

# Transcription

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**Speakers: Gregory Karamouzis, Anders Karlsson, Helo Meigas**

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## Presentation

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### Gregori Karamouzis

Good morning everyone and thanks for joining us on this conference call presenting Swedbank's Q2 financial results. With me in the room, I have our Chief Financial Officer, Anders Karlsson, our Chief Risk Officer, Helo Meigas. Following their brief introductory remarks, you will get a chance to ask questions. Anders, please.

### Anders Karlsson

Thank you Gregori. Good morning everyone and thank you for joining us on this call in the middle of the summer presenting our Q2 results. We have generated yet another strong result this quarter, supported by strong loan volume growth, higher commission income and a number of one-offs that we communicated ahead of today's interim report publication. Return on equity lands at a strong 19.2%. Excluding the one-offs, we achieved return well in line with our long-term target of 15%. I will walk you through the key P&L lines and sum it all up before I say a few words about capitalisation, and Helo will then go through asset quality before we open up for questions.

Net interest income is stable quarter over quarter. Diversified lending growth of in total certified billion both for corporates and private individuals contribute positively. We are particularly satisfied that we grew our Swedish mortgage book in line with our back-book market shares, while maintaining client prices largely stable. Corporate lending was strong, especially in large corporates and institutions. Over a longer horizon, margins in both mortgages and deposits have been stable. In this quarter, margins are mixed as lending margins declined slightly while deposit margins improved. In the private segment in Sweden, we saw the same technical impact as in previous quarters when markets rates increased and mortgage margins declined somewhat as customer rates remained stable. At the same time, customer deposit rates did not change and as a consequence, deposit margins improved. Corporate margins had this quarter a slightly negative impact on NII. This is due to that parts of the book have floored or administratively set customer rates leading to somewhat lower margins as market rates moved up.

As announced in the press release from 3<sup>rd</sup> July, we received the final level of the resolution fund fee this quarter. The fee for the full year of '18 will be around 450 million, higher than last year. The risk-adjusted fee level implies an increase of 128 million for the remaining part of the year, leading to a negative quarter-on-quarter impact of 64 million. The resolution fund fee will next year be reduced to 9 basis points, which will reverse this year's increase. An extra day in the quarter had a positive impact, and as I am sure you have seen the Swedish krona has weakened against all major currencies during the past couple of quarters and so again this quarter. This is net positive for our result, strengthening income, but increasing expenses. Group treasury's net interest income is weaker this quarter after short term US dollar funding market conditions were less favourable compared to Q4 and Q1. Our second most important income source net commission income was strong in quarter two. Card payments are typically stronger this quarter and the exceptionally good weather supported income more than usually. In our asset management business, mutual funding flows continue to be solid in all our home markets with around 7 billion of net inflows in the quarter. Both Sweden and the Baltic attract more savings at the same time as we see positive sales in all customer segments. Equity and mixed asset funds saw the largest inflows. Asset under management grew in total by 54 billion in the quarter mainly due to positive asset value development. Income from lending and guarantees increased due to higher customer activity.

Turning to trading and other income, overall the political uncertainty during the past few months led to somewhat lower customer activity, although FX and interest rate hedging activity continued at good levels. The net gains and losses result in group treasury improved quarter over quarter due to lower negative FX swap valuation effect than we saw in the previous quarter. Looking at group treasury income in more detail, for the full year of 2018, we expect the covered bond buyback activity to have a smaller impact in the overall NII and NGL results. And as a consequence, we foresee a lower NII and higher NGL compared to last year. I would like to remind you that the covered bond buyback activity is income-neutral over time. As communicated last quarter, we expect the combined NII and NGL income in group treasury to be a couple of hundred million lower in 2018 compared to 2017 assuming that market rates basis swaps, etc., are stable.

Our other income of this quarter boosted by a couple of one-offs, the sale of UC resulted in a tax-free capital gain of 677 million and a positive arbitration outcome relating to VISA added 85 million of tax-free income. In addition, share price developments also relating to these, increased income by 50 million. The core part of this income line performed well in the quarter. The revenue streams that we book under this income line are part of our core operations and have throughout the year demonstrated steady growth. They relate primarily to our insurance business, the credit card joint venture, EnterCard and other associates such as our ownership in saving banks. In this quarter, we especially saw a higher net insurance income due to higher volumes and lower claims.

