. But we do not see that it would have any significant impact on our provisioning in 2018.

Magnus Andersson

Okay, thank you. And just if I follow-up on the SEK300 million, are there any savings that you expect to come out of that restructuring charge?

Anders Karlsson

Yes, it is, it's gradually coming in because it is about overlapping positions when you put two different organisations into one. So, yes there is, but it's gradually coming during this year.

Magnus Andersson

Okay, thank you.

Operator

Okay, before we go to Vivek Gautam at JP Morgan, if anyone has any further questions, please press 0 and then 1 on your phone keypad now. And Vivek over to you.

Vivek Gautam

Hi, good morning. I have a few questions. The first one is on cost. Your guidance of SEK17 billion cost for 2018 and 2019, below SEK17 billion, would we assume that you will absorb any further restructuring costs in that? The second one is on the mortgage and basically the margins. You mentioned the mortgage and deposit margins were stable through the quarter. When I look at the quarter on quarter progression, your margins increased from 104 to 107 basis points. Can you tell us what is driving that? And in the Swedish banking can you tell us which industries does the impairment relate to, that increase in Q4?

Anders Karlsson

Okay, thank you. On the first question about future possible restructuring charges they're not included in the SEK17 billion cap. Your second question was...?

Gregori Karamouzis

I think I got it, Vivek. The NIM you were referring to, right, it was slightly up. Is that correct? 104 to 107?

Vivek Gautam

I think, yes.

Gregori Karamouzis

What we have commented on throughout the call today is that the margins are more or less stable between the quarters. But we also said that there were some small margin expansion in the corporate business. In the Baltics, mortgage growth has also seen some small mortgage margin expansion. So that could be explaining the couple of basis points that you've seen. But overall the back book is stable in most lending assets.

Helo Meigas

After provisioning in Swedish banking, the [inaudible] were a couple of cases in the services sector, but you shouldn't read anything into it in terms of the start of a new trend or provision. It was just the individual bad business plan.

Vivek Gautam

Just a follow-up on that, you mentioned the restructuring charges are not included. Do you expect any restructuring charges to come over the next few years?

Anders Karlsson

It's not something I will comment on currently. If it comes, we will definitely communicate around it. But it's not something I can comment on now.

Vivek Gautam

Okay. And then the second follow-up on the margin comment, basically I also wanted to understand if there was any benefit from lower Stibor in that quarter because you did not change your customer rates, which will probably reverse as Stibor moves up. That was basically my second follow-up.

Anders Karlsson

I think what you have to have in the back of your mind is that there is a liability side to this, the funding side. And it's not that treasury is funding each and individual loan. So just to complicate the picture slightly for you, treasury is running a capital market funding activity where they are using derivatives. And there are certain dates at what they're resetting. So, I think using Stibor as something more than an indicator is a bit of a danger if you want to try to get your hands around the NII.

Vivek Gautam

Thank you.

Operator

As that was the final question in today's call, may I please pass it back to the management for any closing comment at this stage?

Gregori Karamouzis

Thanks everyone for participating on the call. We will for sure see the most of you on the road over the next couple days.
Thank you. Have a good day.