Now, turning to volume growth. The stabilisation of housing prices countrywide in Sweden has led to that the market has found its new level on transaction prices in most geographical locations. We expect continued solid mortgage volume growth on the back of the strong economic fundamentals, demand and natural turnover in the market. The now established new amortization requirement has as expected had a relatively insignificant impact with around 5% of our new lending in the quarter being affected. On the corporate side, in Sweden, we have had a very high activity across sectors in this quarter driven primarily by property acquisitions in the real estate sector, but also bridge financing across sectors. The demand for larger volumes are, however, still found in the property management sectors, such as residential properties and industrial and warehousing. As many of the transactions in the quarter were event-driven, all of short-term nature, we don't expect similar growth pace for the remaining part of the year.

Lending in the Baltic countries continues to be solid, equally in the private as in the corporate sectors across all three countries. Estonia and Lithuania demonstrate the highest growth while Latvia still grows somewhat slower. The SEK Euro rate movement impacted loan volumes positively in the quarter. The positive volume growth was strong in the quarter growing by 31 billion in the business, driven primarily by tax refunds in Sweden and continued growth in the Baltics. The solid macroeconomic conditions in our four home markets are continuing to support our commission business. Income is steadily growing in tandem with growing economic activity and the economic outlook in our four home markets remains strong and broad-based. However, the increased protectionism globally dampens the growth prospects. Expenses are in line with our guidance for the full year to be below 17 billion while the year's first quarter was to a large extent dedicated to the IT and business development reorganisation. The IT development pace is in the second quarter picking up according to plan. FX movements are weighing negatively on the expenses line this quarter but are, as mentioned earlier, positive for income and net profit.

Furthermore, in order to improve the data quality regarding risk management and reporting of risk financial and regulatory data, Swedbank has been developing a new data warehouse as well as a risk system. Swedbank has decided that among other things, parts of this development programme should instead build on Baltic based solutions already established within the group. As a result, impairments totalling 280 million will be recognised in the quarter. As the Swedish Parliament this quarter decided to lower the corporate tax rate from 22 to 20.6% in two steps by 2021, we re-valued our deferred tax assets and liabilities leading to one-off effects in the tax expense line and other comprehensive income of around 100 million. The first step of the newer corporate tax rates of 21.4% will be applied to next year's profit. We therefore expect our effective tax rate for next year to be in the range of 20% to 22%. Asset quality continue to be solid.

Turning to capital, capitalisation remains strong with a CET1 capital ratio of 23.6% implying a buffer to the Swedish FSA's minimum requirements of around 190 basis points. The net profit excluding dividend impacted the CET1 capital base positively while slightly higher inflation expectations and lower long-term interest rates impacted the pension valuation negatively. The strong long growth in the quarter increased risk exposure amounts. After the total increase of 23.7 billion, corporate lending and FX impacted the most. But as mentioned earlier, we don't expect similar growth in the corporate loan book for the remaining part of the year. Helo will now walk you through the developments in asset quality.

### Heló Meigas

Thank you, Anders. I shall give now a short overview of credit in Q2. Again, it was a strong quarter with stable asset quality. As Andres told earlier, we recorded volume growth in all our home markets with total lending up by SEK 35 billion, of which 6 billion was FX effect. The main growth driver was mortgage lending while growth in corporate lending was also strong. Our lending to housing development in Sweden, which I have been talking about last quarter is stable. Exposure as of end of June in this sector in Sweden was at SEK 18 billion.

Now moving to credit impairments. There was a positive net impact in Q2 in the amount of SEK 135 million. Credit impairments increased in Swedish banking whereas credit impairments decreased in large corporate and institutions and Baltic banking. There was no significant net increase in individually assessed provisions. Small increase of SEK 84 million of credit impairments in Swedish banking is related to a few negative rating migrations in the SME portfolio. The net positive effect on the total level in Q2 comes from the improved ratings and changes in portfolio composition in two business areas, Baltic banking and large corporates and institutions. In LC&I, the reversal of SEK 126 million is primarily the result of one smaller recovery and modest rating improvements in certain parts of oil-related business in Norway. In Baltic banking, we had the impact both from improved ratings and adjustments from portfolio proposition, which resulted in net positive income of SEK 87 million for the quarter. With this, I hand back to Anders.

### Anders Karlsson

Thank you Heló. So, to conclude, the quarter's high customer activity supported a very strong profitability, excluding the large one-offs and we achieved the return on equity well in line with our long-term target. Thank you.

## Gregori Karamouzis

Thanks, Anders. Thanks, Helo. Operator, we are happy to take any questions that we have from the lines.

## Q&A

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### Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad and you will enter a queue. After you are announced, please ask your question. Our first question comes from the line of Magnus Andersson from ABG. Please go ahead, your line is now open.

### Magnus Andersson

Yes, good morning. A few questions related to NII. First of all, on the housing mortgage segment. We are seeing now clearly in Sweden among the four large cap banks, that two of them are suffering in terms of volumes, also pricing, while the other two experience flat – still have flat lending rate development and volume growth roughly in line with the market. What is your reflection on that? Do you feel any pressure or see any pressure coming into lending rates, so that it is a question of a lag here or do you think that it would remain stable? That is the first one.

### Anders Karlsson

Okay. Thank you, Magnus. I think I iterate what I have been saying before, that our long-term ambition is to grow in line with our back-book market share. We would not do it on the back of risk or price. And what we are doing is that we are keeping our prices stable versus the customers. And just to remind you, I think it is important to remember and understand that we are all over Sweden in all geographical areas and not only towards tenant-owner associations; on the opposite actually, much more towards single family homes. And we will continue to try to keep that strategy.

### Magnus Andersson

Okay. Thank you. And secondly, just on corporate lending margins. You mentioned that you had some negative impact in this quarter from administrative set rates. Two questions on that. What kind of volumes are we talking about and secondly, what would it take for you to re-price those volumes?

### Anders Karlsson

Thank you, Magnus. I think it was two things. One is the administratively set rates. And then it is also part of the corporate portfolio is floored as we have been talking about. Roughly speaking, I would argue around 80 billion is administratively set rates and then we have a fair amount of around, let's say, 100 billion of floored loans. There are different dynamics, but I mean technically the administratively set rates can be changed in the same manner as we can change it on the mortgages or anything else. So, it is entirely up to us to do that, but we haven't done that in the quarter.

### Magnus Andersson

Okay. Would you await the short-term rate development? Is that what you are waiting for to see whether it stabilizes on a higher level or –

### Anders Karlsson

Yes.

### Magnus Andersson

Okay, thank you. And then I have a more detailed question, just on the business area. So, I see under Swedish banking that you have moved some volume from Swedish banking into the Large Corporates. It is not much, it is two billion, but what is the NII impact between the business areas from that?

### Anders Karlsson

You are very observant, Magnus, and you are correct and it is around 25 million in NII.

### Magnus Andersson

Okay, 25 million. Thank you. And then finally, just on head count, you took a restructuring charge in Q4. When I look now, as of the 30<sup>th</sup> June, I don't see much or any movement in the head count really. What should we expect here going forward?

### Anders Karlsson

You are right again, Magnus. Just to give you a feeling for the process. The first – it is one of the largest organisational changes that we have done in Swedbank for the last ten years. So, the first three, four months was very much about actually doing the reorganisation and putting new management in place in basically all levels. Then at the same time, we need to keep the development pace up. So, the work with competence shift is really taking off as we speak. So, it is a bit more backloaded than we anticipated, but realistically speaking, you should see signs of this coming in in Q3 and Q4 rather than Q1 and Q2.

### Magnus Andersson

Okay. Thank you very much.

### Operator

And the next question comes from the line of Andreas Håkansson from Exane. Please go ahead, your line is now open.

### Andreas Håkansson

Thank you. Good morning everyone. When Magnus asked on the mortgage margin question – and I read that as you think that margins are relatively stable from here – if I can just ask on volumes, we have seen that market has been slowing from 7.2 I think to 6.8. And when you reported your Q1 numbers, you said that you saw it slow down in activity levels in March. Now, you have been talking about the recovery. Could you tell us what is your expectations of mortgage volume growth going forward from here? Thanks.

### Anders Karlsson

Thank you, Andreas. Yes, we did accept that because March and the first half of April was weaker probably on the back of very strong January and February. But it picked up again in the latter part of April and was coming back to sort of a normalised level in May and June. And that is – I can't give you a number, I think that there is a natural turnover which drives growth. There is what we call dynamics within our own portfolio, which is that people are borrowing more on the back of their houses, or apartments, which is also driving growth and then you have new lending. We foresee that it will be continued solid, but the exact number is very difficult to give you.

### Andreas Håkansson

That is fair enough. Then just on the RWA growth, you said that on the corporate side, there was some bridge financing and so on going on, so then you said that the volume growth will not continue, could it also be that some parts of the corporate volumes, i.e., the RWA updates could be falling out in the third quarter? And then it would seem that the NII impact on those volumes or did the RWA growth and volume growth happen more towards the end of the quarter? Thanks.

### Anders Karlsson

Thank you, Andreas. I think there is two things to remember with the – if you look at the composition, I would say that around 6 billion of the growth in large corporates is bridge financing, which will most likely mature in Q3. And some of that is also less collateralised than we usually lend when we do longer tenures, so implying that it is likely higher risk rates in those. And your second question was when you can see the NII impact so much in the quarter. You are right because a fair amount of the volume came in late in the quarter.

### Andreas Hakansson

And last question on the same topic. You normally talk about the 15% ROE hurdle when you do lending. So, those corporate volumes, could we assume that you had put then on at that type of the profitability as well?

### Anders Karlsson

We have a hurdle applying to everything that we do in terms of business with corporates.

### Andreas Hakansson

Excellent. So, then it is fine, you do, it of course. Thank you.

### Anders Karlsson

You are welcome.

### Operator

And the next question comes from the line of Peter Kessiakoff from SEB. Please go ahead, your line is now open.

### Peter Kesiakoff

Yes. Hi, thank you. Just two – or one follow-up question first of all on both Magnus and Andreas' questions relating to the large corporate lending. And when we look at the LC&I, even if we then adjust for the move volumes, then lending volumes grew quite a lot. And as you mentioned 6 billion was some kind of bridge financing. Could you give us a comment on how much NII impact those 6 billion gave in the quarter and what kind of assumption we should make there into Q3 in terms of how much drops off? That is my first question.

### Anders Karlsson

Yes, thank you. Unfortunately, I cannot give you detailed information about the 6 billion's NII back in the quarter.

### Peter Kesiakoff

Okay. Fair enough. So, then on costs, I mean when we look at the cost level for first half of this year, we get to just below 17 billion, so 16.5 roughly annualised. And I hear what you were saying on that we should see some headcount reductions during the end of this year. But given the FX movements that have been a significant headwind on cost and a tailwind on the income of course; is there any risks to the cost target given how close you are to the cost cap already now?

### Anders Karlsson

The answer to that is no.

### Peter Kesiakoff

Okay, very clear. Then I guess the last one. In terms of treasury, just the impact you are commenting on relating to NII and net gains and losses, is there anything in particular – is there anything beside the less covered bond buybacks within treasury, net gains and losses that makes it go from having been negatively for a long while to now being positive in the quarter? Is there anything special in there?

### Anders Karlsson

There is one additional effect which is that there is less volatility from the fair value option. But other than that, what we have seen is that the interest from investors for us to buy back has gone down significantly during the year. So, we are behind what we were planning. And we will see how it evolves for the remaining part of the year.

### Peter Kesiakoff

Okay. But would you – I guess would you assume that that number moves - the net gains and losses on treasury moves back to negative territory from Q3 and onwards and Q2 was somewhat of an outlier?

### Anders Karlsson

I think it is extremely difficult to guide on that. It depends on the market environment, the conditions and how the investors into our bonds will react to that. So, I can't guide you on that, Peter.

### Peter Kessiakoff

Okay. Fair enough. That's it for me, thank you.

### Operator

And the next question comes from the line of Bruce Hamilton from Morgan Hamilton. Please go ahead, your line is now open.

### Bruce Hamilton

Hi, good morning. Just a follow-up question on the growth in RWA's versus the loan growth. So, I mean I guess in the quarter, your RWA has grown 6% loans 2%; and I get that some of that is due to bridge finance and some of that is due to mix. But as you look forward in terms of the pipeline of demand, the fact that maybe there is a bit more demand from corporates in Baltics than previous, how do you see RWA growth trending versus loan growth? Should we assume RWAs probably do grow a bit more strongly than lending volumes from here or would you expect it more in, you know, at pretty similar levels?

### Anders Karlsson

Thank you. I would expect it to grow in tandem. So, more in line between the two.

### Bruce Hamilton

Okay. That is helpful, thank you.

## Operator

And the next question comes from the line of Kim Bergoe from Deutsche Bank. Please go ahead, your line is open. Kim, your line is open.

## Kim Bergoe

Hello, can you hear me now? Just I might have missed it, but I think you made some comments about commercial real estate. If you could just reiterate what is your outlook there, how do you see the Swedish commercial real estate market. And then just one more, I think you mentioned the very good weather that has been good for the commission income. Is this having an impact on the agricultural sector and is this something I mean we should think about and then how do you think about that, does it impact you? Thanks.

## Anders Karlsson

Thank you. I actually said property management, but that is marking words. What we have seen in the quarter and what we – where we see a continued demand where the large property managers are showing interest again is primarily within the residential area, but also within the industrial and warehousing, primarily within logistics. But also within dairy or whatever that is called in English. So, it is that type of acquisitions that you have seen in the quarter. And I assume that it will continue, but it is very difficult to say. And as far as the weather and the impact on the agricultural portfolio, I hand over to Helo.

## Helo Meigas

Thank you. We have an agriculture exposure, which is 68 billion, out of which about 40% is related to forestry and then also private housing. So, the total of the agriculture which has an impact from the current weather conditions, i.e., lack of rain is a bit low at SEK 20 billion. And there we have a very diversified portfolio, but, of course, there are parts of our clients who are suffering from the extreme draught we have in Sweden. We are having close dialogues with all of them and we have also told them we are ready to discuss any liquidity, help what they need, but we don't see currently that it will have any significant impact on credit impairment.

## Kim Bergoe

Okay. Thanks. That is very clear. Thank you.

## Operator

And the next question comes from the line of Sophie Peterzens from JP Morgan. Please go ahead. Your line is now open.

## Sophie Peterzens

Yeah, hi. Here is Sophie from JP Morgan. So, I know you had some recoveries in the large corporate and institutions division. However, excluding these recoveries that you had from the oil sector, did you dig additional provisions in Sweden because if I look at the macro or GDP forecast for Sweden, they have actually come down a little bit for 2019 and 2020, and how should we think about kind of going forward especially on the corporate side?

And my second question would be on the Swedish mortgages when moving from Pillar 2 to Pillar 1. One of your competitors mentioned yesterday that it is going to have a core equity tier-one impact by the end of the year when this change takes place. How should we think about the impact for Swedbank really to have impact on your core equity tier one? Thank you.

## Helo Meigas

If we start with the credit impairments in Sweden, as I mentioned at my introductory small speech, yes, we had some rating migrations in the Swedish banking business area related to the SME business; and maybe something small also on the LC&I side. But overall, we are talking small numbers. And that is why I wouldn't look into it as anything as a reflection of a trend. So, credit quality stays stable in Sweden.

## Anders Karlsson

And on the Pillar 2 to Pillar 1 move, you are perfectly right. And it will have a substantial effect on the ratios both on our CET1 ratio but also on the minimum requirements. Our best estimate as we speak is that the common equity tier 1 ratio will fall to 16% and the minimum requirements will fall to 14.8% roughly, which gives us a buffer of 120 BPS. It is important to remember two things, having said that. One is that the size of the buffer in absolute terms is more or less unchanged and secondly, while you move from Pillar 2 to Pillar 1, the volatility that we have been talking about coming from FX and other parts will also come down a bit. But you are right, it will be an impact.

## Sophie Peterzens

That is very clear. Thank you.

## Operator

And the next question comes from the line of Adrian Cighi from RBC. Please go ahead, your line is now open.

## Adrian Cighi

Hi there. This is Adrian Cighi from RBC. Thank you for taking my questions. Two follow-ups on NII, please. You have increased the estimate for interest rate sensitivity again this quarter to 6.2 billion. But we have seen that the corporate floor dynamic is sort of holding some of it back when STIBOR moves up, clearly indicating it is not a linear impact. Could you give us an estimate from a smaller increase like 25 basis points or 50 basis points? And then maybe one that is impacting the outlook on mortgage rates. We have seen the FSA comment on the consumer protection features of new mortgage providers a few weeks back. How do you see these new measures or requirements impacting the level of competition or at least the outlook of competition for the future in mortgages? Thank you very much.

## Anders Karlsson

Thank you. Yeah, you are right. We gave you the number for 100 basis points move. And as you rightly point out, it is nonlinear. So, to simplify things for the part of the corporates portfolio that is floored, there will be no positive impact for the first 50 or in this quarter a little bit less of movements in STIBOR; and that is also why you see that the number is changing because we are getting closer to zero. I don't have any number for you on the 25 or the 50 basis points. But you are right, it is nonlinear.

On your second question around the consumer protection and the small newcomers coming into the market, I think it is very good that the Swedish FSA are looking in to the market as a whole. As you know, the move from Pillar 2 to Pillar 1 for mortgages is – the reason for that is that they want to keep a level playing field in the Swedish mortgage market. And I think it is fair to keep a level playing field in the Swedish mortgage market as far as the smaller player comes as well.

As far as pricing dynamics on the mortgage portfolio, what we have said for quite some time now is that we have held our prices stable. We have maintained a healthy growth. We have not taken small movements in STIBOR into consideration. The big question is when the repo rate will be changed by the Riksbank. But I don't know when that is going to happen.

## Adrian Cighi

That's fair. Thank you very much.

## Operator

And the next question comes from the line of Riccardo Rovere from Medio Banca. Please go ahead. Your line is now open.

## Riccardo Rovere

Good morning to everybody. A couple of questions if I may. The first one is on the capital gain from the sale of shares in UC. There is going to be part of any profit that you think you will distribute to shareholders at some point when it is going to come the moment you take this decision? This is the first question.

The second question I have, would it be possible to add a little bit more colour on what is driving the reversals in large corporate and in the Baltics too? The reversal seems to be in large corporates completely driven by Norway. We have been seeing a significant decap and low loss provisions in – let's say over the course of the end of 2016 and then first half of '17, maybe till the end of '17. Then towards third and fourth quarters, the amount of provisions related to Norway collapsed and then you have a reversal now, pretty significant. So, what is driving that? How can it be possible that, if I would imagine, your internal models are so, I don't know, probably reactive to the macro outlook there and maybe to the oil price, is that the case?

## Anders Karlsson

Thank you, Riccardo. To answer your first question, yes, the capital gain from UC will be paid out. And then I hand over to Helo.

## Helo Meigas

On the reversals, so, yes, as you say in the large corporates, the reversals came primarily from the Norwegian part of our business. And there were two aspects to it. One was as a result of our active restructuring, we actually had the restructuring gain from one of the small exposures which was oil-related. And secondly, we did have some positive rating migrations from the part of the portfolio which was impacted from the stronger oil price. However, I wouldn't guide you on a quarter on quarter reversal from this portfolio because although the sentiment is better, there are parts of the business which are still under stress, so everything related to rigs and the supply services where the capacity is still big. So, there is an ongoing restructuring in Norway which the outcome of it is still to be seen. And then as to the Baltics, a couple of events were there where we had some release of provisions due to significantly improved rating on one larger client. And then we did also have positive rating

migrations in the Baltics in general and some of the reversals from the write-offs earlier. So, – but again, nothing to guide you as a continuous trend going forward.

### Riccardo Rovere

Okay, no, no, no, I am not asking for the guidance, just trying to understand how important is the oil price when it comes to for us to understand how your internal models work. On the Baltic, when you say positive rating migrations, are you thinking about, let's say, the cash flows generated locally or are you referring mostly to, let's say, more valuable collaterals or anything like that?

### Helo Meigas

Under the IFRS9, what you do, you actually look at the staged transfer and you calculate the credit impairments based on the lifetime value. So, if you have companies who have improved their credit ratings, it has even nothing to do with the underlying cash flows that you would see an impact on the credit impairments line.

### Riccardo Rovere

Okay. So, basically there are less, let's say, less migrations so I would imagine from stage 1 to stage 2 and eventually stage 3. This is what you are saying?

### Helo Meigas

Yeah, or it could also be that the companies are moving from stage 2 to stage 1 and you get the release.

### Riccardo Rovere

Yeah, okay. Thanks.

### Operator

And the next question comes from the line of Jacob Kruse from Autonomous. Please go ahead, your line is now open.

### Jacob Kruse

Hi, Jacob from Autonomous. I just wanted to ask two things on the NII. So, you talked a bit about how the volumes you put on the risk weights came late in the quarter and therefore I guess you would expect NII to grow more or to kind of catch up next quarter. Then at the same time, you are saying there were some temporary commitments, bridge financing going on in Q2, but I guess helped NII relative to risk weighted asset growth. So, just you know in combination, are you saying you are under-earning relative to capital consumed in Q2 or the other way around, over-earning relative to capital in Q2 when it comes to NII? And then my second question was just when you talk about your rate sensitivity, the 6.1 billion, is that – how much of that is SEK rates and secondly, what is the timeline you are looking at this? Is that over a 12-month period or, you know, how much could we expect in the first say, one quarter or six months following a Riksbank rate hike? Thank you.

### Anders Karlsson

Thank you. To start off with the latter one, it is an instant move of 100 basis points. So in that sense, it gives you a flavour, but it is a fairly unrealistic change to be honest, but that is the way it has been constructed. On your first part, I really – you confused me with either/or. So, I think Gregori picked up on it?

### Gregori Karamouzis

Yeah, hi Jacob. I would answer that on the margin, REA increased more than what we earned basically, so you would see the reverse on the margin in the next quarter.

### Jacob Kruse

Okay, perfect. Thank you.

### Operator

And the next question comes from the line of Nick Davey from Redburn. Please go ahead, your line is now open.

### Nick Davey

Yes, good morning everyone. Just two follow-up questions really, please. The first one on capital. Could you just talk about the capital buffer or management buffer of a 190 basis points? I guess that all else equal will come down in future quarters as the countercyclical buffer goes up. But just in general terms, do you think given this level of capital volatility that we are seeing 100 basis points moving quarter on quarter, that that kind of a capital buffer let's say back around 150 BPS is enough?

And then the second question, just back to the treasury NII, obviously, you have had a half now of volatility in the US dollar funding markets. Your guidance on treasury revenues down a couple of 100 million seems unchanged. I just wanted to get if possible a bit more comfort I suppose, that if we go into a world of continued dollar funding volatility that there is no risk to the NII guidance? It is just sometimes difficult to track what is still in the treasury NII. So, is all the dollar arbitrage out of treasury NII now, please? Thanks.

### Anders Karlsson

Oh, yeah, the first one on – you have seen that the Swedish FSA has indicated that they will hike the countercyclical buffer with another 50 basis points next year. It hasn't been decided yet, but they sent out the signal. We haven't been really specific on the buffer requirements. And we continue, we are comfortable with the position we have. We manage our capital and our risk exposure amount dynamically. When the Pillar 2 to Pillar 1 move is done, the volatility will come down. So, I am from a capital and a buffer perspective, I am comfortable with it. And on your second question as far as group treasury and NII guidance comes, I do appreciate that it is difficult for you to follow one specific line since there has been – will be traffic between NII and NGL in treasury that I alluded to, from, for example, buybacks. But to your question about the US Fed, I know that is not out of the books. But I can't give you a fair guidance on respective row, but what I am saying is that the traffic will be less between NGL and NII in '18 versus '17, and I am also guiding you on the level of the treasury result. That's what I can give to you.

### Nick Davey

Understood. Okay, thank you.

### Operator

And the next question comes from the line of Pavel Dziedzic from Goldman Sachs. Please go ahead, your line is now open.

### Pavel Dziedzic

Hi, good morning. I have one follow-up question. Could you perhaps clarify what drove the decrease in the buffer for mortgage risk rate floor that fell 30 basis points this quarter? I am wondering if in any way it is associated with mortgage growth that perhaps comes at a higher risk weights and if the mortgage growth continues, as you say, it would over the next quarters, should we see more of that effect coming in? Thank you.

### Gregori Karamouzis

Pavel, it is Gregori here. So, it is a just pure mathematical effect; as the total risk exposure amount goes up, that particular requirement is calculated over REA so expressed in percentage terms it becomes lower.

### Pavel Dziedzic

Okay. So, there is no change in risk weights in which you are lending? That are broadly stable?

### Gregori Karamouzis:

No, no, it is pure mathematics.

### Pavel Dziedzic

Okay. Thank you very much.

### Operator

Just a reminder, if you do wish to ask a question, please press zero one on your telephone keypad. As there are no further questions, I hand back to the speakers.

### Gregori Karamouzis:

Thank you and thanks everyone for participating so actively. We wish you a good summer. We will see some of you on the road later today and in London tomorrow and on Friday together with our CEO, Birgitte. Thanks, and have a good summer. Bye-bye.